

རྒྱལ་གཞི་རྒྱུ་ཕྱི་ས་ཞིབ་དབང་འཛིན།



ROYAL AUDIT AUTHORITY

## SPECIAL AUDIT REPORT ON IMPORT AND DISTRIBUTION OF LPG & SKO

May 2015









**SPECIAL AUDIT REPORT ON IMPORT AND DISTRIBUTION OF LPG AND SKO**

**MAY 2015**

## DISCLAIMER NOTE

*The audit was conducted in accordance with the RAA's Auditing Standards and Performance Audit Guidelines. The review was confined to activities and operations pertaining to the POL Distributors. The audit was based on the audit objectives and criteria determined in the audit plan and program prepared by the RAA and the findings are based on the information and documents made available by the audited agencies.*

*This is also to certify that the auditors during the audit had neither yielded to pressure, nor dispensed any favour or resorted to any unethical means that would be considered as violation of the Royal Audit Authority's Oath of Good Conduct, Ethics and Secrecy.*





རྒྱལ་ཁུངས་ཕྱི་སྒྲིག་འཛིན་ཁང་།  
**ROYAL AUDIT AUTHORITY**  
*Bhutan Integrity House*

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



RAA (AG-SP)/2015/1210

5<sup>th</sup> May 2015

Hon'ble Chairperson  
National Council of Bhutan  
Thimphu

***Subject: Special Audit Report on Import and Distribution of LPG and SKO in the Country***

Your Excellency,

This is in reference to your letter No. NC/RPPD/GEN/02/2014/641 dated 20<sup>th</sup> June 2014 directing the Royal Audit Authority (RAA) to conduct audit of import and distribution of LPG and SKO in the country as resolved during the 13<sup>th</sup> Session of the National Council. The Resolution specifically required the RAA to *"Examine the possibility of illegal deflection of the two commodities across the border and also to address the grave concerns expressed by the Government of India in 2013, pertaining to "discrepancies" that exists in what is reflected as LPG and SKO exports on the Indian side and what is reflected as LPG and SKO imported and distributed on the Bhutanese side and lastly to ascertain the cause of large scale LPG data discrepancies seen in 2009 and 2010"*.

Accordingly, the RAA has conducted the Special Audit of LPG and SKO distributions in the country. Our audit objectives were primarily defined by the above Resolution. We are, therefore, pleased to submit the **"Special Audit Report on Import and Distribution of LPG and SKO in the Country"**.

As required under the directive, the RAA performed an audit procedure to cross-check and reconcile the quantity of subsidized LPG and SKO dispatched from the Indian Oil Corporation Limited (IOCL) and the quantity actually received in the country. Based on the information obtained from these sources, the RAA did not observe any significant differences in the quantity of LPG and SKO actually supplied by the IOCL and quantity actually received in the country. However, the RAA observed many shortcomings and inadequacies, particularly in the enforcement front and fixing of POL prices without adequate basis and transparency as highlighted below:

- Huge discrepancies were observed in the import figures of subsidized LPG and SKO as reported by the Department of Revenue & Customs (DRC) and the Department of Trade (DoT) particularly in 2009 and 2010. The RAA noted that the discrepancies had occurred due to input errors committed by the Clearing Agent for which no accountability was fixed. Error in reporting undermined the reliability of the national publication such as, Bhutan Trade Statistics, an important source of information for policy makers and general users for decision-making. (*refer para 3.2.1*);
- Since 2001, the dealers' commission for Bhutanese POL distributors were fixed at 15% higher than the Indian dealers on the premise of having higher operation cost due to limited volume of sales in Bhutan. However, over the years, the sales of POL products had

*"Every individual must strive to be principled. And individuals in position of responsibility must even strive harder"*  
- His Majesty The King Jigme Khesar Namgyel Wangchuck

increased substantially without corresponding decrease in the allowance of dealers' commission. Further, the price components of Indian dealers' commission applying to Bhutanese POL Distributors was not found rationale. *(refer para 3.2.2);*

- A sum of Nu. 642.59 million had been collected as depot surcharge over the period from 1999-00 to 2013-14 to recover costs for constructing RGoB's emergency depots. Such levy was not found justified to be charged on consumers. *(refer para 3.2.3);*
- Over the period from 1999 to 2014, the distributors collected loading and unloading cost of LPG cylinders aggregating to Nu. 29.11 million from the consumers. It transpired from the response of the principal supplier, IOCL that such cost were fixed through public tenders and directly paid to the transporters. Therefore, under such arrangement, it does not justify charging loading and unloading cost to the consumers in Bhutan. *(refer para 3.2.4);*
- Over the period from 1999 to 2014, the distributors had collected Nu. 112.11 million as home delivery charges without actually providing the services to the consumers. *(refer para 3.2.5);*
- Over the period from 1999 to 2014, the distributors had collected depreciation cost on LPG cylinders from the consumers aggregating to Nu. 74.16 million. Besides, distributors had also claimed depreciation at the rate of 15% per annum as tax deductible expenses on filing of its returns to the DRC. Therefore, the depreciation charged to the consumers appears extension of additional benefits to the distributors and unfairly passed on to the consumers. *(refer para 3.2.6);*
- Distributors had 74,460 numbers of expired cylinders that were being circulated in the market, posing threat to human lives and properties. *(refer para 3.2.7);*
- Security deposits aggregating to Nu. 145.59 million collected against the new connection of LPG were used as business working capital and no separate bank account was found maintained. *(refer para 3.2.8);*
- During the period 2008-2014, revenue worth of Nu. 251.37 million was forgone as a result of SKO being sold at subsidized rate to Indian communities and business units in the border towns. The benefits were extended on the approval accorded from the MoHCA and MoF respectively. *(refer para 3.2.11);* and
- The use of commercial LPG for business units introduced in August 2012 was not effectively monitored as evident from the low refill frequency of 2-3 times only in a year. *(refer para 3.2.14).*

Based on the audit findings and comments received, the RAA has provided certain recommendations aimed at enhancing efficiency and effectiveness in management, and promoting transparency in the operation and pricing of POL products.

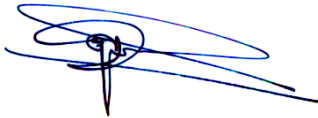
We have issued the draft report to the Ministry of Economic Affairs, Ministry of Finance, Department of Trade and Department of Revenue and Customs for factual confirmation and comments, and also requiring the authorities to fix accountability on the individuals responsible for any reported lapses. However, we have received their responses without fixing



accountability for the lapses. Their detailed responses are exhibited in this report as **Appendices**.

We would once again like to acknowledge officials of Department of Trade, Department of Revenue & Customs and POL distributors for extending full cooperation and support to the audit team which facilitated timely completion of audit.

Yours sincerely,



(Ugen Chewang)  
**Auditor General**

**Copy to:**

1. Hon'ble Lyonchhen, Royal Government of Bhutan, Thimphu;
2. Hon'ble Gyalpoi Zimpon, His Majesty's Secretariat, Tashichho Dzong, Thimphu;
3. Hon'ble Speaker, National Assembly of Bhutan, Thimphu;
4. Hon'ble Minister, Ministry of Economic Affairs, Thimphu;
5. Hon'ble Minister, Ministry of Finance, Thimphu;
6. Hon'ble Minister, Ministry of Foreign Affairs, Thimphu;
7. Hon'ble Chairperson, Public Accounts Committee, National Assembly, Thimphu (enclosed five copies of report);
8. Hon'ble Chairperson, Economic Affairs Committee, National Council, Thimphu (enclosed five copies of report);
9. Secretary, Cabinet Secretariat, Royal Government of Bhutan, Thimphu;
10. Secretary, Ministry of Economic Affairs, Thimphu;
11. Secretary, Ministry of Foreign Affairs, Thimphu;
12. Secretary, Ministry of Finance, Thimphu;
13. Director, Department of Trade, MoEA, Thimphu;
14. Director, Department of Revenue and Customs, MoF, Thimphu;
15. Head, POL Section, DoT, MoEA, Thimphu;





---

## TITLE SHEET

---

- |                        |   |   |
|------------------------|---|---|
| 1. Title of the Report | : | Audit on Import and Distribution of LPG and SKO   |
| 2. Audited Entities    | : | Petroleum Oil and Lubricants Distributors         |
| 3. Schedule of Audit   | : | November 2014 to March 2015                       |
| 4. Audit Team          | : | 1. Sonam Wangmo, Sr. Audit Officer                |
|                        | : | 2. Chime Dorji, Sr. Audit Officer                 |
|                        | : | 3. Tenzin Chhoedup, Sr. Audit Officer             |
|                        | : | 4. Sonam Phuntsho, Audit Officer                  |
| 5. Supervising Officer | : | Tashi Tobgay, Assistant Auditor General           |
| 6. Advisory Group      | : | 1. Jamtsho, Joint Auditor General                 |
|                        | : | 2. P.M Pradhan, Deputy Auditor General            |
|                        | : | 3. Tempa Gyeltshen, Assistant Auditor General     |
|                        | : | 4. Karma Tenzin, Assistant Auditor General        |
|                        | : | 5. Chandra Bdr. Gurung, Assistant Auditor General |
-





---

## ACRONYMS

---

ARA	:	Audit Recoveries Account
BACS	:	Bhutan Automated Customs System
BIG	:	Bhutan Industrial Gas
BOD/BOC	:	Bhutan Oil Distributors/Bhutan Oil Corporation
BTS	:	Bhutan Trade Statistics
DOT	:	Department of Trade
DPCL	:	Druk Petroleum Corporation Limited
DPD	:	Damchen Petroleum Distributors
DRC	:	Department of Revenue and Customs
GOI	:	Government of India
HSD	:	High Speed Diesel
KL	:	Kiloliters
LPG	:	Liquefied Petroleum Gas
MoEA	:	Ministry of Economic Affairs
MoHCA	:	Ministry of Home and Cultural Affairs
MS	:	Motor Spirit (Petrol)
MT	:	Metric Tons
OICL	:	Indian Oil Corporation Limited
POL	:	Petroleum Oil Lubricants
RAA	:	Royal Audit Authority
RGOB	:	Royal Government of Bhutan
RRCO	:	Regional Revenue and Customs Office
RTIO	:	Regional Trade and Industry Office
SKO	:	Superior Kerosene Oil
SSB	:	SashastraSeemaBal

---



---

## TABLE OF CONTENTS

---

<b>Chapter 1: About the Audit</b> .....	1
1.1 Background.....	1
1.2 Objectives of Audit.....	1
1.3 Scope and limitations of Audit.....	1
1.4 Audit Methodology .....	2
<b>Chapter 2: Introduction</b> .....	3
2.1 Overview .....	3
2.2 Subsidy on LPG and SKO.....	4
2.3 Operations of LPG and SKO .....	4
2.4 Petroleum, Oil and Lubricants (POL) pricing system.....	5
2.5 Bhutan Industrial Gas (BIG).....	6
<b>Chapter 3: Audit Findings</b> .....	7
3.1 Initiatives of the MoEA in the overall regulatory functions and management of POL .....	7
3.2 Lapses and Deficiencies .....	8
3.2.1 Discrepancies in the import figures of LPG and SKO .....	8
3.2.2 Unjustified dealer commission for POL products .....	9
3.2.3 Depot surcharge collection not seen justified (Nu. 642.59 Million) .....	11
3.2.4 Unjustified inclusion of loading & unloading cost in pricing of LPG (Nu. 29.11 million).....	12
3.2.5 Inadmissible charges of home delivery cost in pricing of LPG (Nu. 112.11 million) .....	14
3.2.6 Unjustified inclusion of depreciation cost in pricing of LPG (Nu. 74.16 million) .....	15
3.2.6.1 Depreciation charged without disposing any cylinder .....	15
3.2.6.2 Unjustified depreciation cost charged to consumers (Nu. 74.16 million) .....	16
3.2.7 Distribution of expired LPG cylinders posing threat to human lives and properties .....	18
3.2.8 Security deposits for LPG cylinders used as business funds (Nu. 145.59 million) .....	19
3.2.9 Inadequate control in administering LPG new connection.....	20
3.2.10 Deflection of SKO in border towns by Bhutanese individuals (Nu. 230.21 million) .....	21
3.2.11 Sale of subsidized SKO to non- Bhutanese and business entities (Nu. 251.37 million) .....	22
3.2.11.1 Sale of subsidized SKO to non-Bhutanese residing in border areas (Nu. 43.92 million) .....	22
3.2.11.2 Sale of subsidized SKO to business units in Samdrupjongkhar (Nu. 207.45 million) .....	23
3.2.12 LPG and SKO outlets mostly concentrated in urban areas .....	24
3.2.13 Inadequate controls to minimize risk of deflection.....	26
3.2.13.1 Weighbridge control not applied.....	26
3.2.13.2 Non inspection of POL tankers and trucks leaving the country .....	26
3.2.13.3 Inconsistent and inadequate controls in issuance of SKO coupons .....	27
3.2.13.4 Improper regulation of LPG.....	28
3.2.14 Ineffective commercialisation of LPG (Bhutan industrial gas).....	28

---

<b>Chapter 4: Recommendations</b> .....	30
4.1. MoEA should develop a Policy Guideline to ensure that subsidized LPG and SKO reaches the intended beneficiaries.....	30
4.2. MoEA should review Pricing structure of POL products and consider having a pricing structure responsive to operational conditions in Bhutan.....	30
4.3. Coordination within enforcement agencies and authorities should be strengthened.....	31
4.4. Department of Trade should establish comprehensive database of POL.....	32
4.5. Department of Trade should take necessary step either to remove or re-qualify expired LPG cylinders which are in circulation .....	32
4.6. Department of Trade should review the distribution system of LPG and SKO and develop a mechanism to ensure adequate supply of these subsidized commodities at all times.....	32
4.7. Department of Trade should recover Home Delivery Charges and Depreciation charged to customers for LPG refill and deposit into Audit Recoveries Account .....	33
<b>Chapter 5: Conclusion</b> .....	34

---



## CHAPTER 1: ABOUT THE AUDIT

### 1.1 BACKGROUND

Article 25 (1) of the Constitution of the Kingdom of Bhutan and Section 3 of the Audit Act of Bhutan 2006 provide that *“There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources”*. Further, Section 40 of the Audit Act provides that *“Notwithstanding the provisions of any laws relating to the accounts and audit of any public authority, the Parliament, if satisfied that the public interest so requires, shall direct that the accounts of such authority be audited by the Auditor General”*. In line with this constitutional responsibility and in terms of the directive received from the National Council vide letter reference no. NC/RPPD/GEN/02/2014/641 dated 20<sup>th</sup> June 2014, the Royal Audit Authority (RAA) carried out the ***‘Special audit on import and distribution of LPG and SKO’***.

### 1.2 OBJECTIVES OF AUDIT

The RAA conducted the audit with an overall objective to ascertain whether due regard was given in ensuring economy, efficiency and effectiveness in the import and distribution of Liquefied Petroleum Gas (LPG) and Superior Kerosene Oil (SKO) in the country. The specific objectives are as provided below:

- a) To review the adequacy and effectiveness of controls on import and distribution of LPG and SKO;
- b) To review the adequacy and reliability of information system on import and distribution of LPG and SKO;
- c) To ascertain the accuracy in the records maintained by different agencies on the import of LPG and SKO; and
- d) To review the pricing structure of LPG, SKO and other Petroleum Oil and Lubricants (POL) products.

### 1.3 SCOPE AND LIMITATIONS OF AUDIT

- a) The audit covered the operations of the POL distributors, primarily focusing on import and distribution of LPG and SKO in the country for the period from 2008 to 2013. There are three POL distributors viz., Bhutan Oil Distributors/Bhutan Oil Corporation (BOD/BOC), Druk Petroleum Corporation Limited (DPCL) and Damchen Petroleum Distributors (DPD).
- b) Besides POL distributors, the audit also obtained the information on import of LPG and SKO from the Regional Revenue & Customs Offices (RRCOs) in Phuentsholing, Gelephu and Samdrupjongkhar. The information are maintained at these point of entry for import of these two commodities.
- c) Since the background information on the introduction of LPG and SKO subsidies in the country were not available with the Ministry of Economic Affairs (MoEA), the RAA has written to the Ministry of Foreign Affairs (MoFA) to provide the Agreement on Subsidies

(LPG and SKO), if any between the Royal Government of Bhutan (RGoB) and Government of India (GoI). However, the information was not made available either by the MoFA or the MoEA. Without the necessary records being made available to audit, we could not understand the specific programme's (subsidies) objective and thus, could not comment on the extent of achievement of the programme's goal.

#### 1.4 AUDIT METHODOLOGY

The RAA applied the following audit methodologies:

- a) Understanding of legislations, underlying rules and regulations, government policies that are directly related to import and distribution of LPG and SKO;
- b) Review of documents, correspondences and financial statements provided by DoT, RRCOs, RTIOs and POL distributors;
- c) Cross-verification of records of quantities of LPG and SKO import recorded at POL distributors against the records maintained by DoT and DRC;
- d) Carried out the analysis of data gathered;
- e) Interviewed key officials in all the agencies; and
- f) Walk-through of the system, observation of entry and exit of LPG and SKO stock at the checkpoints and issuance of LPG and SKO to the general public.

## CHAPTER 2: INTRODUCTION

### 2.1 OVERVIEW

Bhutan and India traditionally share a close bilateral relationship. Mutually beneficial economic ties have been the main pillar of India-Bhutan bilateral relations. India continues to be the largest trading and development partner of Bhutan. India's assistance to Bhutan's socio-economic development is numerous and one of these is the subsidy on LPG and SKO that immensely benefits the citizens of Bhutan. India has traditionally subsidized fuel to protect its consumers from international price volatility and to provide energy access for its citizens, especially the poor. The same was extended to Bhutan to benefit the citizens.

The RGoB is being granted subsidy on the import of domestic LPG and SKO by the GoI for a fixed allocated quota. The LPG quota was last revised in the year 2008 from 500 MT per month to 700 MT per month and the quota for SKO has remained at 1,250 KL per month. The Indian Oil Corporation Limited (IOCL) is the sole supplier of the subsidized LPG and SKO to Bhutan.

Bhutan imports LPG and SKO and also other petroleum products from India. Although, there are varieties of POL products imported, the major ones are Aviation Fuel, Motor Spirit (MS), High Speed Diesel (HSD), LPG and SKO. Table 2.1 shows the import figures of the major POL products into the country from 2008 to 2013.

**Table 2.1: Import figures of POL products for the period 2008 to 2013**

Year	Unit	MS Petrol (in KL)	SKO (in KL)	Industrial SKO (in KL)	ATF Kerosene (in KL)	HSD (in KL)	LPG (in MT)	Others* (in KL)	Total (in million Nu.)
2008	Quantity	18,075.96	5,186.00	389.00	837.00	62,207.36	5,737.44	3,257.19	2,909.36
	Value (in mil. Nu.)	703.35	43.47	11.18	37.16	1,807.66	114.82	191.720	
2009	Quantity	20,554.78	5,679.00	84.10	987.00	68,577.45	6,023.74	8,217.74	3,137.88
	Value (in mil. Nu.)	724.34	49.10	2.60	30.72	1,910.59	121.21	299.32	
2010	Quantity	23,934.81	5,564.03	240.16	1,332.40	88,788.31	6,814.46	5,219.98	4,342.25
	Value (in mil. Nu.)	969.20	53.62	8.06	48.25	2,803.87	145.08	314.15	
2011	Quantity	26,877.82	5,607.00	120.15	1,455.00	105,872.06	7,440.70	16,476.07	5,749.44
	Value (in mil. Nu.)	1,369.43	70.41	5.74	71.96	3,644.70	181.45	405.75	
2012	Quantity	29,316.90	5,543.00		2,082.02	124,209.22	7,457.36	4,316.33	7,193.54
	Value (in mil. Nu.)	1,636.28	73.86		120.45	4,695.26	194.96	472.71	
2013	Quantity	30,272.20	4,978.01	48.00	3,168.00	126,120.29	6,725.84	4,420.27	8,379.57
	Value (in mil. Nu.)	1,750.31	67.38	0.67	197.09	5,655.31	181.77	527.09	

Source: DRC, MOF

\*Others include spirit type (gasoline type), jet fuel (ATF), other medium oils and preparations (LDO), fuel oil (furnace oil), gas oils, lubricating oils, natural gas, butanes, ethylene, propylene, butylene and butadiene.

The import of POL products has a significant impact on the country's economy. The volume of import of POL products to the total import of the country and to the total import from India is shown in the table 2.2.

**Table 2.2: Volume of POL products imported for the period 2008 to 2013**

Value in million Nu.

	2008	2009	2010	2011	2012	2013
Total Import	23,495.12	25,650.17	39,084.09	48,697.64	53,090.00	53,270.00
Import from India	17,339.55	19,968.01	29,338.00	35,201.07	41,830.00	43,880.00
POL Import	2,909.36	3,137.88	4,342.25	5,749.44	7,193.54	8,379.57
% of POL import to total import	12.38%	12.23%	11.11%	11.81%	13.55%	15.73%
% of POL import to Import from India	16.78%	15.71%	14.80%	16.33%	17.20%	19.10%

Source: Bhutan Trade Statistics, DRC, MOF

The import of POL products has been the highest in the list of the commodities imported into the country from India as well as from third country throughout 2008 to 2013. Over the period from 2008 to 2013, the import of POL products constituted on average 12.80% of the total import into the country and 16.65% of the total import from India.

## 2.2 SUBSIDY ON LPG AND SKO

The table 2.3 shows the amount of LPG and SKO subsidy granted by GoI as against the amount of total aid (grants and loans) provided to Bhutan from financial year 2008-09 to 2012-13.

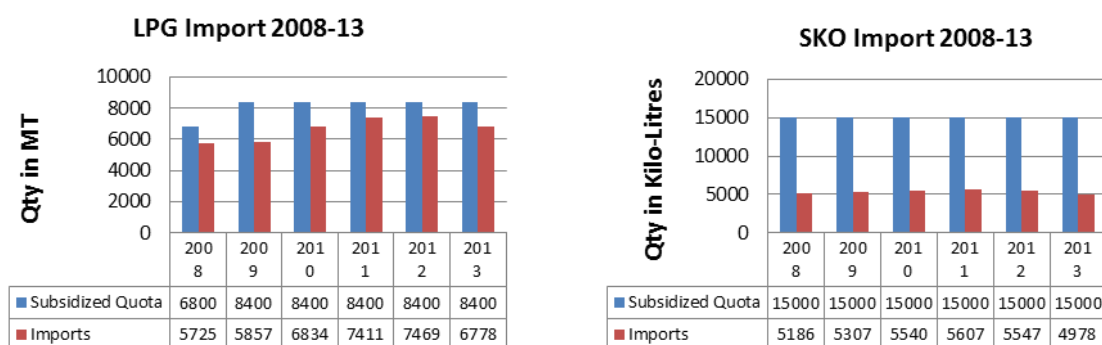
**Table 2.3: LPG and SKO subsidy to Total Aid**

Year	2008-09	2009-10	2010-11	2011-12	2012-13
Total Aid (Rs. in millions)	7,240.30	14,025.20	18,231.20	20,213.60	34,109.80
LPG and SKO subsidy (Rs. in millions)	306.20	230.70	330.20	398.40	508.50
Percentage of LPG & SKO subsidy to total aid	4.23%	1.64%	1.81%	1.78%	1.50%

Source: Outcome Budget Report, Ministry of External Affairs, GoI

The subsidy on LPG and SKO for the year 2008 to 2013 on average consisted more than 1.5% of the total GoI aid to Bhutan. The corresponding quantities of import of LPG and SKO and the subsidy quota allocated are given in the Figure 2.1.

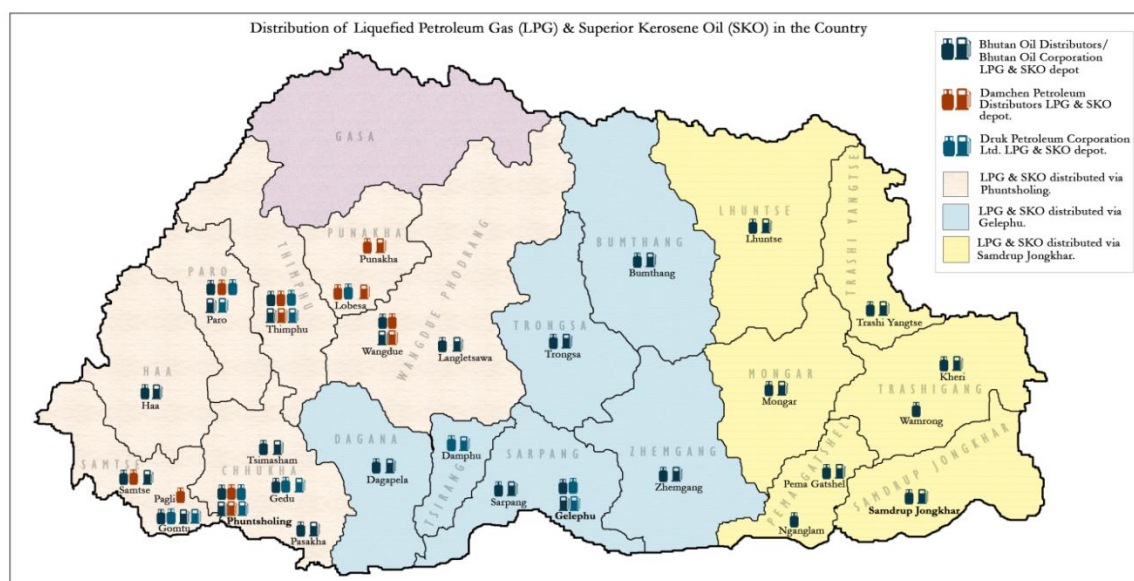
**Figure 2.1**



Source: DoT, MoEA

## 2.3 OPERATIONS OF LPG AND SKO

The import, distribution and pricing of SKO, LPG, HSD and MS in the country are regulated by the MoEA. There are three distributors carrying out import and distribution of petroleum products in the country. They are BOD/BOC, DPCL and DPD. These three distributors have 39 outlets established in the country. Out of the total outlets, 22 outlets are owned and managed by BOD/BOC, 10 are owned and managed by DPD and the rest 7 are owned and managed by DPCL. The Map below shows the distribution of the LPG and SKO outlets of the three distributors in the country.



Flow charts showing the import and distribution of LPG and SKO by the three distributors in the country are exhibited in **Annexure A (i) and A (ii)**.

As of 30<sup>th</sup> November 2014, there were 203,364 cylinders in circulation, 181,435 cylinders issued to public and 21,929 cylinders with distributors. There had been an increase in import of LPG from 2008 to 2012 and decrease in the year 2013. Table 2.4 shows the number of LPG cylinders imported by respective distributors from 2008 to 2013.

**Table 2.4: Distributor-wise import of LPG cylinders**

Distributors	2008	2009	2010	2011	2012	2013
DPD	16,200	15,600	13,500	14,700	25,486	21,600
BOD/BOC	319,198	320,349	355,932	398,462	415,914	385,775
DPCL	67,896	91,476	110,772	109,026	85,272	69,948
Total (in Nos.)	<b>403,294</b>	<b>427,425</b>	<b>480,204</b>	<b>522,188</b>	<b>526,672</b>	<b>477,323</b>
Total (in metric tons)	<b>5,726.77</b>	<b>6,069.44</b>	<b>6,818.90</b>	<b>7,415.07</b>	<b>7,478.74</b>	<b>6,777.99</b>

Source: Distributors

Table 2.5 shows the figures on import of SKO by respective distributors from 2008 to 2013.

**Table 2.5: Distributor-wise import of SKO**

Distributors	2008	2009	2010	2011	2012	2013
DPD	345,000	330,000	276,000	404,000	375,000	330,000
BOD/BOC	4,265,000	4,461,000	4,424,000	4,375,000	4,368,000	3,780,000
DPCL	540,000	888,000	828,000	828,000	812,000	880,000
Total import (in ltrs.)	<b>5,150,000</b>	<b>5,679,000</b>	<b>5,528,000</b>	<b>5,607,000</b>	<b>5,555,000</b>	<b>4,990,000</b>

Source: Distributors

## 2.4 PETROLEUM, OIL AND LUBRICANTS (POL) PRICING SYSTEM

As per records made available, LPG and SKO prices were first revised in December 1995 and subsequently, petrol and diesel prices were revised in September 1997. The table 2.6 shows the components of the pricing structure for major POL products.

**Table 2.6 : Pricing components of POL products**

HSD/ MS/ Ind. SKO	Invoice	BST	Transportation	Shrinkage	Transit Insurance	Depot Surcharge	Dealer's Commission
Subsidized SKO	Invoice	*	Transportation	Shrinkage	Transit Insurance	Depot Surcharge	Dealer's Commission
Subsidized LPG	Invoice	*	Transportation	Depreciation	Transit Insurance	Loading/un-loading	Dealer's Commission

\*BST was exempted for subsidized SKO and LPG

The POL products prices were again reviewed in 1999, 2001 and 2009 and the price review details are provided in **Annexure B**.

## 2.5 BHUTAN INDUSTRIAL GAS (BIG)

Commercial LPG was introduced in the market from August 2012. The Department of Trade vide letter no. MoEA/POL-17/2012/1924 dated 10 August 2012 instructed the RTIOs that M/S BIG will distribute commercial LPG to all commercial activities requiring the use of LPG in a phased manner. It was started in Thimphu and Phuentsholing as first phase. Today M/S BIG has distribution outlets in 10 Dzongkhags. The total number of commercial LPG cylinders with the customers as of 31st December 2014 stands at 4,215 cylinders as detailed in **Annexure C**.

The pricing of commercial LPG is also regulated by DoT. The current pricing structure of the commercial LPG consists of the components given in table 2.7.

**Table 2.7 : Pricing components of commercial LPG**

Sl. No.	Components	Description
1	Invoice price	The price at which IOCL supplies LPG to M/S BIG
2	Dealers Commission	Dealer commission in India (Rs. 65) plus additional 60 % of the dealer commission in India
3	Transportation cost	Hilly area-Nu.0.265 per cylinder per RTKM and Plain area -Nu. 0 .14 per cylinder per RTKM
4	Loading & unloading charges	Nu. 10 per cylinder
5	Depreciation charges	Nu. 27 per cylinder per refill
6	Bhutan Sales Tax (BST)	5% on the invoice price

Applying the price components in the pricing structure of commercial LPG, the selling price of commercial LPG (19 Kgs) in Thimphu stands at Nu. 1,447.13 per cylinder as of 3<sup>rd</sup> March 2015, when the invoice price is Rs. 1,122.95 per cylinder.



## CHAPTER 3: AUDIT FINDINGS

The chapter on audit findings is divided into two parts; Part 3.1 highlights the significant achievements of the Ministry of Economic Affairs in the overall regulatory functions and management of the POL in the country and Part 3.2 highlights the lapses and deficiencies noted by the Royal Audit Authority.

### 3.1 INITIATIVES OF THE MOEA IN THE OVERALL REGULATORY FUNCTIONS AND MANAGEMENT OF POL

Despite various deficiencies and shortcomings noted on the audit of import and distribution of LPG and SKO in the country, some positive initiatives and developments were also observed. Some of the positive initiatives of the MoEA are summarized below:

- a) Attempted to streamline the PoL sector through policies, standards, capacity building and facilitation agreements with principal companies.
- b) Improved working relations with Principal Oil Companies in India by signing MoU and establishment of proper working protocols and linkages.
- c) Enhanced the coverage of PoL distribution by increasing the number of retail outlets from 18 in 2003 to 46 in 2014.
- d) Improved the quality of PoL products through institution of inspection protocols and establishment of fuel laboratory.
- e) Introduced SKO coupon system to optimize the distribution of kerosene to the intended beneficiaries.
- f) Used local government (Gewog and Dzongkhag Administration) and Regional Trade and Industry Offices (RTIOs) for optimum distribution of kerosene to the beneficiaries in remote areas.
- g) Introduced LPG consumer card for optimum distribution of LPG.
- h) Enhanced the LPG quantity from 500 MT to 700 MT per month from 2009.
- i) Introduced Industrial LPG for commercial use with the licensing of Bhutan Industrial Gas to ensure the availability of quota gas for all citizens for domestic use.
- j) DoT in collaboration with BSB (Bhutan Standard Bureau) carried out inspection to check compliance of quantity and created awareness on weights & measures through the distribution of calibrated brass cans for all fuel & gas stations in the country.
- k) Implemented PoL allotment Orders for all PoL products whereby dealers are required to carry consignment note while lifting HSD/MS/SKO/LPG from their respective depots in India.

### 3.2 LAPSES AND DEFICIENCIES

The RAA's review and analysis of the available documents and information on the import and distribution of LPG and SKO revealed various shortcomings and deficiencies in the overall regulatory functions and management of LPG and SKO operations as discussed below.

#### 3.2.1 DISCREPANCIES IN THE IMPORT FIGURES OF LPG AND SKO

The DRC publishes Bhutan Trade Statistics (BTS), a national publication on annual basis, which includes all trade statistics, including import of LPG and SKO extracted from a system called Bhutan Automated Customs System (BACS). The Department of Trade compiles import figures on LPG and SKO from the information submitted by the distributors.

The import figures on LPG and SKO for the period 2008 to 2013, reflected in BTS and maintained by DoT are shown in the table 3.1.

**Table 3.1 : Import figures of BTS and DoT on LPG & SKO**

Products	Parties	2008	2009	2010	2011	2012	2013
LPG (in MT)	Bhutan Trade Statistics (BTS)	5,726	10,411	24,218	7,459	7,481	6,719
	DoT figures	5,725	5,857	6,834	7,411	7,469	6,778
	Differences	1	4,554	17,384	48	12	-59
	Differences in %	0.02%	77.75%	254.38%	0.64%	0.16%	-0.87%
SKO (in KL)	Bhutan Trade Statistics (BTS)	5,339	5,763	5,588	5,659	5,567	4,966
	DoT figures	5,186	5,307	5,540	5,607	5,547	4,978
	Differences	153	456	48	52	20	-12
	Differences in %	2.9%	8.5%	0.87%	0.93%	0.36%	-0.24%

The differences in the import figures of 2009 and 2010 are alarming with deviations of 77.75% and 254.38% respectively and therefore the DRC was questioned on the same.

*DRC provided the justification that the import figures on LPG for the year 2009 and 2010 reflected in Bhutan Trade Statistics were incorrect and it resulted due to input error during the input of data. The differences in import figures of LPG and SKO in case of other years were because BTS's import figures include imports by agencies other than the three POL distributors while the DoT's import figures are of the three distributors only.*

The RAA verified the BACS data and confirmed that the variation in import figures on LPG and SKO were mistaken and the reasons were as explained by DRC. Errors occurred as depicted in figures 3.1(a) and 3.1 (b). Detailed explanation from DRC is attached as **Appendix B**.

**Figure 3.1 (a): Import figures of LPG reported under Bhutan Trade Statistics, DRC in 2009**

Discrepancies LPG 2009 & 2010 DRC - Microsoft Excel												
Home Insert Page Layout Formulas Data Review View Acrobat												
Clipboard Font Alignment Number Conditional Formatting Styles Cell Styles Insert Delete Format												
O1358												
	A	B	C	D	E	F	G	H	I	J	K	L
	Year	Check postid	Import DeclarationId	EntryDate	Importer Id	Importer Name	BtcCodeId	FullDescr	Standard Unit	BtcQuantity	Invoice Value	BSTAssessableValue
1	2009	SJG	DRC32-200	40102	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125	
1343	2009	SJG	DRC32-200	40110	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125	
1344	2009	SJG	DRC32-200	40106	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125	
1345	2009	SJG	DRC32-200	40109	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125	
1346	2009	SJG	DRC32-200	40113	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125	
1347	2009	SJG	DRC32-200	40115	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125	
1348	2009	SJG	DRC32-200	40120	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86128	86128	
1349	2009	SJG	DRC32-200	40122	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86128	86128	
1350	2009	SJG	DRC32-200	40116	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125	
1351	2009	SJG	DRC32-200	40124	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86128	86128	
1352	2009	SJG	DRC32-200	40131	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86128	86128	
1353	2009	SJG	DRC32-200	40128	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86128	86128	
1354	2009	SJG	DRC32-200	40129	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86128	86128	
1355	2009	SJG	DRC32-200	39845	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345	85078	85078	
1356	2009	SJG	DRC32-200	40134	100-977-TCC (centr	2711.12.0C	Propane(LP	KGM	4345.2	86128	86128	

**Figure 3.1(b): Import figures of LPG reported under Bhutan Trade Statistics, DRC in 2010**

Year	Check postId	ImportDecl	EntryDate	ImporterId	Importer Name	BtcCodeId	FullDescr	Standar dUnitId	BtcQuant	Invoice Value	BSTassess
1313	2010	SJG	DRC32-201	40390	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	96880	96880
1314	2010	SJG	DRC32-201	40394	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	104477	104477
1315	2010	SJG	DRC32-201	40198	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1316	2010	SJG	DRC32-201	40403	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	96878	96878
1360	2010	SJG	DRC32-201	40254	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1361	2010	SJG	DRC32-201	40257	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1362	2010	SJG	DRC32-201	40186	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1363	2010	SJG	DRC32-201	40256	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1396	2010	SJG	DRC32-201	40326	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1397	2010	SJG	DRC32-201	40191	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1398	2010	SJG	DRC32-201	40328	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126
1399	2010	SJG	DRC32-201	40333	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125
1400	2010	SJG	DRC32-201	40338	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125
1401	2010	SJG	DRC32-201	40342	100-977-6TCC ( BOC	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125
1402	2010	SJG	DRC32-201	40330	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	113778	113778
1403	2010	SJG	DRC32-201	40334	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125
1404	2010	SJG	DRC32-201	40344	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125
1405	2010	SJG	DRC32-201	40347	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125
1406	2010	SJG	DRC32-201	40340	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86125	86125
1407	2010	SJG	DRC32-201	40194	100-977-6TCC ( Cent	2711.12.0C	Propane(LP	KGM	4345.2	86126	86126

Considering the errors, table 3.2 shows the corrected import figures on LPG and SKO imported by the three POL distributors.

**Table 3.2 : Import figures of DRC (corrected) and DoT on LPG & SKO**

Products	Parties	2008	2009	2010	2011	2012	2013
LPG (in MT)	DRC rectified figures	5,737.44	6,023.74	6,814.46	7,440.70	7,457.36	6,725.84
	DoT figures	5,725.00	5,857.00	6,834.00	7,411.00	7,469.00	6,778.00
	Differences	12.44	166.74	-19.54	29.7	-11.64	-52.16
	Differences in %	0.22%	2.85%	-0.29%	0.40%	-0.16%	-0.77%
SKO (in KL)	DRC rectified figures	5,186	5,679	5,564	5,607	5,543	4,978
	DoT figures	5,186	5,307	5,540	5,607	5,547	4,978
	Differences	0	372	24	0	-4	0
	Differences in %	0%	7%	0.43%	0%	0.07%	0%

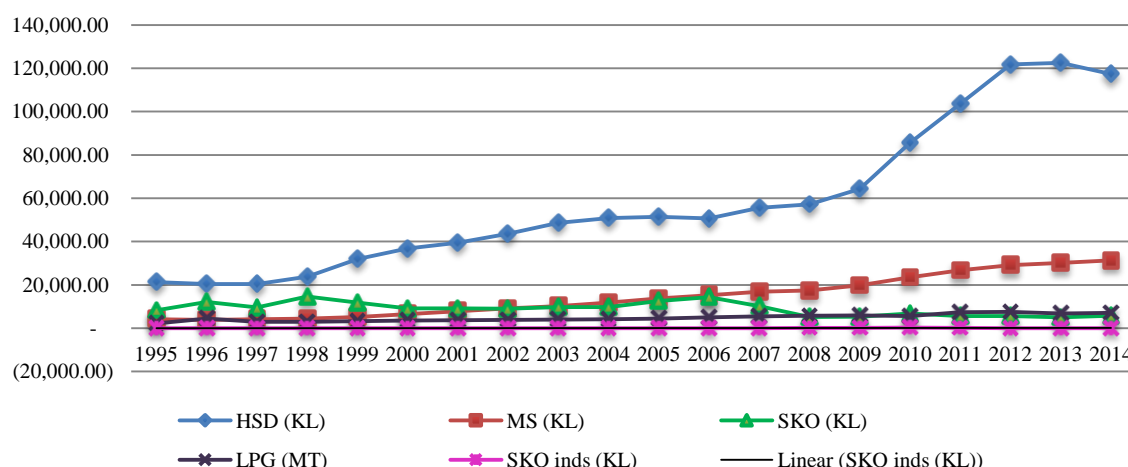
Although the DRC has acknowledged the error in the input of data, nonetheless, such discrepancies and lapses in compiling and reporting information in Bhutan Trade Statistics may have impeded effective monitoring and informed decision making. The discrepancies in the import figures indicated lack of coordination among the relevant agencies and systemic flaws in recording and reporting of vital information. Further, the credibility and reliability of the report is also hampered.

### 3.2.2 UNJUSTIFIED DEALER COMMISSION FOR POL PRODUCTS

Dealer commission is one of the components of the pricing structure of POL products. The dealer commission was fixed in 1996 at par with Indian dealers which are paid on average less than 2% of sale price of the product. Subsequently, after proposals from the Bhutanese dealers to increase the commission, the review carried out in 1999 proposed to fix the commission at 10% higher than the Indian dealers. Later, in 2001, the dealer commission for Bhutanese dealers was further increased to 15% higher than the Indian dealers after receiving representations from dealers that 10% was not adequate to compensate for the higher operation cost due to limited volume of sales.

- a) However, over the years from 1995 to 2014, sale of POL products has seen a substantial increase in the country as shown in figure 3.2.

**Figure 3.2: POL Products import data (1995-2014)**



Over the period from 1995 to 2014, the import volume has increased by 653.52% for MS, 453.36% for HSD, 221.90% for LPG while for SKO it has decreased by 31.12 %. In monetary terms, the Bhutanese dealer's commission has increased from around Nu. 42 million in 2004 to Nu. 245 million in 2014, representing around 483% increase as summarized in table 3.3.

**Table 3.3 : Dealer's commission for POL products**

Year	MS	HSD	SKO	LPG	GROSS TOTAL (Nu.)
	Total DC (Nu.)	Total DC (Nu.)	Total DC (Nu.)	Total DC (Nu.)	
2004	9,593,990.00	24,832,898.75	2,294,622.60	5,487,174.65	42,208,686.00
2005	13,433,380.00	30,110,404.00	2,943,057.00	6,052,946.48	52,539,787.48
2006	14,838,643.20	29,650,318.90	3,371,202.00	6,741,036.01	54,601,200.11
2007	19,761,305.60	38,279,130.00	2,369,929.20	8,340,504.39	68,750,869.19
2008	20,481,996.80	39,499,050.00	1,216,635.60	8,833,031.93	70,030,714.33
2009	23,843,948.20	46,659,295.00	1,245,022.20	9,742,118.90	81,490,384.30
2010	30,302,859.38	66,265,599.00	1,603,293.94	9,215,126.76	107,386,879.10
2011	37,484,272.77	90,198,469.00	1,315,402.20	15,500,199.93	144,498,343.90
2012	50,153,691.90	127,777,401.60	1,301,326.20	22,533,963.69	201,766,383.40
2013	62,295,717.12	153,318,698.28	1,167,838.80	22,348,241.10	239,130,495.30
2014	69,204,200.99	159,949,735.82	1,330,885.80	14,837,122.11	245,321,944.70

Source: POL section, DoT, MoEA

\*Dealer commission (DC) per KL compiled from price structure of that year, therefore, total DC calculated is only an estimate

Considering the aforementioned data, it may be concluded that, over the past 20 years the dealer's commission, which was initially increased primarily due to high operation cost and low volume, has remained constant if not increased. Nevertheless, the sales records show substantial increase in the sales volume over the years.

- b) Fixing of dealer's commission in Bhutan based on Indian dealer's commission is not found rational. The operating conditions for distributions of POL products in Bhutan may not be comparable with that of India. Besides the Indian dealer's commission

which comprises of operating cost (salary and wages, electricity, insurance, etc.), product losses (stock loss), return on working capital, return on net fixed assets and service tax on License Fee Recovery (LFR) may not be relevant to Bhutan. Further, the frequent changes in dealer's commission in India have to be constantly monitored to arrive at the dealer's commission in Bhutan which does not appear to be transparent.

***The MoEA justified the additional 15%, on Indian dealers' commission, for the Bhutanese dealers, by pointing out that a few depots around the country does not earn enough gross commission to justify the economic viability of running the depot. MoEA mentioned that the operating conditions were more challenging in Bhutan than India, and has made comparison between Retail Outlets in India and Retail Outlets in Bhutan in terms of the monthly sales. It was also mentioned that working capital requirement in Bhutan has also increased significantly with the increase in rise of PoL product prices. (Refer Appendix A (i))***

However, the MoEA's justifications comparing conditions in India and Bhutan were not seen relevant to the issue raised by the RAA, for the following reasons:

1. The very reason the dealers' commission was found irrational and requiring review is the fact that conditions in Bhutan and India cannot and should not be compared, necessitating a domestic review of PoL dealers' commission taking only factors relevant to the Bhutanese dealers, to arrive at a more realistic commission instead of providing a flat 15% more than Indian dealers' commission.
2. The PoL growth pattern in Bhutan was considered instead of the individual retail outlets sales because Bhutan has had only 3 dealers for the whole country, of which the 2-pioneer dealers own more than 95% of the market share, over the past 3 decades. It would be pertinent to note that, in India, different Individuals and firms own Retail Outlets, whereas, in Bhutan, the 3 dealers own the outlets all over Bhutan, which makes it illogical to compare the same. For instance, some Individual Retail Outlets in Indian do more business than all the dealers in Bhutan put together.
3. The agreement submitted by the MoEA signed with the Oil companies has no mention of fixing dealers' commission, buildup of the commission etc. The audit team also was not provided the separate agreement between the Oil companies and dealers by the DoT which makes the whole issue appear nontransparent.
4. Further, the major components of operating cost like electricity cost, wages etc have different value in the two country. For instance, electricity is cheaper in Bhutan than India whereas labour cost would be cheaper in India.

The MoEA must understand that the issue is not regarding the inclusion and application of typical cost elements but rather the correct and fair application of these costs to the local consumers. Therefore, the RAA still maintains that the fixation of Dealer commission in Bhutan is seen irrational and requires immediate review considering domestic parameters.

### **3.2.3 DEPOT SURCHARGE COLLECTION NOT SEEN JUSTIFIED (Nu. 642.59 MILLION)**

The depot surcharge was introduced in the year 1996 to recover costs for constructing RGoB's emergency depots and was later continued as a government levy considering the need to develop infrastructure for smooth and efficient distribution of petroleum products in the country. The depots were primarily built to store buffer stock for emergency situations caused by roadblocks, natural or man-made disruptions possible to hinder



smooth supply of fuel in the country. The need to maintain a buffer stock of petroleum products within the country was decided during the 68<sup>th</sup> session of the National Assembly held in 1989. Two bulk petroleum depots were constructed, one in Dechencholing (for western region) in 1992, and the other at Deothang (for eastern region) in 1995. The Deothang depot was closed in 1999 due to security reasons in the east and was handed over to the Royal Bhutan Army (RBA) in 2002.

Petrol (MS) products were/is levied Nu. 600.00 per kiloliter, Diesel (HSD) products were/is levied Nu. 500.00 per kiloliter and Kerosene (SKO) were/is levied Nu. 600.00 per kiloliter.

The DRC under the MoF had been collecting the depot surcharge at the entry check-posts from the POL distributors on entry of POL products. However, this levy is transferred to the end users by including this charge in the price and is not borne by the distributors.

A sum of Nu. 642.59 million has been collected between the periods from 1999-00 to 2013-14 (15 years) as shown in table 3.4.

**Table 3.4 : Depot surcharge collected**

Sl. No.	Financial Year	Surcharge collected (in million Nu.)
1	1999-2000	33.03
2	2000-2001	37.10
3	2001-2002	33.48
4	2002-2003	26.96
5	2003-2004	26.69
6	2004-2005	36.81
7	2005-2006	41.12
8	2006-2007	44.84
9	2007-2008	43.48
10	2008-2009	38.07
11	2009-2010	43.44
12	2010-2011	70.44
13	2011-2012	40.85
14	2012-2013	56.07
15	2013-2014	70.21
<b>Total</b>		<b>642.59</b>

Source: Annual Revenue Report, DRC

The collection of surcharge has direct cost implication to the consumers and dealers and economic implications on the country as a whole. Dealers pay this charge at the point of entry and recover the same amount from the consumers at the points of sale.

Considering the initiation of the depot surcharges as a levy to recover costs for constructing RGoB's emergency depots and later continued as a government levy to develop infrastructure for smooth and efficient distribution of petroleum products in the country, it is seen crucial to revisit, review and reconsider the rationale behind continuing or discontinuing this levy given the implication it has on all stakeholders.

***The MoEA justified that maintenance of depots requires huge funds and that it may not be appropriate to do away with such provisions at this point in time. (Refer Appendix A (i))***

### **3.2.4 UNJUSTIFIED INCLUSION OF LOADING & UNLOADING COST IN PRICING OF LPG (Nu. 29.11 MILLION)**

Loading and unloading is one of the cost components included in the price of LPG. It was charged to the consumers at the rate of Nu. 4 per refill from 1999 to 2000 and Nu. 5 per

refill from 2001. While the loading and unloading cost is not explicitly included in the price buildup of LPG in India, there is possibility of its inclusion in the dealer's commission. If so, inclusion of loading and unloading cost in the pricing structure of LPG in Bhutan would be unjustified.

During the period from 1999 to 2014, the distributors collected loading and unloading cost on LPG from the consumers aggregating to Nu. 29.11 million as shown in the table 3.5.

**Table 3.5 : Loading and unloading charges**

Year	Import in MT(DoT)	Import (in no. of cylinders)	Loading & unloading charges per cylinder (Nu.)	Loading & unloading charges collected (Nu.)
1999	3,286.06	231,413	4	925,652.00
2000	3,546.27	249,737	4	998,948.00
2001	3,613.79	254,492	5	1,272,460.00
2002	3,887.25	273,750	5	1,368,750.00
2003	4,017.00	282,887	5	1,414,435.00
2004	4,054.00	285,493	5	1,427,465.00
2005	4,472.00	314,930	5	1,574,650.00
2006	4,980.37	350,730	5	1,753,650.00
2007	5,405.53	380,671	5	1,903,355.00
2008	5,724.74	403,151	5	2,015,755.00
2009	5,856.82	412,452	5	2,062,260.00
2010	6,834.16	481,279	5	2,406,395.00
2011	7,410.87	521,892	5	2,609,460.00
2012	7,470.22	526,072	5	2,630,360.00
2013	6,777.98	477,323	5	2,386,615.00
2014	6,713.15	472,757	5	2,363,785.00
<b>Total (Nu.)</b>				<b>29,113,995.00</b>

Loading and unloading cost charged to the consumers aggregating to Nu. 29.11 million as worked out in the table 3.5 would be an additional benefit to the distributors, if included in Indian dealer's commission.

Therefore, DoT should confirm the factual position with supporting documents.

***MOEA responded that the distributors of Bhutan get their supplies from the bottling plants of IOCL on ex-MI basis and they are responsible for transportation and loading and unloading of LPG cylinders and also loading and unloading charges are not part of LPG Distributors commission in Bhutan. (Refer Appendix A (i))***

***However, in the IOCL's response, it was mentioned that the loading and unloading of cylinders is carried out by their transport contractors and their transportation cost are inclusive of loading and unloading charges. IOCL did not mention whether they pay the transportation charges in case of exports to Bhutan or not, rather the IOCL had given the present applicable transportation charges to Bhutan. (Refer Appendix A (ii))***

The Memorandum of Understanding (MoU) signed between MoEA and IOCL clearly states that the commercial terms like supply, payments etc., will be decided mutually between the dealers and the IOCL through a separate agreement signed by the respective dealers and IOCL for each location. However, the RAA is not provided with the agreements signed between the distributors and the IOCL. In the absence of agreement between the IOCL and the distributors, inclusion of loading and unloading component in the pricing structure is questionable and the pricing structure does not appear transparent. Therefore, the DoT is



requested to produce the agreement between the IOCL and the distributors stating the commercial terms.

### 3.2.5 INADMISSIBLE CHARGES OF HOME DELIVERY COST IN PRICING OF LPG (Nu. 112.11 MILLION)

Dealer's Commission (DC) is one of the cost components of LPG and POL charged to the consumers. The dealer's commission in Bhutan is fixed based on the dealer's commission in India. It is calculated as the dealer's commission allowed in India plus additional 15 percent on the dealer's commission in India. The 15 percent additional commission to Bhutanese dealers was allowed considering the distinct operating conditions such as multiple loading points, evaporation, leakage, pilferage, high salary/wages and overhead expenses, low volume sales, etc.

The RAA observed that dealer's commission on LPG had always included establishment charges and delivery charges for home delivery. The consumers were charged both establishment charges as well as home delivery charges without providing home delivery services to consumers.

It was only recently when the Ministry of Petroleum and Natural Gas, GoI has revised domestic LPG distributor's commission with effect from midnight 22nd October 2014 that the DoT fixed the price without including the home delivery charges. This new price came into effect from 5th November 2014 and it reduced the price of LPG cylinder from Nu. 508 to Nu. 491 making a difference of Nu. 17 (Nu.508-Nu.491) per cylinder without any change in the invoice price. Home delivery cost charged per cylinder works out to Nu. 18.94 as shown in the table 3.6.

**Table 3.6 : Home delivery charges**

DC charged including home delivery charges of Nu. 16.47 (per cylinder)	DC without home delivery charges (per cylinder)	Home delivery charged per cylinder
$((\text{Nu. } 40.71 \times 15\%) + \text{Nu. } 40.71) = \text{Nu. } 46.82$	$((\text{Nu. } 40.71 - \text{Nu. } 16.47 \times 15\%) + (\text{Nu. } 40.71 - \text{Nu. } 16.47)) = \text{Nu. } 27.88$	$\text{Nu. } 46.82 - \text{Nu. } 27.88 = \text{Nu. } 18.94$

Consumers who purchased LPG prior to 5<sup>th</sup> November 2014 were unreasonably charged home delivery cost without actually delivering the service. Home delivery cost charged to consumers from 1999 to 5<sup>th</sup> November 2014 accounted to Nu. 112.11 million as computed in the table 3.7.

**Table 3.7 : Home delivery charged to consumers**

Year	Import in MT (A)	Imports in No. of cylinders (B) = (A X 1000/14.2)	Home delivery charged to consumers (B X Nu.18.94)
1999	3,286.06	231,413	4,382,956.08
2000	3,546.27	249,737	4,730,022.25
2001	3,613.79	254,492	4,820,083.28
2002	3,887.25	273,750	5,184,825.00
2003	4,017.00	282,887	5,357,885.92
2004	4,054.00	285,493	5,407,236.62
2005	4,472.00	314,930	5,964,766.20
2006	4,980.37	350,730	6,642,831.54
2007	5,405.53	380,671	7,209,911.14
2008	5,724.74	403,151	7,635,674.34
2009	5,856.82	412,452	7,811,843.01
2010	6,834.16	481,279	9,115,421.86
2011	7,410.87	521,892	9,884,639.28

2012	7,470.22	526,072	9,963,800.48
2013	6,777.98	477,323	9,040,488.82
2014	6,713.15	472,757	8,954,018.38
<b>Total</b>			<b>112,106,404.19</b>

Source: DoT, MoEA

DoT is responsible for protecting citizens from marketplace fraud and unfair business practices but it failed to carry out their function with due diligence.

**MoEA responded that prior to November 2014, the LPG dealer commission was declared on composite basis, which include all expenses of the distributors. It was only in November 2014 that the DoT received revised commission wherein they have segregated the commission into two parts namely a) Establishment charges and b) Home delivery charges and accordingly the DoT has considered the dealer's commission without delivery cost with effect from 5<sup>th</sup> November, 2014. (Refer Appendix A (i))**

**IOCL stated that Dealer commission in India viz-a-viz home delivery is decided based on the type of distributors. Normal distributors who sell about 8000 refill per month and RGGLV distributors who sell about 2000 refills per month. If the consumers collect the cylinders from godown, in case of normal distributors the distributors are expected to give cash and carry rebate equivalent to home delivery charges, whereas RGGLV distributors are allowed to collect the Home Delivery charges mainly due to the economic viability. (Refer Appendix A (ii))**

The revised dealer commission letter received by DoT in November 2014 clearly shows that the dealer commission consisted of both establishment cost and home delivery cost prior to 2014. Since no dealer commission revision or intimation letter other than the November 2014 was provided to RAA, the RAA has calculated the home delivery amount from 1999. The DoT should collect the inadmissible home delivery charges of Nu. 112.10 million from all the three distributors and deposit the same into Audit Recoveries Account.

### 3.2.6 UNJUSTIFIED INCLUSION OF DEPRECIATION COST IN PRICING OF LPG (Nu. 74.16 MILLION)

Depreciation is one of the components included in the price of LPG on the basis that the distributors own LPG cylinders. It was charged at the rate of Nu. 10.17 per refill prior to year 2009 and Nu. 15 per refill since 2009 to consumers for every purchase of refilled cylinder aggregating to Nu. 46.45 million for the period 2008-2014. Further, distributors have also claimed depreciation as tax deductible expenses to the tune of Nu. 78.31 million for the period from 2008 to 2013.

In this connection following significant deficiencies were observed:

#### 3.2.6.1 Depreciation charged without disposing any cylinder

Instances were observed where the distributors have been charging depreciation to consumers without disposing any cylinder even after the replacement cycle of 15 years. As per the information provided the distributors have collected Nu. 46.45 million for the period 2008 to 2014 as shown in the table 3.8.

**Table 3.8 : Collection of depreciation charges**

SN	Distributors	Particulars	Nos. of cylinders	Amount (Nu.)
1	DPD	Total Sales 2008	15,897.00	5,717,949.75
		A. Depreciation 2008 @ Nu.10.17		161,672.49

		Total Sales 2009-14	111,669.00	49,026,815.53
		B. Depreciation 2009-14 @ Nu.15		1,675,035.00
		<b>Total Depreciation (A+B)</b>		<b>1,836,707.49</b>
2	DPCL	Total Sales 2008	72,224.00	26,593,297.36
		A. Depreciation 2008 @ Nu. 10.17		734,518.08
		Total Sales 2009-14	535,239.00	225,783,149.01
		B. Depreciation 2009-14 @ Nu. 15		8,028,585.00
		<b>Total Depreciation (A+B)</b>		<b>8,763,103.08</b>
3	BOD/BOC	Total Sales 2008	299,389.00	114,039,945.00
		A. Depreciation 2008 @Nu. 10.17		3,044,786.13
		Total Sales 2009-14	2,187,054.00	1,020,034,856.00
		B. Depreciation 2009-14 @ Nu.15		32,805,810.00
		<b>Total Depreciation (A+B)</b>		<b>35,850,596.13</b>
<b>Total Sales 2008-2014</b>			<b>3,221,472.00</b>	<b>1,441,196,012.65</b>
<b>Total Depreciation 2008-2014</b>				<b>46,450,406.70</b>

Recovery of depreciation directly by way of charging depreciation as a component of price to the consumers amounted to Nu. 46.45 million for the period 2008 to 2014 as worked out in the table 3.8. Working out the equivalent numbers of cylinders against depreciation cost recovered, it showed that the distributors have recovered depreciation amount equivalent to the cost of 41,658 cylinders over the period from 2008 to 2014 as worked out in the table 3.9.

**Table 3.9 : Nos. of cylinders not replaced**

Particular	DPD	BoD/BoC	DPCL	Total
Total Depreciation (A)	1,836,707.49	35,850,596.13	8,763,103.08	46,450,406.70
Total Nos of empty Cylinders purchased (B)	4,750.00	78,154.00	10,400.00	93,304.00
Total value of empty Cylinders purchased (C)	6,032,000.00	103,606,196.74	13,338,529.40	122,976,726.14
Salvage value per cylinder (D)	200.00	200.00	200.00	
Average cost per empty cylinder (E): (C/B) – D	1,069.89	1,125.67	1,082.55	
Total nos. of cylinders recovered from depreciation amount (F): A/E	<b>1,716</b>	<b>31,848</b>	<b>8,094</b>	<b>41,658</b>

Thus, the consumers were over charged to the extent of cost already recovered and further charging depreciation on cylinders for which cost were already recovered appears irregular. The depreciation amount if calculated from inception would be so high that the cost recovery for the equivalent numbers of cylinders might even exceed the actual numbers of cylinders with the public. Therefore, the RAA is of an opinion that the basis, rationale and purpose of charging depreciation to consumers without disposing any cylinder even after completion of the expiry date is found illogical.

### 3.2.6.2 Unjustified depreciation cost charged to consumers (Nu. 74.16 million)

During the period from 1999 to 2014, the distributors collected depreciation cost on LPG cylinders from the consumers aggregating to Nu. 74.16 million as shown in the table 3.10.

**Table 3.10 : Depreciation charges collected from consumers**

Year	Import in MT(DoT)	Import (in no. of cylinders)	Depreciation rate (Nu.)	Depreciation amount collected from consumers (Nu.)
1999	3,286.06	231,413	10.17	2,353,466.92
2000	3,546.27	249,737	10.17	2,539,827.15
2001	3,613.79	254,492	10.17	2,588,186.22

2002	3,887.25	273,750	10.17	2,784,037.50
2003	4,017.00	282,887	10.17	2,876,964.08
2004	4,054.00	285,493	10.17	2,903,463.38
2005	4,472.00	314,930	10.17	3,202,833.80
2006	4,980.37	350,730	10.17	3,566,926.96
2007	5,405.53	380,671	10.17	3,871,425.36
2008	5,724.74	403,151	10.17	4,100,042.66
2009	5,856.82	412,452	15	6,186,781.69
2010	6,834.16	481,279	15	7,219,183.10
2011	7,410.87	521,892	15	7,828,383.80
2012	7,470.22	526,072	15	7,891,077.46
2013	6,777.98	477,323	15	7,159,838.03
2014		472,757	15	7,091,355.00
<b>Total</b>				<b>74,163,793.12</b>

On review of financial statements of the distributors it revealed that the distributors had claimed depreciation at the rate of 15% per annum as tax deductible expenses aggregating to Nu. 78.31 million for the income year from 2008 to 2013 as shown in the table 3.11.

**Table 3.11: Depreciation claimed as tax deductible expenses**

Income Year	Gas Show Room (BOD/BOC) (Nu.)	DPD (Nu.)	DPCL (Nu.)	Total (Nu.)
2008	9,062,630.27	683,244.32	1,440,889.25	11,186,763.84
2009	9,692,316.46	888,259.88	1,618,785.96	12,199,362.30
2010	10,048,911.67	888,259.98	1,383,788.00	12,320,959.65
2011	10,726,014.48	957,384.91	1,064,179.64	12,747,579.03
2012	11,316,649.26	1,343,205.20	1,338,944.35	13,998,798.81
2013	12,975,106.87	1,402,533.52	1,478,284.90	15,855,925.29
<b>Total</b>	<b>63,821,629.01</b>	<b>6,162,887.81</b>	<b>8,324,872.10</b>	<b>78,309,388.92</b>

Since the distributors claim depreciation as tax deductible expenses, charging depreciation to the consumers as a component of price does not appear justified. Moreover, depreciation cost is non-cash expenses and is only allowed as tax deductible expenses as per the taxation rule of the kingdom of Bhutan. Depreciation charged to the consumers aggregating to Nu. 74.16 million as worked out in the table 3.10 is additional benefit to the distributors and unfairly passed on to the consumers.

***MoEA responded that cylinders in Bhutan are property of the distributors and they scrap the same as and when they become unserviceable. As it is their property, no records on the same were taken by DoT. Based on the Audit Observation, distributors will be advised to keep proper record of disposal of scrapped cylinders from now onwards. (Refer Appendix A (i))***

***IOCL mentioned that in India cylinders and regulators are owned by them and it is their responsibility to take care of replacement of the same as and when they are scrapped. In view of this, cost of depreciation is calculated based on various factors. As pricing of domestic LPG is fully subsidized not much changes are done in this component from time to time. (Refer Appendix A (ii))***

Considering the fact that the distributors are claiming depreciation on the cost of empty cylinders as a tax deductible expenses, the RAA opines that the basis, rationale and purpose of charging depreciation to consumers is illogical. Therefore, DoT should confirm the depreciation amount collected thus far in addition to amount of Nu. 74.16 million from the

consumers and deposit into Audit Recoveries Account. Besides, the DoT should also ensure that the depreciation cost component included in the pricing structure of LPG be removed.

### 3.2.7 DISTRIBUTION OF EXPIRED LPG CYLINDERS POSING THREAT TO HUMAN LIVES AND PROPERTIES

The standard life span of a LPG cylinder is 10 years and the expiry dates of LPG cylinders were found written on every LPG cylinder in a coded manner. A three digit code shows the expiry which starts with letter A, B, C and D showing the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarter of the year respectively, followed by two numbers indicating the year of expiry. For instance the expiry code B14 would mean the expiry is in the second quarter of year 2014. Similarly D15 would mean the cylinder could be used till fourth quarter of year 2015.

On physical verification of LPG cylinders, the RAA noted expired cylinders in selling stock as detailed in table 3.12.

**Table 3.12 : Percentage of date expired cylinders**

Particulars	DPCL	BOD	DPD
Nos. of cylinders physically verified	239	103	88
Nos. of date expired cylinders (expiring on or before 2013)	151	54	39
Percentage of date expired cylinders in the lot	63%	52%	44%

Cylinders purchased in the year 2004 and before have surpassed the life span of 10 years. Therefore, numbers of cylinders purchased from the start to 2004 were taken to arrive at the numbers of expired cylinders. The purchase records showed that the distributors have 74,460 numbers of expired cylinders being circulated in the market as shown in the table 3.13.

**Table 3.13 : Date expired cylinders with each distributors**

Distributors	Particulars	Year of purchase	Quantity (Nos. of cylinders)
BOD/BOC	Year-wise purchases	1973-1985	6699
		1987-1998	27933
		2000	3,000
		2001	12,999
		2002	9,391
		2003	4,999
		2004	13,000
	Total (BOD/BOC)		78,021
BOD/BOC	Less : disposed till 2000(theft & accident)		5,761
	No. of expired cylinders (BOD/BOC)		72,260
DPCL	No. of expired cylinders (DPCL)	2004	1,200
DPD	No. of expired cylinders (DPD)	2004	1,000
<b>Total no. of expired cylinders with distributors</b>			<b>74,460</b>

As per the international best practice, cylinders must be inspected and re-qualified at certain interval of time. The disposal or re-qualification of a cylinder must be done by appropriate specialist with necessary equipment, training and experience, and should be certified by appropriate authority. However, a formally approved measure, written procedure and systematic practice of inspecting expiry dates were not in place.





*Date expired cylinders*

From the fact that no cylinders were disposed or re-qualified till date, cylinders which were purchased prior to 2004 has surpassed its life span now and are still being circulated in the market posing threat to human lives and properties.

Therefore, the DoT as regulatory authority should ensure that date expired cylinders are removed from the circulation immediately or re-qualify and sensitize the consumers on the gravity of threat involved in using expired cylinders.

***The MoEA responded stating that the cylinders at the time of re-filling at the bottling plants under go automatic tensile strength test. (Refer Appendix A (i))***

***The IoCL stated that as per Petroleum and Explosive Safety Organization (PESO) cylinders are to be tested after 10 years from date of manufacturing and once in every 5 years after that to be carried out by authorized contactors of PESO. (Refer Appendix A (ii))***

In the absence of proper systems in place, the RAA during the field inspection found many date expired cylinders in circulation stock of the distributor, exposing threat and risk to the citizens.

### **3.2.8 SECURITY DEPOSITS FOR LPG CYLINDERS USED AS BUSINESS FUNDS (Nu. 145.59 MILLION)**

As of 31st December 2013, the distributors have collected a sum of Nu. 145.59 million as security deposit against new connection of LPG from the consumers as shown in table 3.14.

**Table 3.14 : Security deposit collected against LPG cylinder issuance**

Sl. No.	Distributors	Security deposit amount (Nu.)
1	BOD/BOC	123,925,787.00
2	DPCL	14,885,819.94
3	DPD	6,776,318.00
<b>Total</b>		<b>145,587,924.94</b>

On review of the financial statements of the distributors, the RAA noted that the amount collected as security deposits against the new connection of LPG were used as business working capital and also no separate bank account was found maintained. Therefore, the Ministry of Finance (MoF) and the Ministry of Economic Affairs (MoEA) should review the matter and correctness of such treatment and application of this fund confirmed.

**The MoEA justified the use of security deposit as working capital by the dealers stating the need to procure new LPG cylinders and payment of 10% BST. (Refer Appendix A (i))**

***Ministry of Finance has not provided any response.***

As pointed out above, due to the nature of the fund, the treatment and application of this fund needs to be defined in line with regulations monitoring other similar funds. It would be



more appropriate for the MoEA to consult and seek proper clarification from the MoF to understand the treatment of such refundable deposit and justify accordingly.

### 3.2.9 INADEQUATE CONTROL IN ADMINISTERING LPG NEW CONNECTION

The DoT, MoEA vide letter no. MoEA/POL-17/2011/3009 dated November 10, 2011 issued an order to all the RTIOs in the country to regulate the supplies of all POL products with effect from 1<sup>st</sup> December, 2011. The regulation order specified new LPG connection to be approved by the RTIOs concerned and Dzongkhag Administrations as delegated by the DoT.

Accordingly, the RTIOs and the authorized Dzongkhag Administrations approves individuals for purchase of new cylinders from distributors. However, discrepancies were noted on cross verification of the approval records maintained by the authorities and the new cylinder issue record of the distributors. The discrepancies showed excess LPG cylinders issued by the distributors against what has been approved by RTIOs and Dzongkhag Administrations.

The differences in new connection during the period from 2012 to 2014 are shown in table 3.15.

**Table 3.15: LPG new connections given without approval**

RTIO approved New Connection								Delear's New Connection				Diff
Year	RTIO_P/ling	RTIO_Gelephu	RTIO_S/Jongkhar	RTIO_Thimphu	RTIO_Monggar	RTIO_Trongsa	Total_RTIOs	DPD	BOD/BOC	DPCL	Total_Dealers	
2012	514.00	592.00	572.00	5,960.00	1,637.00	768.00	10,043.00	911.00	13,327.00	2,089.00	16,327.00	6,284.00
2013	654.00	988.00	766.00	7,923.00	1,602.00	932.00	12,865.00	516.00	12,817.00	1,994.00	15,327.00	2,462.00
2014	NA	1,386.00	470.00	7,250.00	2,024.00	808.00	11,938.00	615.00	10,778.00	2,091.00	13,484.00	1,546.00
Total	1,168.00	2,966.00	1,808.00	21,133.00	5,263.00	2,508.00	34,846.00	2,042.00	36,922.00	6,174.00	45,138.00	10,292.00

The figure for Phuntsholing for the year 2012 is exclusive of months January-April

*The figure for Phuntsholing for the year 2012 is exclusive of months January-April*

As transpired by the table 3.15, the distributors have issued 10,292 LPG cylinders without approval. The RTIOs have been unsuccessful in performing their duties to monitor and supervise the purchase and sale of new cylinders. RTIOs negligence had resulted in allowing distributors to sell new LPG connection without RTIO's approval.

Further, the review of the LPG inventory of the distributors showed that the actual stock of LPG is lower than the stock in the records. The detail is shown in the table 3.16.

**Table 3.16 : Shortages in LPG stock with distributors**

Distributors	Stock with distributors as per records	Actual stock with the distributors	Difference in stock	Percentage shortage of stock
DPD	2,555	592	1,963	76.82%
BOD/BOC	16,170	7,534	8,636	53.40%
DPCL	3,204	1,244	1,960	61.17%
<b>Total</b>	<b>21,929</b>	<b>9,370</b>	<b>12,559</b>	<b>57.27%</b>

*\*The actual stock of LPG is derived by collecting records on stock balance and stock in transit from all the outlets for a particular time.*

The differences in actual stock and stock as per record indicate misappropriation or deflection of the cylinders to illegitimate consumers. The anomaly existed due to absence of any statute overseeing such issues in field. Since the import, distribution and pricing of LPG is governed by DoT, it is DoT's responsibility to be well abreast with vital information and formulate rules accordingly.

**The response from MoEA besides explaining that they have adequate control in administering LPG new connection, also expressed concern to re-examine the figures for reconciliation.**

*MoEA further mentions that dealers have 20 to 30% of connections as standby cylinders in their stock. These cylinders cannot be considered as new connections but rotation stock that is necessary for the dealers to operate a cash and carry system. (Refer Appendix A (i))*

The RAA has till date not received the reconciled data on the differences of LPG new connection.

### 3.2.10 DEFLECTION OF SKO IN BORDER TOWNS BY BHUTANESE INDIVIDUALS (Nu. 230.21 MILLION)

Kerosene is used as a domestic fuel for cooking, lighting and heating but most commonly for heating purposes now. The consumption trend of SKO compared between three border towns (Phuentsholing, Gelephu and Samdrupjongkhar) and other regions of the country is illustrated in the table 3.17 and figure 3.3.

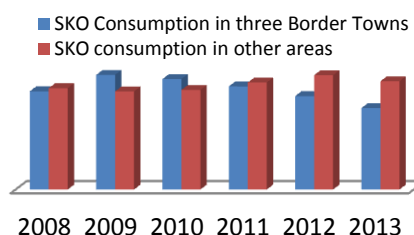
**Table 3.17: Percentage of SKO consumption in three border towns by individuals to the country's consumption**

Year	SKO Consumption in liters							Percentage of consumption of SKO by individuals in three border towns to consumption of the country
	P/Ling	S/Jongkhar	Gelephu	Total consumption of three border towns (A)	Consumption by business units and Indian communities (B)	Consumption by individuals in three border towns (C: A-B)	Overall Consumption in the Country (D)	
2008	769,057	1,141,464	696,654	2,607,175	1,038,220	1,568,955	5,299,110	29.61%
2009	657,370	1,466,381	917,973	3,041,724	1,488,220	1,553,504	5,645,426	27.52%
2010	554,663	1,506,787	871,688	2,933,138	1,503,850	1,429,288	5,577,989	25.62%
2011	620,670	1,446,903	669,864	2,737,437	1,502,330	1,235,107	5,578,616	22.14%
2012	560,469	1,246,377	673,379	2,480,225	1,509,260	970,965	5,515,741	17.60%
2013	523,083	1,060,236	580,442	2,163,761	1,504,840	658,921	5,039,011	13.08%

Source : DOT & RTIOs

Although it is obvious that genuine necessity of SKO in border towns for heating, cooking and lighting is minimal due to warmer climatic conditions, availability of subsidized LPG and electricity, SKO consumption in border towns is unreasonably high throughout the year. The consumption in three border towns even after excluding the consumption of business units and Indian

**Figure 3.3: Comparison of SKO consumption**



SKO coupons being sold to non-Bhutanese

communities is very high representing on average 23% of the total SKO consumption in the country as shown in table 3.17.

Unethical sale of subsidized SKO coupons openly takes place in Phuentsholing and Gelephu. SKO deflection at individual level in Phuentsholing and Gelephu by way of sale of SKO coupons to non-Bhutanese was physically witnessed by the RAA and RTIO team.

As a result of possible deflection by the individuals in three border towns, there is a wider ramification in terms of subsidy granted to the Government of Bhutan for the

period from 2008 to 2014 to the tune of Nu. 230.21 million as worked out in table 3.18.

**Table 3.18 : Subsidy implication as a result of possible deflection of subsidized SKO by individuals in three border towns**

Year	Consumption of SKO in three border towns <sup>1</sup>	Commercial rate (Nu.)	Subsidized rate (Nu.)	Difference in rates (Nu.)	Value (Nu.)
2008	1,568,955.00	55.32	9.22	46.1	72,328,825.50
2009	1,553,504.00	29.88	9.22	20.66	32,095,392.64
2010	1,429,288.00	33.55	12.09	21.46	30,672,520.48
2011	1,235,107.00	47.59	14.08	33.51	41,388,435.57
2012	970,965.00	47.59	14.86	32.73	31,779,684.45
2013	658,921.00	47.59	14.29	33.3	21,942,069.30
<b>Total</b>					<b>230,206,927.94</b>

Source: DoT & RTIOs

*MoEA responded that their mandate is to ensure that dealers do not deflect and that the quota item reaches the intended beneficiary. It was further stated that once the beneficiary gets the quota, Ministry have completed their task and new rules and regulations might be needed to monitor and regulate the beneficiary. However, RTIOs concerned have been instructed to reduce the issuance of SKO and take further preventive measures as far as possible. (Refer Appendix A (i))*

### 3.2.11 SALE OF SUBSIDIZED SKO TO NON- BHUTANESE AND BUSINESS ENTITIES (NU. 251.37 MILLION)

Bhutan is granted subsidized SKO of 1,250 KL per month by the Government of India. Generally subsidized goods are made available to individual citizens for domestic purpose. However, the benefits of subsidized SKO were found extended to non-Bhutanese and business entities as explained below.

#### 3.2.11.1 Sale of subsidized SKO to non-Bhutanese residing in border areas (Nu. 43.92 million)

The communities of Dathgari, Saralpara and Ultapani in India bordering Gelephu have access to SKO at a subsidized rate from BOD/BOC. The community of Dathgari is allotted 500 litres of SKO daily and the communities of Saralpara and Ultapani are given 450 liters & 250 liters respectively on monthly basis.

The arrangement of sales of SKO at a subsidized rate to the communities across border area was made in accordance to the note dated 11<sup>th</sup> September 2006 of Ministry of Home and Cultural Affairs (MoHCA) and approval letter no. MTI/IX-5/06/10 of the MoEA, Thimphu. The approval was granted with an objective to maintain peace and friendship which in the long run would improve the living environment in the immediate neighboring areas.

Similarly, in Samdrupjongkhar, the RTIO had approved sale of 100 litres and 50 litres of SKO on monthly basis to Assam Police and Sashastra Seema Bal (SSB) respectively. While there is no written approval or directives for such arrangement, the supply of subsidized SKO was made with the intention as that of in Gelephu.

<sup>1</sup> The consumption of SKO in three border towns is exclusive of supply made to business units in Bhutan and communities in India.

The RAA observed that a total of 1,290,100.00 liters of SKO were sold to the communities of Indian villages near Gelephu and 12,600.00 liters of SKO to Assam Police and SSB in border areas of Samdrupjongkhar during the period 2008 to 2014 as shown in the table 3.19.

**Table 3.19 : Subsidy implication as a result of sale of subsidized SKO to communities in India**

Year	Sales of SKO to communities in India				Sales of SKO to Assam Police and SSB, Assam				Total Value in Nu.
	Qty in ltrs. (A)	Subsidized rate (B)	Commercial rate (C)	Value in Nu. {Ax(C-B)}	Qty in ltrs. (A)	Subsidized rate (B)	Commercial rate (C)	Value in Nu. {Ax(C-B)}	
2008	182,500	9.22	55.32	8,412,885	1,800	9.35	55.32	82,742.40	8,495,627.40
2009	182,500	9.22	29.88	3,770,085	1,800	9.35	29.88	36,950.40	3,807,035.40
2010	182,500	12.09	33.55	3,916,450	1,800	12.23	33.55	38,376.00	3,954,826.00
2011	182,750	14.08	47.59	6,123,952.5	1,800	14.21	47.59	60,084.00	6,184,036.50
2012	190,650	14.86	47.59	6,239,974.5	1,800	15.00	47.59	58,662.00	6,298,636.50
2013	186,700	14.29	47.59	6,217,110	1,800	14.41	47.59	59,724.00	6,276,834.00
2014	182,500	14.29	62.60	8,816,575	1,800	14.41	62.60	86,742.00	8,903,317.00
	<b>1,290,100</b>			<b>43,497,032</b>	<b>12,600</b>			<b>23,280.80</b>	<b>43,920,312.80</b>

Note: commercial SKO rate taken is the prevailing market rate at Phuentsholing.

As transpired from the table 3.20, during the period 2008-2014 revenue worth of Nu. 43.92 million were forgone as a result of SKO being sold to consumers across the border at subsidized rate. This constitutes about 33% of the total consumption of SKO in Gelephu region and 0.16% of total consumption of SKO in Samdrupjongkhar region.

*The MoEA responded that the subsidized SKO issuance to the community of Dathgari, Saralpara and Ultapani in India was made at the behest of MoHCA with an objective to maintain peace and friendship. Further, those communities played a crucial role during the time of emergency. Similarly, the issuance of SKO to Assam Police and SSB were also considered in view of maintaining cordial relationship in the security prone areas. It was further stated that they keep on receiving verbal instructions from the higher authorities on the need to maintain this protocol. As such, the arrangement is necessary for smooth flow of activities within the border areas until the situation becomes favorable. (Refer Appendix A (i))*

### 3.2.11.2 Sale of subsidized SKO to business units in Samdrupjongkhar (Nu. 207.45 million)

Despite the availability of industrial Kerosene, business units in Samdrupjongkhar and Phuentsholing were approved purchase of SKO at subsidized rate since 2007. From 2010, they were made to pay an additional 50 percent on the existing subsidized rate, vide letter no. MEA/POL-12/2010/309 dated 18/03/2010. The details are as shown in the table 3.20.

**Table 3.20 : Business units availing subsidized SKO**

Sl. No.	Business units	Qty approved per month (in ltrs)	Approval no. & date
<b>In Samdrupjongkhar</b>			
1	Barma chemical Industry	40,000	MEA/POL-17/2008/1089 dated 28/05/2008
2	Druk Plaster and Chemical	50,000	MEA/POL-17/2008/1089 dated 28/05/2008
3	Bhutan Gypsum Product	18,000	MTI/POL-13/2007/1465 dated 17/10/2007
4	S.D Ferro Silicon (P) Ltd.	300	Nil
5	Tshering Steel Works	60	Nil
6	Morphu Autoworkshop	200	Nil
7	Pema Khangsar Autoworkshop	100	Nil
<b>In Phuentsholing</b>			
1	Gurung Restaurant	70	Nil

2	H&K Company	300	Nil
3	Shazen Restaurant	100	Nil
4	Anamol Restaurant	100	Nil
5	Mamta Restaurant	70	Nil
6	Rabten Engineering	150	Nil
7	FCB Canteen	60	Nil
8	Chhimi Dolma	80	Nil
9	Sangay Noodles	1,500	Nil
10	Thogmay Restaurant	70	Nil

Approving subsidized SKO for commercial use had implication on the subsidy granted to the tune of Nu.207.45 million for the period from 2008 to 2013 as worked out in table 3.21. Since the actual figures on SKO consumption by the business units in Samdrupjongkhar were not provided, the team had calculated the amount based on the approved quantities.

**Table 3.21 : Subsidy implication as a result of sale of subsidized SKO to business units**

Year	SKO consumption by business units in Samdrupjongkhar and Phuentsholing (in ltrs)	Commercial rate (in Nu.)	Approved rate from 2010 (subsidized rate +50% of subsidized rate)	Rate difference (in Nu.)	Value (in Nu.)
2008	1,038,220.00	55.32	13.83	41.49	43,075,747.80
2009	1,488,220.00	29.88	13.83	16.05	23,885,931.00
2010	1,503,850.00	33.55	18.14	15.42	23,181,847.75
2011	1,502,330.00	47.59	21.12	26.47	39,766,675.10
2012	1,509,260.00	47.59	22.29	25.30	38,184,278.00
2013	1,504,840.00	47.59	21.44	26.16	39,359,090.20
<b>Total</b>					<b>207,453,569.85</b>

The supply of SKO at subsidized rate to business units not only deprive the intended Bhutanese citizens but it is also against the vision of the RGoB and the GoI for instituting the subsidy to benefit people of Bhutan.

*The MoEA responded that the supply of quota SKO to commercial firms and business organizations are within the purview of the Ministry as long as the requirement is genuine and there is no deflection and shortage within the country. The current arrangement is as per the approval from the MoF vide their letter no. MoF/PED/01/2010/10633 dated March 11, 2010, agreed to regularize existing users on payment of 50% commercial charge. (Refer Appendix A (i))*

### 3.2.12 LPG AND SKO OUTLETS MOSTLY CONCENTRATED IN URBAN AREAS

The quantity of LPG and SKO that Bhutan imports is far less than the quota granted. On contrary, the fact is the supply of LPG and SKO have not reached the people residing in remote areas as intended. The LPG and SKO distribution outlets are shown in the table 3.22.

**Table 3.22 : Dzongkhag-wise LPG and SKO outlets**

Sl. No.	Dzongkhag	Location of LPG & SKO outlets	No. of Outlets			
			BOD/BOC	DPCL	DPD	Total
1	Bumthang	Bumthang town	1	0	0	1
2	Chhukha	Tsimasham	1	0	0	1
		Phuentsholingtown	1	1	1	3
		Pasakha	1	0	0	1
		Gedu	1	1	0	2
		<b>Total</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>7</b>
3	Dagana	Dagana town	1	0	0	1
4	Gasa		0	0	0	0
5	Haa	Haa town	1	0	0	1
6	Lhuentse	Lhuentse town	1	0	0	1



7	Monggar	Monggar town	1	0	0	1
8	Paro	Paro town	1	1	1	3
9	Pemagatshel	Pemagatshel town	1	0	0	1
		Nganglam, Pemagatshel	1	0	0	1
		<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>
10	Punakha	Punakha	1	0	0	1
		Khuruthang town	0	0	1	1
		Lobesa	0	1	1	2
		<b>Total</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
11	Samdrupjongkhar	Samdrupjongkhar	1	0	0	1
12	Samtse	Samtse	1	0	1	2
		Gomtu	1	1	1	3
		<b>Total</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>5</b>
13	Sarpang	Sarpang town	1	0	0	1
		Gelephu town	1	1	0	2
		<b>Total</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>3</b>
14	Thimphu	Thimphu town	1	1	1	3
15	Trashigang	Kheri, Tashigang	1	0	0	1
		Wamrong, Tashigang	1	0	0	1
		<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>
16	Trashiyangtse	Trashiyangtse town	1	0	0	1
17	Trongsa	Trongsa town	1	0	0	1
18	Tsirang	Tsirang town	0	1	0	1
19	Wangdue	Bajo town	1	0	1	2
		Langletsawa, Wangdue	1	0	0	1
		<b>Total</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>3</b>
20	Zhemgang	Zhemgang town	1	0	0	1

It is evident from the table 3.22 that LPG and SKO outlets are established mostly in centers of the Dzongkhags, where the petrol pumps already exist, to cut down cost and to increase distributor's profitability. No outlet was established with an objective to reach the products to the rural populace. Although, LPG and SKO are inevitable products used for cooking and heating today, Gasa Dzongkhag does not have even a single LPG and SKO outlet to cater her population.

The MoEA as the apex regulatory authority of LPG and SKO is responsible to carry out proper need assessment of LPG and SKO outlets.

***MoEA responded that PoL infrastructure is part of the principal company's network and getting agreement of principal companies to support infrastructure in unviable areas has always been a challenge. DoT mainly focuses on distribution of POL coverage in the country and the department has already instructed the management of BOD to establish PoL retail outlet at Gasa on priority basis and the BOD management is currently working on the same. The land for fuel depot has already been identified and approval accorded by the Dzongkhag authority. The DoT is in the process of taking up the issues with principle oil companies in India for the necessary equipment/infrastructure as technical assistance given that the sales volume is low and not feasible for establishment. (Refer Appendix A (i))***

RAA's observation raised was on the LPG and SKO outlets being established only in areas where MS and HSD retail outlets already exist. However, the MoEA's response was on difficulties in getting approval and infrastructure support to establish POL retail outlets in unviable areas. The RAA is of the opinion that establishing LPG and SKO depots does not require approval and infrastructure support from the principal companies in India.

### 3.2.13 INADEQUATE CONTROLS TO MINIMIZE RISK OF DEFLECTION

Controls in this context indicates robust practice, process, policy, procedure or measure instituted by responsible government authorities and designed to provide reasonable assurance that risks of subsidized petroleum products deflection are adequately addressed.

The RAA reviewed control practices and noted following inadequacies:

#### 3.2.13.1 Weighbridge control not applied

One of the fundamental control processes to be implemented with continuous scrutiny and monitoring is the weighbridge function. The weighbridge is a primary control when receiving or dispatching any products to ensure that the correct weight and quantities of products leaves or enters the country.

However, in practice, all incoming and outgoing transport trucks are not recorded, weighed and inspected across weighbridge. RRCOs responded that the weighbridge function couldn't be applied because of shortage of custom inspectors and lack of space for installation of weighbridge.

*While the DRC agreed with weighbridge control not being applied, DRC justified that installation of new weighbridge was not possible due to lack of adequate space and resources. Further, it was stated that it is not mandatory for the all goods carrying conveyances to be weighed as it is literally impossible to inspect every consignment due to huge traffic congestions problems at entry/exit points. (Refer Appendix B)*

*The MoEA responded that installation of weighbridge and its operational aspects falls within the DRC's domain. MoEA justified that there is adequate checks and balances in place by way of measurement of quantities by flow meters as well as dip rod system accompanied by challan slips duly signed by the supplier and the transporter. (Refer Appendix A (i))*

DoT responded that there is adequate check and balance for measurement of quantity and quality of POL products. However, RAA's concern was on the implementation of the measures in absence of weighbridge. During the field visit the RAA's team did not find trade officials inspecting the goods carrying conveyances that enter and leave the country. On inquiry with the POL inspectors it was made to understand that measurement of quantities and quality testing was not possible for every consignment.

#### 3.2.13.2 Non inspection of POL tankers and trucks leaving the country

While the custom officials physically inspect POL products entering the country, the tankers and trucks exiting the country are not inspected by customs officials as well as by trade officials. In absence of inspection of POL tankers and trucks exiting the country, the possibility of deflection of POL products cannot be ruled out.

*The DRC responded that the empty tankers and trucks leaving Bhutan are not subjected to any customs formalities. However, if customs officials have reasonable doubts or prior information, physical inspection is carried out. Moreover, physically checking all the vehicles exiting Bhutan is not feasible given the lack of non-intrusive inspection infrastructures and space at the customs border checkpoints. (Refer Appendix B)*

### 3.2.13.3 Inconsistent and inadequate controls in issuance of SKO coupons

The coupon system was instituted to streamline distribution of subsidized SKO and to ensure that it reaches the targeted beneficiaries vide executive notification number DT/GEN-2/2007/948 dated 29<sup>th</sup> June 2007. Under the system, an individual is entitled for a coupon of 10 liters of subsidized SKO per month. The RTIOs are responsible and accountable for distribution of coupons in their regions and maintenance of records thereof. RTIOs seek the assistance of Dzongkhag and Gewog authorities for the task where ever necessary.

Despite having an established coupon system, the authorities concerned were not able to enforce the system efficiently and effectively due to absence of proper guidelines or regulations governing the coupon system. As a result the following inadequacies and shortcomings were noted:

- a) While the notification clearly states that a coupon of 10 liters subsidized Kerosene per month will be distributed to eligible households, the subsidized SKO was issued to individuals based on the Citizenship Identity Card. Further, it was noticed that a coupon of 50 liters of subsidized Kerosene per month per person was allowed in the inner regions of the country.
- b) RTIOs maintain their own database (manual or MS Excel based) of coupon issuance records in their own preferred formats. There is no systematic procedure to maintain the centralized database of SKO issuance. In absence of centralized data, it is not possible to track whether the individuals applying for SKO quota in one region have already availed quota in other regions. There is no control to avoid issue of SKO coupons to individuals who already availed quota in other regions.
- c) The DoT is responsible for printing and issuing coupon booklets to the RTIOs and the RTIOs to the Gewog offices. Instances were noted where Dzongkhags and Gewogs having same SKO requirement have variance in consumptions of SKO. Upon review, it was found that the DoT and the RTIOs have hardly carried out coupon booklet inventory assessment which is an important control tool. The RTIO officials explained that coupon booklets were issued as and when the counterfoil of the used booklet was returned to the RTIOs.
- d) The RAA visited few Gewog Offices of border towns to gather insights of SKO coupons issuance practices in Gewog Offices. The Gewog Offices were not provided with clear-cut written instructions, guidelines and directions on proper regulation of issuance of SKO coupon from Gewogs, except for Gewog Offices in Samdrupjongkhar.
- e) From the Gewog Offices visited by the RAA in Chukha Dzongkhag and Sarpang Dzongkhag, it was observed that the SKO coupons were issued under signatures of almost all the staff of the Gewog Offices including caretaker. No specimen signature(s) of authorized coupon issuing official(s) was/were identified or assigned.
- f) Gewog Offices of Samdrupjongkhar Dzongkhag have authorized officials to issue SKO coupons and the specimen signatures were also provided to the distributor. However, upon inquiry with the distributor, the RAA learned that the distributor does not verify whether coupons were issued by the authorized persons. Thus, the very purpose of assigning specimen signatures is not met.



*The MoEA responded that all RTIOs concerned have been taking due diligence with regard to the issuance of coupons and monitoring thereof. As such, the distribution of SKO within the country is smooth and efficient. However, if any lapses do come to light on its utilization in the rural areas, then the respective Dzongkhag/Dungkhag and the concerned Gups or authorized local representatives should be held accountable. The Ministry also mentioned that they had provided necessary guidance both in written and through contacts to all the agencies involved. The RTIOs do not have sufficient employees to cover all parts of the country. (Refer Appendix A (i))*

The RAA would like to reiterate that except for the notification to streamline distribution of subsidized SKO through a coupon system, the Gewog Offices were not provided with any clear-cut written instructions, guidelines and directions on proper regulation of issuance of SKO coupon from Gewogs.

#### 3.2.13.4 Improper regulation of LPG

- a) RTIOs maintain their own database (manual or MS Excel based) of new LPG connections in their own preferred formats. There is no systematic procedure to maintain the centralized database of new connections issued to citizens of Bhutan. In absence of centralized data, it is not possible to track whether the individuals applying for new connections in one region have already applied in other regions. There is no control to avoid issue of new connections to individuals who were issued new connections in other regions.
- b) To streamline distribution of domestic LPG cylinders, the DoT has introduced card system to issue LPG on household basis, and not to individuals. With this system in place, a household would be entitled one card only. As per the RTIO officials, this was initiated to avoid deflection and misuse of LPG cylinders for commercial purposes.
- c) The RAA felt that the success of the new card system only depends on the integrity of applicants. If applicants do not honestly declare the household members, the card system may not serve the intended purpose. This is because there is no integration of their data base with that of the other relevant agencies. As a result, it is very likely that one household may own more than one LPG cards.
- d) Weighing scale or weighing machines were found missing or defective in most of the LPG sale godown. In such situation, consumers are deprived of assessing actual weights of cylinders and buying the right ones.

*The MoEA replied that the issue on the improper regulation of LPG is a case of misconception. However, MoEA agreed that they do not have a centralized database of new connections issued to citizens and that the success of the new card system does depend on the integrity of applicants. The Ministry stated that currently they do not have sufficient funds and human resources to immediately initiate actions to address the shortcomings as observed by the RAA but they will continue to work with the relevant stakeholders to improve the situation in a gradual manner. (Refer Appendix A (i))*

#### 3.2.14 INEFFECTIVE COMMERCIALISATION OF LPG (BHUTAN INDUSTRIAL GAS)

Commercial gas was introduced in the market from August 2012 vide letter No. MoEA/POL-17/2012/1924 dated 10 August 2012 to be distributed by Bhutan Industrial Gas (BIG).

Commercialization of gas is expected to ease the shortage of domestic LPG and streamline supply for domestic and commercial uses.

The RAA's review and analysis of the Annual Report 2014 of BIG submitted to DoT showed that, the DoT and RTIOs have failed to monitor and implement the use of commercial gas by business units as evident from the statistics given in table 3.23.

**Table 3.24 : Percentage of business units using commercial LPG**

Sl. No.	Dzongkhags	New Cylinders sold to business units	No. of business units as per MOEA	No. of business units using BIG	% of business units using commercial LPG
1	Bumthang	78	330	53	16.06%
2	Chhukha				-
	Gedu	20	41	6	14.63%
	Phuentsholing	866	574	421	73.34%
	Tsimasham	44	35	31	88.57%
3	Paro	473	244	20	8.20%
4	Punakha	36	239	15	6.28%
5	Samtse	17	41	6	14.63%
6	Sarpang	30	139	19	13.67%
	Gelephu	162	483	105	21.74%
7	Thimphu	2242	833	586	70.35%
8	Trongsa	47	226	7	3.10%
9	Tsirang	85	180	73	40.56%
10	Wangdue	115	659	58	8.80%
<b>Total</b>		<b>4215</b>	<b>4024</b>	<b>1400</b>	<b>34.79%</b>

Further, the refill record of the industrial gas showed that in most of the cases the business units have on average refilled cylinders only 2-3 times in a year.

**Table 3.24 : Outlet-wise yearly refill per cylinder**

Sl. No.	Dzongkhag	New cylinders sold to business units (A)	Refill for 2014 (B)	Yearly refill per cylinder (B/A)
1	Bumthang	78	9	0.1
2	Chhukha			0.0
	Gedu	20	7	0.4
	Phuentsholing	866	7821	9.0
	Tsimasham	44	74	1.7
3	Paro	473	1936	4.1
4	Punakha	36	176	4.9
5	Samtse	17	19	1.1
6	Sarpang	30	28	0.9
	Gelephu	162	1310	8.1
7	Thimphu	2242	11480	5.1
8	Trongsa	47	2024	43.1
9	Tsirang	85	97	1.1
10	Wangdue	115	1708	14.9
<b>Total</b>		<b>4215</b>	<b>26689</b>	

Low consumption of commercial gas indicated possibility of misuse of domestic LPGs by business units. Further, it also indicates inadequate monitoring and supervision by the RTIOs.

*The MoEA responded that despite regular inspection and monitoring carried out by RTIOs, only the bigger commercial establishments use commercial LPG and that the smaller firms use other alternative source of energy and electrical appliances as the refill cost of the commercial LPG is double the cost of refilling domestic LPG making it unsustainable to tiny commercial firms. Further, stating that RTIOs were directed to impose penalties as per rules in vogue of any non-compliance by the commercial establishments. (Refer Appendix A (i))*

## CHAPTER 4: RECOMMENDATIONS

Based on the issues identified under Chapter three, the RAA has formulated few recommendations aimed at enhancing efficiency and effectiveness in management, and promoting transparency in the operation of import and distribution of LPG and SKO in the country. The recommendations are as discussed below.

### 4.1. MOEA SHOULD DEVELOP A POLICY GUIDELINE TO ENSURE THAT SUBSIDIZED LPG AND SKO REACHES THE INTENDED BENEFICIARIES

MoEA is mandated to regulate import, distribution and pricing of LPG and SKO in the country. However, it was observed that no comprehensive policy guideline was found developed to govern import and distribution of these subsidized commodities, except for some interventions or efforts being made on ad-hoc basis. In absence of a clear guideline, the enforcement agencies, viz., RTIOs and POL distributors exercise their function with limited coordination and accountability.

Therefore, in order to ensure proper accountability system and encourage coordinated efforts aimed at improving the overall discharge of their responsibilities, the MoEA should develop a clear policy guideline to administer import and distribution of LPG and SKO in the country. The policy should be designed to enhance effective monitoring and establish clear line of reporting. The effort would not only help achieving the subsidy scheme's aims and objectives, it would also harmonize the practices across the distributors/businesses and ensure smooth supply of subsidized LPG and SKO to the intended beneficiaries, and control leakages and deflection in the market.

### 4.2. MOEA SHOULD REVIEW PRICING STRUCTURE OF POL PRODUCTS AND CONSIDER HAVING A PRICING STRUCTURE RESPONSIVE TO OPERATIONAL CONDITIONS IN BHUTAN

Pricing system of POL products consists of several components that need to be reviewed and revised. The MoEA has not reviewed the pricing system since 2009. Thus, the Ministry should review and revise the pricing structure considering the profitability of POL dealers and fairness to the consumers. The Ministry's review of pricing structure may consider the following:

- a) The dealers' commission is currently allowed to Bhutanese POL distributors at above 15% of the Indian dealers' commission. The Indian dealers' commission is generally less than 2% of the sale price of the product. The dealers' commission allowed to the Indian dealers include operating cost (salary and wages, electricity, insurance, etc.), product losses, return on net fixed assets and service tax on License Fee Recovery. Considering the differences in operational and economic conditions and tax regime in Bhutan, the dealers' commission allowed to Bhutanese POL dealers dependent on Indian dealers' commission may not be appropriate. Further, the frequent changes in dealers' commission in India stimulated by changes in political, social or economic conditions not relevant to Bhutan's context have to be constantly monitored to arrive at the dealers' commission in Bhutan which at times may render complication. Therefore, the Ministry may re-look at having separate Bhutanese dealers' commission adjusted at the

costs and benefits relevant to Bhutanese operating conditions rather than working out as percentage above the Indian dealers' commission.

- b) The basis, rationality and purpose on inclusion of cost components in the overall pricing structure of POL products should also be reviewed and clearly spelled out to promote transparency and avoid unjustified POL prices being fixed.
- c) The Ministry may re-look into the existing practice of allowing separate prices for depreciation cost and loading & unloading charges of LPG cylinders. Such cost components may constitute normal operational cost for business/dealers which may justify including into the dealers' commission rather than having to charge separately. However, the justifiability of collection of depreciation cost from the consumers also need to be reviewed since the POL distributors claim tax benefits separately on depreciation, which is a cost directly borne by the consumers.
- d) The Ministry may also review the justifiability of including depot surcharges in pricing of POL products. If the Ministry considers continuing collection of depot surcharge, it may require developing proper guideline to ensure accurate reconciliations and accountability of the collection. The current practice in place has resulted in erroneous reports, leaving room for misuse and non-collection of the levy.

#### 4.3. COORDINATION WITHIN ENFORCEMENT AGENCIES AND AUTHORITIES SHOULD BE STRENGTHENED

The enforcing agencies need to strengthen coordination and communication mechanism to enhance monitoring and operations of POL import and distribution. A coordinated approach would help smooth flow of information and eliminate reporting varied import figures by each authority. Therefore, the RAA recommends institution of coordination amongst various agencies as follows:

- a) A proper coordination between the Department of Revenue & Customs (DRC) and Department of Trade (DoT) should be established to enhance sharing of information between the two agencies. This would help solving differences in the import figures reported by each agency. With the information from DRC, the DoT can also check the reliability of the information submitted by the distributors.
- b) The DRC, DoT and RBP should also coordinate to establish effective monitoring mechanism to control risk of deflection of LPG and SKO. With institutional linkages established amongst these authorities, movement of POL products especially LPG and SKO across the border and also within the country can be monitored. A monitoring mechanism should embrace inspecting vehicles carrying empty cylinders and fuel tankers leaving and entering the country.
- c) The communication between the RTIOs across the country should be strengthened to encourage smooth flow of information on the supply/issue of LPG and SKO from various outlets under different RTIOs in the country. The integrated information system would prevent issuance of LPG cylinders and monthly quota of SKO beyond prescribed limit and control availing of facilities/quotas from different RTIOs simultaneously.
- d) The DoT should also establish a proper protocol/agreement to obtain source information on the dispatched quantity of subsidized LPG and SKO from the Indian Oil

Corporation Limited, and institute a system to reconcile with the figures reported by the distributors and the DRC. The institution of such mechanism would help effective monitoring and control on discrepancies of figures reported by different agencies.

#### 4.4. DEPARTMENT OF TRADE SHOULD ESTABLISH COMPREHENSIVE DATABASE OF POL

Complete database on the import and distribution of subsidized and non-subsidized POL products and related information is crucial for effective monitoring and control by the regulatory authorities.

- a) DoT should have a computerized centralized database unit for proper documentation of all documents and records related to POL. The establishment of such unit would help to provide reliable, up-to-date and comprehensive information that would serve as useful tool in executing its regulatory functions.
- b) DoT should develop computerized information management system to enhance accuracy and reliability of information.
- c) Computerized information management system is crucial especially for subsidized LPG and SKO, where the information on issuance to individuals need to be referred every time for next import and distribution.
- d) The Department of Trade may also consider sharing or retrieving information from the information system of the Department of Revenue & Customs through integration and agreeing on appropriate terms on information sharing, particularly the information on imports of POL products into the country. Such cooperation between the two agencies would enhance efficiency and effectiveness in monitoring and saving of resources.

#### 4.5. DEPARTMENT OF TRADE SHOULD TAKE NECESSARY STEP EITHER TO REMOVE OR RE-QUALIFY EXPIRED LPG CYLINDERS WHICH ARE IN CIRCULATION

There are many expired LPG cylinders in circulations posing serious threat to human lives and properties. Therefore, to prevent the risk of any catastrophic event, the Department of Trade should take timely action either by removing the expired LPG cylinders in circulation or re-qualifying these cylinders following proper technical procedures.

#### 4.6. DEPARTMENT OF TRADE SHOULD REVIEW THE DISTRIBUTION SYSTEM OF LPG AND SKO AND DEVELOP A MECHANISM TO ENSURE ADEQUATE SUPPLY OF THESE SUBSIDIZED COMMODITIES AT ALL TIMES

The Department may review the effectiveness of existing system of distribution of subsidized LPG and SKO and ensure that the benefits reach the intended users. Generally, the subsidized commodities are prone to misuse and potential fraud, therefore, the distribution system should embrace tight control on leakages and deflections in the market.

As driven by the profit motive, the LPG and SKO outlets are found concentrated in the urban areas. The Department should carry out study underlining the issues of demand and supply of LPG and SKO. Accordingly, take necessary efforts to ensure adequate supply of LPG and SKO through extension of the distribution network beyond urban areas. The initiative to

open extensions or outlets in remote areas may not come from the distributors due to low volume of demand affecting their profitability.

#### **4.7. DEPARTMENT OF TRADE SHOULD RECOVER HOME DELIVERY CHARGES AND DEPRECIATION CHARGED TO CUSTOMERS FOR LPG REFILL AND DEPOSIT INTO AUDIT RECOVERIES ACCOUNT**

The POL distributors collected home delivery charges from the customers by building up the cost on the price of LPG cylinders without actually delivering cylinders to the customers' premises. Similarly, depreciation on cylinders was also collected from the customers. However, the depreciation was claimed as tax deductible expenses by the POL distributors even though the depreciation cost was actually collected from the customers. Thus, the POL distributors have unjustifiably charged depreciation cost on consumers.

Therefore, the Department should recover home delivery charges of Nu. 112.11 million and depreciation cost charged to the consumers thus far in addition to depreciation amount worked out by the RAA amounting to Nu. 74.16 million and deposit the amount into the Audit Recoveries Account.

## CHAPTER 5: CONCLUSION

The RAA has noted that there are no proper legal and policy framework developed to govern the import and distribution of POL products in the country, thus leading to many shortcomings and irregularities in the POL sector. Further, there was weak coordination and complacency between the relevant monitoring government agencies like the Department of Trade and Department of Revenue and Customs particularly in the maintenance of basic data on the import of POL products. There was also no proper mechanism in place to reconfirm and authenticate such data. As a result inaccurate and grossly inflated data were published in important national publications like the Bhutan Trade Statistics of the Department of Revenue and Customs, thereby raising unwarranted suspicion and concerns over the possible deflection of POL products.

The RAA's review revealed that the error in the LPG import figures for the year 2009 and 2010 had occurred mainly due to wrongly inputting the import data. The differences have now been narrowed and reconciled to within acceptable limits of +/- 1 percent.

In the course of review, the RAA observed several fundamental flaws in the pricing components of POL products, such as dealers' commission, depreciation, loading & unloading charges, etc. which has no adequate basis for these components forming the price of POL products extending undue benefits to the distributors and unfairly burdening the ultimate consumers.

The RAA feels that the policy makers may deliberate and come up with appropriate legal, policy and regularity framework to enhance efficiency, effectiveness and transparency in the import and operation of POL products in the country.



---

## ANNEXURES

---

Annexure A (i) :	Figure showing the current practice of import and distribution of LPG in the country
------------------	--

---

Annexure A (i) :	Figure showing the current practice of import and distribution of SKO in the country
------------------	--

---

Annexure B :	POL price review details
--------------	--------------------------

---

Annexure C :	Table showing the outlet-wise commercial LPG cylinders with business units
--------------	--

---



Figure showing the current practice of import and distribution of LPG in the country

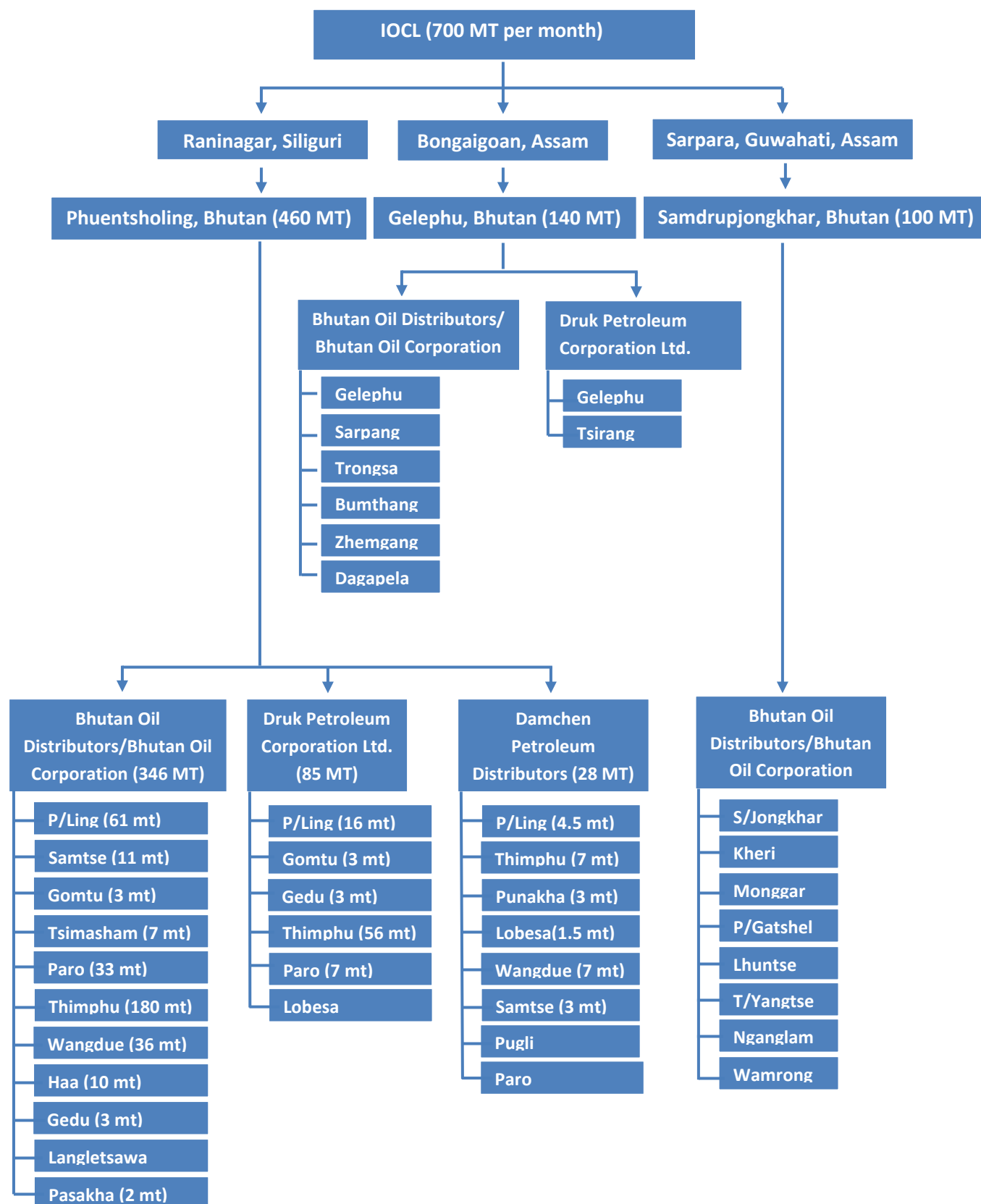
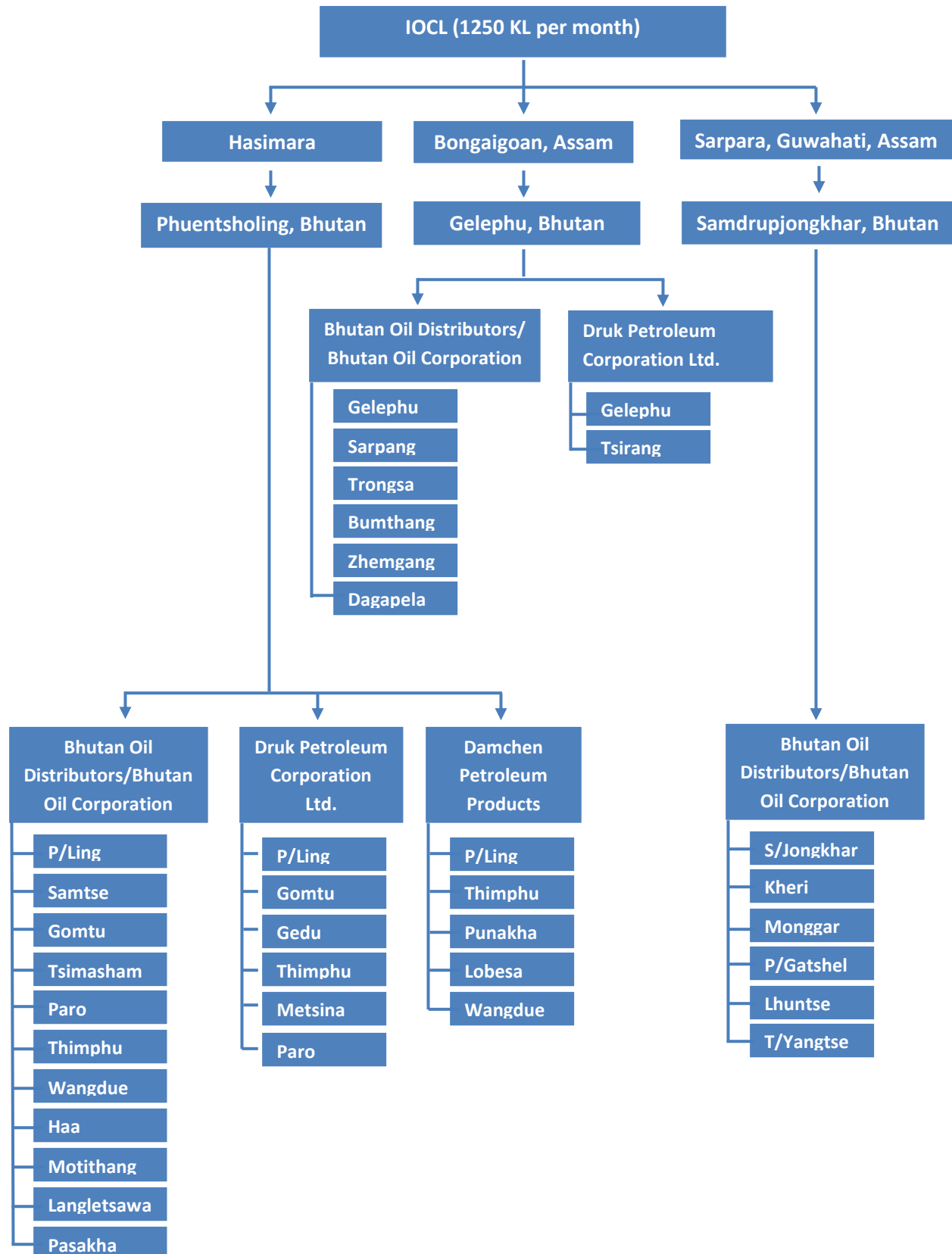


Figure showing the current practice of import and distribution of SKO in the country



***POL price review details:*****1999 Price Revision**

- ✓ The **Dealers' Commission**, last revised in Dec 1995, was proposed at **10% higher than in India**.
- ✓ The **Transportation Cost**, last revised in Sept 1996, was increased due to escalation and it was agreed to, henceforth, have one transportation rate for all PoL products.
- ✓ **Deprecation** on LPG cylinders to be allowed in price calculation; **Nu. 10.17** per refill. (*The dealers in Bhutan own the cylinders, unlike in India, where ownership is with the petroleum companies.*) Since approved rate of the cylinders directly affected deprecation it was proposed that *'the cost element need to be revised as and when the cost of new cylinder is revised by the MTP.*
- ✓ **Shrinkage losses** to be allowed based on co-efficient of the expansion per kiloliter per centigrade. Initially, it was **2%** for MS and HSD and **3%** for SKO.
- ✓ **Loading and unloading charges** (LPG) to be allowed at only one point instead of two points since the dealer commission includes door deliver cost (*not carried out by Bhutanese dealers.*)
- ✓ **Depot surcharge** to be continued to develop infrastructure for efficient distribution of PoL products.
- ✓ **Product Transit Insurance** to be **0.45%** of product value (*invoice price, BST and Depot surcharge*)

**2001 Price Review**

- ✓ The **Dealers' Commission** was increased to **15% higher than in India** due to representations from Bhutanese dealers claiming 10% to be inadequate to compensate higher operation cost and limited volume of sales.
- ✓ The **Transportation Cost** was increased by 15.79% based on prevailing cost of other variable.
- ✓ **Loading and unloading charges** (LPG) was increased to Nu. 5.  
(*The dealers had proposed for Nu. 10 submitting details of expenses incurred. Therefore, the review team considering the revision of wages, additional cost incurred under various heads and savings to the dealers by not carrying out door delivery recommended for allowing Nu.5 per cylinders as loading and unloading charges.*)

**2009 Price Review**

- ✓ The **Dealers' Commission** to continue at **15% above** Indian dealers' commission.
- ✓ The **Transportation Cost**, henceforth, calculated using a formula using new rates and base rate. (*The rates were to be reviewed on every quarterly basis to account for increase/decrease in retail price of PoL products.*)
- ✓ **Deprecation** on cylinder per rotation was revised to **Nu. 15** per refill.
- ✓ **Shrinkage losses** calculation to continue at the existing rate taking new temperature difference of base station and depots.
- ✓ **Loading and unloading charges** (LPG) to remain unchanged at **Nu. 5** per cylinder.
- ✓ **Product Transit Insurance** to be reduced to 0.29% from 0.45% and to be made compulsory.

*\*Product Transit Insurance was removed from the price structure w.e.f 01.10.2011*

**ANNEXURE C**

***Table showing the outlet-wise commercial LPG cylinders with business units***

<b>Sl. No.</b>	<b>Dzongkhag</b>	<b>New Cylinders sold to business units</b>
1	Bumthang	78
2	Chhukha <i>Gedu</i> <i>20</i> <i>Phuntsholing</i> <i>866</i> <i>Tsimasham</i> <i>44</i>	930
3	Paro	473
4	Punakha	36
5	Samtse	17
6	Sarpang <i>30</i> Gelephu <i>162</i>	192
7	Thimphu	2,242
8	Trongsa	47
9	Tsirang	85
10	Wangdue	115
<b>Total</b>		<b>4,215</b>



---

## APPENDICES

---

Appendix A (i) :	Responses from Ministry of Economic Affairs (MoEA)
------------------	--

---

Appendix A (ii) :	Responses from Indian Oil Corporation Limited (IOCL)
-------------------	--

---

Appendix B :	Responses from Department of Revenue and Customs (DRC)
--------------	--

---





SECRETARY

དཔལ་ལྷན་འབྲུག་གཞུང་།  
བསྟན་ཀླུ་ལྷན་ཁག།  
MINISTRY OF ECONOMIC AFFAIRS  
ROYAL GOVERNMENT OF BHUTAN  
THIMPHU



MoEA/DT/POL-13/2015/ 2176

April 21, 2015

Auditor General  
Royal Audit Authority  
Thimphu

Dear Dasho,

This has reference to your letter no. RAA (AG-SP)/2015/843 dated March 30, 2015 on the draft report on Import and Distribution of LPG and SKO.

In this connection, we would like to emphasize the following norms or principles on PoL business in Bhutan: a) that PoL business is highly regulated by the government in India and the framework has been transferred to Bhutan by default; b) that there are no alternatives to the current model of business; c) that the business system has ensured quality and seamless supply of PoL products at affordable prices. The three services providers are dealers of Indian Oil Corporation limited (IOCL) and Bharat petroleum Corporation Limited (BPCL) and the Indian PoL distribution framework is emulated with small deviations to adapt to the situation.

We have attempted to explain the technicalities with the Indian model. Further, we were able to acquire total import statistics from IOCL that will put at rest the suspicion of deflection. We have also obtained full evidence of elements of the Indian PoL framework that has been exported to Bhutan.

Further, the draft report does not acknowledge good honest work done from mid 2000s to reform and revamp the PoL distribution system that has delivered quality products and services to the customers and the nation. We would like to request that the report is revised to present factually correct information.

Please find enclosed our comments and validation of facts by the Indian Oil Corporation Limited (IOCL).

Yours sincerely,

(Sonam P. Wangdi)  
Offtg. Secretary

Royal Audit Authority  
Thimphu : Bhutan  
Dairy No..52470..  
Date..21/4/15..

Cc: Hon'ble Tengye Lyonpo for kind information  
Cc: Offtg. Director, Department of Trade, MoEA for kind information

## **Draft Audit Report on Import and Distribution of LPG & SKO March 2015**

### **Chapter 3: Audit Findings**

#### **3.1 Discrepancies in the Import Figures of LPG and SKO**

The import figures that the Ministry of Economic Affairs has submitted to the Royal Audit Authority (RAA) were those submitted by the three POL dealers namely M/s Bhutan Oil Distributors (BOD), M/s Damchen Petroleum Distributors (DPD) and M/s Druk Petroleum Corporation Limited (DPCL). However, for the purpose of submission to other agencies requiring the import figure, the Department of Trade (DoT) has compiled and consolidated the figures submitted by the above dealers on annual basis.

With regard to the discrepancies of figures between the dealers, the DoT and the Regional Revenue and Customs Office (RRCO), we would like to apprise the RAA that from 1997 onwards the DoT had developed a format to compile the import figures on annual basis and provided the information to agencies like HM's Secretariat under royal command, media personnel, Royal Monetary Authority (RMA), Department of Energy, construction companies. (both govt. and private) We are of the highest conviction that the figures were carefully analyzed and compiled before submitting to relevant agencies. The figures also appear realistic and genuine when compared to the past annual figures. Sometimes there used to be huge variations particularly in value as the unit of measurement that the Ministry prescribed was in millions while the dealers were carrying out daily transactions in lakhs. Such variations were carefully adjusted and necessary corrections made before finalizing the figures.

Further, it is necessary to reiterate that the import figures obtained from the dealers were channeled in a systematic manner through their respective dealing officials and certified by their competent authorities. An adequate time period was considered for them to gather all the required information from their various units within the country. In our opinion, the figures should be authentic and valid. We have also been verbally informed by the Department of Revenue and Customs (DRC) officials that their RRCOs made typographical errors while computing and updating in the Bhutan Automated Customs System (BACs). Therefore, we cannot comment nor acknowledge on the sources of figures compiled by the DRC or any other agencies. **However, we crosschecked the LPG and SKO uplift figures from the Indian Oil Corporation Limited (IOCL) and the figures actually match with variations within the limit (figures of IOCL enclosed).**

With regard to the coordination among the relevant agencies, the DoT has put in adequate measures in place by way of establishment of Regional Trade and Industry Offices around the country through which allows for the coordination and liaison with other agencies for implementation and enforcement of government rules and regulations. The regional offices are responsible for allocation of quota items to the dealers based on their

capacity and also to oversee its utilization within the country. Reforms have been initiated to optimise the distribution of quota items by way of introduction of coupon system for availing the kerosene supplies and LPG card system for domestic usage of LPG. Even commercial LPG has been made available for commercial businesses which have helped to ease pressures on the subsidized domestic LPG cylinders. There may be some lapses and shortcomings due to oversight to which we shall put in conscious efforts to rectify the mistakes in a time bound frame.

To start with, Distributors/Dealers will be advised to provide a reconciled sales figure, duly certified by IOC at the end of every 6 months, which will be used to get an authenticated figure.

Therefore, we would like to request the RAA to kindly drop the memo issued.

### **3.2 Possible Deflection of LPG and SKO (Nu. 3,897.26 Million)**

**LPG:** The Royal Government of Bhutan receives a quota of 700 metric tons of LPG per month from the IOCL under the sanction accorded by the Ministry of Petroleum and Natural Gas, GoI. The quota is distributed in Bhutan through the three dealers, namely: Bhutan Oil Distributors, Damchen Petroleum Distributors and Druk Petroleum Corporation Ltd.

<b>LPG Quota</b>	<b>Western Region</b>	<b>Central Region</b>	<b>Eastern Region</b>
<b>700 MT</b>	<b>460 MT</b>	<b>140 MT</b>	<b>100 MT</b>
Lifting Point	Raninagar, Jalpaiguri, West Bengal	Bongai gaon, Assam	Sarpara, Guwahati, Assam

The system of allocation was liberalised in 2007 and the three dealers can lift the quota according to their capacity and there is no fixed quota to a specific dealer (the quota is left open for upliftment). The above allocation is on a monthly basis and the quota lapses automatically if the dealers are not able to lift the open prescribed quota. The RAA has viewed the difference of the annual quota and the annual uplift figures compiled by the DoT as possible deflection which is factually not correct. The difference is the balance amount that the dealers could not lift. The reasons for import fluctuations were due to price increases, strikes and annual maintenance compliance. As per IOCL records, it is found that the LPG figures quoted by the distributors are in line with their records.

With the growing demand for LPG each year, distribution had to be streamlined in order to pass the benefit to the intended domestic households for optimal utilization of the fixed quota. After consultation with stakeholders particularly the RTIOs and the dealers, it was

unanimously agreed to introduce the LPG card system especially in the border towns to curb possible deflection and black marketing. The new system also mandates the card holder to be personally present to avail the refill services. In the hinterland, citizenship identity card is the basis for the distribution of LPG prior to 2014.

**As the figures provided by IOCL and the distributors are matching, there is no scope for deflection.**

**SKO:** Bhutan has been allocated a quota of 1250 kiloliters (KL) per month (15,000 KL per annum) by the Government of India through the IOCL. The quota is distributed in Bhutan through three dealers, namely: Bhutan Oil Distributors, Damchen Petroleum Distributors and Druk Petroleum Corporation Ltd. The quota of 1250 KL has been kept open for all dealers to lift depending upon their lifting capacity based on the coupons collected. The SKO distribution has been streamlined since September 2007 through the coupon system, wherein a monthly quota of 10 liters is prescribed to a household. Since the implementation of the coupon system, the consumption has drastically reduced by about two thirds of the allotted quota indicating a fairer and more efficient allocation system.

SKO Quota Per month	Lifting Points		
	Western Region	Central Region	Eastern Region
1250 KL	Hasimara, West Bengal	Betkutchi, Guwahati, Assam	Bongaigaon, Assam

Despite such best practices, challenges are still emerging on a regular basis with regard to the misuse of SKO coupons across border towns. This can be mainly attributed to the significant number of Bhutanese families living in Jaigaon, West Bengal, India where accommodation facilities are available often at relatively cheaper prices compared to Phuentsholing, Bhutan. There are around 3000 estimated Bhutanese families living across the border in India. They are part of the intended beneficiaries of the SKO quota. **However, it must be reiterated that the objective of the mechanisms in place are to ensure that the quota items reach the targeted beneficiaries and also to deter and curb deflection from the perspective of the dealers. There are no strong mechanisms in place to control and curb deflection at an individual level or if these 3000 families take the decision to sell the coupons allocated to them.**



The term subsidy quota and the actual import figure are totally different in trading activities. The subsidy quota that the RAA has mentioned was actually the allocated quota on monthly basis while import figures show the actual quantity that has come inside the country on annual basis. The difference of the two will automatically lapse at the end of every month if the entire amount could not be lifted within that particular month. With regard to the key IOCL data, the DoT has made several attempts to obtain the figures and the figures which have been obtained from them at the working level has already been submitted to Audit team. The SKO figures compiled by the DoT are in line with IOCL figures. The figures given by the dealers in case of SKO are higher than the IOCL/DoT figures, this has to be obviously wrong and requires correction. As such, we would like to request the RAA to kindly consider the same.

### **3.3 Unjustified Dealer Commission for PoL Products**

The term dealer commission is actually the gross margin earned by the dealer from the sale of PoL products and it is from this margin that the dealers have to meet their administrative expenses, selling expenses, interest burden, return on investment, evaporation of the fuel stock, leakage/spillage, gauging/ calibration of equipments, pilferage, huge stock/inventory carrying cost, high salary/wages and overhead expenses and low volume. These are some of the factors that is included in the above dealer commission. There are in fact some depots such as those at Gedu, Haa, Lhuentse, Pemagatshel, Sarpang, Tashiyangtse, Dagapela and Zhemgang where the gross commission earned is not enough to justify the economic viability of running the depot. They are however continued to be run as part of fulfilling a social service and in order to reach as many customers around the country as possible

Keeping those factors in mind, the RGoB approved the dealer commission for PoL products at the prevailing Indian dealer commission plus 15% over the same. This system has been in practice since inception as the nature of business is cost plus model. The Government has approved 15% over Indian Dealer Commission (DC) based on the low sales volume & high operational cost. The Bhutanese dealers have been serving the general consumers at the price determined by the DoT and they have been catering these essential items wherever required at the behest of the Department. It may also be pertinent to mention here that during the years 2000 to 2001 road blockages, the dealers were directed to supply LPG requirements through the central lateral route (Gelephu to Thimphu highway) at the prevailing rates till the situation improved. This had a substantive financial implication on them. Even during the 2003 Operation Flush Out, the dealer especially BOD/BOC had extended PoL supplies to the armed forces as well as the Task Force Agencies on Over-due (OD) system with their own funds. We do fix moral responsibilities to the dealer as and when the nation faces crisis or emergency situations and they have complied to the best of their ability.

In India, current dealers' commission structure is based on the guidelines by MOP&NG. It comprises of – (1) Return on NFA (Net fixed asset) (2) Return on working capital (considering standard inventory level for average monthly sale of 40 KL MS and 170 KL of HSD) (3) Product losses due to evaporation and handling (4) Operating Cost and (5) Service Tax on License Fee Recovery. These are the typical cost and margin elements for POL retail business and hence applicable for Bhutanese dealers as well. The item (5) as mentioned above is also charged by IOC/BPC to Bhutanese dealers. Therefore, RAA may review its observation that fixing of dealers' commission in Bhutan based on Indian dealers' commission is not rational. In fact the operating conditions for distribution of POL products in Bhutan is much more challenging than Indian condition due to difficult hilly terrain and severe cold conditions in winter prevalent in Bhutan. Moreover the RAA has mentioned about significant growth in POL volume in Bhutan justifying its observation of the need to review the dealers' commission structure in Bhutan. But, the criterion for dealers' commission should not be the aggregate POL volume growth of a country; rather the criterion should be the average monthly throughput per RO of the country. In terms of POL volume growth since 1999, India has also outperformed most of its neighboring countries, but that has not necessitated reduction in dealers' commission in India because side by side the growth of POL volume, the growth in RO numbers has also been significant in India, keeping its throughput per RO almost same over the years. In the mean time there has been significant rise in the prices of POL over the years resulting in requirement of higher working capital which also justifies the increase in dealers' commission. Since POL price of Bhutan is directly linked to that of India, the working capital requirement in Bhutan has also increased significantly. However, the present average monthly throughput per RO in Bhutan is roughly 25 KL for MS and 110 KL for HSD which is much below the standard average monthly throughput per RO considered in dealers' commission structure in India (40 KL for MS and 170 KL for HSD). This justifies the need to keep the dealers' commission in Bhutan at higher level than that in India.

With regard to the transparency of Indian Dealer's Commission (DC), we have agreements with the Oil Companies the copies of which have already been submitted to Audit team. As per the agreements, the Oil Companies have to inform the DoT whenever there is a change in DC and they have been doing the same till now without fail. The IOCL & BPCL are Public Sector Units (PSU) controlled by the Government of India and as such the system in place is very much transparent leaving no room for any doubts on modalities of operation.

The observation by RAA that “some of the cost component under Indian dealers' commission such as stock loss is separately charged as shrinkage loss in pricing HSD, MS and SKO in Bhutan” is not correct. Shrinkage loss is not a stock loss but a shrinkage in volume in transit due to difference in temperature between the base location and the high altitude market, whereas stock loss is due to the evaporation/ handling loss of product held as stock in the RO premises. These two are entirely two different entities

arising out of two different reasons. It is to be mentioned here that in India also shrinkage allowance is charged for high altitude markets over and above the stock loss in dealers' commission for all the markets.

It may also be noted that the margin at 2% of the invoice price, is about the lowest in the business world and it is tough for smaller dealers to stay afloat. The lower prices of PoL products in Bhutan than that of India is a conclusive evidence that our pricing policy is stringent and customer friendly.

### **3.4 Unjustified inclusion of shrinkage cost in pricing of HSD, MS and SKO (Nu. 299.55 Million)**

The temperature variation between the supply depot and the receiving retail outlets in the country varies depending upon the geographical location with respect to its latitude, longitude and altitude. Generally in the same geographical region, a place at higher altitude has lesser average ambient temperature compared to a place at lower altitude. For POL supplies in Bhutan, during the course of travel of MS/HSD/SKO from base points inside Bhutan territory to the upcountry retail outlets, the product undergoes shrinkage in volume due to drop in temperature. The quantum of shrinkage depends upon the coefficient of expansion of a particular product. The coefficient of expansion is more for MS than HSD/SKO. Therefore the shrinkage of MS is more than that of HSD/SKO for the same drop in temperature. Since the RO dealer procures/sells the product by volume and not by weight, naturally the dealer needs to be compensated for the loss in volume arising out of the shrinkage due to temperature drop. Hence shrinkage allowance in the price build-up is not a benefit to the dealer, but compensation to him for the product loss due to volume shrinkage arising out of temperature difference which happens in the course of travel of the product from lower altitude to higher altitude. For this reason shrinkage allowance is applied only for those ROs where such shrinkage takes place, and not for all the ROs. For example, there is no shrinkage allowance for retail outlets at Phuentsholing, Samtse and Gomtu which are at almost same altitude as the supply location Hasimara in West Bengal, India. Also shrinkage allowance is not allowed for LPG since it is sold on weight basis and not on volume basis.

From the above lines, it goes without saying that the practice of loading shrinkage allowance in retail selling price is based on complete scientific rationality and applied with exact calculation and prudence on case to case basis. The provision of shrinkage allowance is very much in vogue in India as well for high altitude markets viz. Darjeeling, Kalimpong, Mirik, Kurseong, Ghoom in West Bengal and Jammu and Kashmir Leh-Ladakh Region, Himachal Pradesh in Northern India. For example, the present shrinkage allowance of Mirik in West Bengal is Rs 514.34/KL for MS and Rs 292.10/KL for HSD. In Shillong of Meghalaya, India the present shrinkage allowance is Rs 558.92/KL for MS and Rs 317.42/KL for HSD.

For the purpose of calculating shrinkage allowance, the average ambient temperature of base location and high altitude markets is taken from a reliable and authentic source. Thereafter, the difference in temperature is multiplied by the coefficient of expansion and the prevalent product price. This is the exact replica of the system followed in India where the shrinkage allowance scheme was developed by the Ministry of Petroleum and Natural Gas (MOP&NG) of India way back in September 2000.

The terms transit shrinkage and the product loss due to evaporation and handling considered in dealers' commission structure are two complete different losses. While the transit shrinkage applies between the supply point and the destination due to ambient temperature difference, the evaporation loss is on account of storage of POL products in the ROs whereby the dealers are mandated to maintain at least two weeks stock at all times. The Dealer Commission (DC) provision is actually to compensate the product loss due to evaporation of the fuel stock, leakage/spillage, gauging/ calibration of equipments, pilferage, huge Stock/Inventory Carrying Cost, High Salary/Wages and overhead expenses and Low Volume. The product loss as mentioned by RAA is an additional loss over and above the loss due to shrinkage. In India also, the shrinkage allowance and "product loss in dealers' commission" are two different components charged to the consumers for two different causes as already explained. While product loss component in dealers' commission structure is applicable without any exception for all the dealers, the shrinkage allowance is market specific and is applicable only for high altitude market dealers fed from lower altitude supply locations. Therefore, shrinkage allowance loading in the price build-up is not a double accounting due to incorporation of evaporation loss in dealers' commission structure, and thus removing of such provision from the price structure will lead to real loss to the dealers resulting in an adverse impact on POL business.

#### **Comparison of rates in India / Bhutan (MS) Petrol**

<b>Location in India</b>	<b>Retail selling price in litre</b>	<b>Location in Bhutan</b>	<b>Retail selling price in litre</b>	<b>Difference</b>
Hasimara	66.86	Phuentsholing	58.50	8.36
Birpara	66.97	Gomtu	58.50	8.47
Banarhat	67.00	Samtse	58.50	8.50
Rangia	62.61	S/Jongkhar	55.42	7.19
Bongaigaon	62.52	Gelephu	55.08	7.44

#### **Comparison of rates in India / Bhutan (HSD) Diesel**

<b>Location in India</b>	<b>Retail selling price in litre</b>	<b>Location in Bhutan</b>	<b>Retail selling price in litre</b>	<b>Difference</b>

Hasimara	52.98	Phuentsholing	49.54	3.44
Birpara	53.08	Gomtu	49.54	3.54
Banarhat	53.12	Samtse	49.54	3.58
Rangia	50.92	S/Jongkhar	49.30	1.62
Bongaigaon	50.92	Gelephu	48.96	1.96

As exhibited in the tables above, the prices of POL products are relatively cheaper in Bhutan as compared to its adjoining towns in India.

### **3.5 Depot Surcharge Collection not seen justified (Nu. 642.59 Million)**

The depot surcharge was introduced mainly to sustain the operation of buffer stock (fuel reserve depot). Initially, this responsibility was fixed on the dealer so that they could maintain at least 14 days of fuel reserves in barrels in their depots and be able to normalize situations due to supply disruptions from the source or within. Some charges were permitted for them to maintain this provision which was introduced as Barrel Surcharge. Instead of fulfilling its objectives, this provision created more problems including adulteration of fuel and also deterioration in the quality of fuels due to prolonged storage in the barrels. So it was decided that the government should manage this responsibility in the interest of public. The buffer stock has lived up to the expectations and served the country and the customers year after year during fuel disruptions.

The DoT would like to apprise that the provision of depot surcharge levy is to recover costs for constructing RGoB's emergency depots and also to develop infrastructure as well as to sustain/maintain the existing buffer depot. We would also like to inform that maintenance of depots require huge funds to procure fuel as and costs associated for smooth operation of the depot.

***As directed under the Royal Command, the DoT is currently working on the relocation of Dechencholing Depot to Thinchupangkha, Dogar Gewog, Paro Dzongkhag under the GoI PTA. The approved budget for the entire relocation project is Nu. 280 million.***

In view of above, we would like to apprise the RAA that it may not be appropriate to do away with such provisions at this point in time.

### 3.6 Unjustified inclusion of loading & unloading cost in pricing of LPG (Nu. 29.11 Million)

Distributors of Bhutan get their supplies from the bottling plants of IOCL on ex-MI basis and they are responsible for transportation and loading and unloading of LPG cylinders. The dealers in the country have to pay loading and unloading charges at three points i.e. at the bottling plant, at the base station and at the depot. In effect, loading charges are paid 2 times for filled cylinders and 2 times for empty cylinders. Similarly unloading charges are also paid 2 times for filled cylinders and 2 times for empty cylinders. Exact sequence of operations is given in table below.

Sl. No	Type of Cylinder	Place of operation	Nature of operation
1	Filled	Bottling Plant	Loading
2	Filled	Base station	Unloading
3	Filled	Base Station	Loading for Distributor inside Bhutan.
4	Filled	Distributor end	Unloading
5	Empty	Distributor end	Loading
6	Empty	Base station	Unloading
7	Empty	Base station	Loading
8	Empty	Bottling Plant	Unloading

Note operation in Sl. no 3,4,5 and 6 are not required for Distributors at Base station markets.

As compared to this in India, the responsibility of delivering the LPG cylinder at the Distributor's godown is that of IOC, which in turn is contracted by IOC to the Transport contractor. Thus the sequence of operation in India is given in table below.

Sl. No	Type of Cylinder	Place operation	Nature of operation	Responsibility
1	Filled	Bottling Plant	Loading	Transporter

2	Filled	Distributor end	Unloading	Transporter
3	Empty	Distributor end	Loading.	Transporter
4	Empty	Bottling Plant	Unloading	Transporter

The transporters in India are responsible for transportation and loading and unloading of LPG cylinders and they are paid consolidated charges for this. Loading and unloading charges are not part of LPG Distributors commission in India.

Comparison of the transportation and loading unloading charges paid in Bhutan separately and that of Transportation charge paid inclusive of loading unloading charge in India are given in the table below. From the same it can be seen that the amount paid to the Distributors in Bhutan are in fact less than the charges paid for the similar operation in India.

Market	Terrain	RT D	As per Bhutan calculation				As per India		Diff
			TPT rate	TPT amnt	Ldng/UL	Total	Rate	TPT amnt incl L/UL	
Phuentsholing	Plain	260	0.08	20.8	5	25.8	0.0907	23.58	-2.22
Pasakha	Hilly	290	0.15	43.5	5	48.5	0.2101	60.93	12.43
Chimakothi	Hilly	450	0.15	67.5	5	72.5	0.2101	94.55	22.05
Thimphu	Hilly	602	0.15	90.3	5	95.3	0.2101	126.48	31.18
Haa	Hilly	706	0.15	105.9	5	110.9	0.2101	148.33	37.43
Paro	Hilly	590	0.15	88.5	5	93.5	0.2101	123.96	30.46
Wangdi	Hilly	718	0.15	107.7	5	112.7	0.2101	150.85	38.15
Baychu	Hilly	677	0.15	101.55	5	106.55	0.2101	142.24	35.69
Samtse	Plain	326	0.08	26.08	5	31.08	0.0907	29.57	-1.51



Gomtu	Plain	298	0.08	23.84	5	28.84	0.090 7	27.03	-1.8 1
Gedu	Hilly	356	0.15	53.4	5	58.4	0.210 1	74.80	16.4 0
Lobesa	Hilly	698	0.15	104.7	5	109.7	0.210 1	146.65	36.9 5
Khuruthang	Hilly	716	0.15	107.4	5	112.4	0.210 1	150.43	38.0 3

Apart from this, dealers in Bhutan have to do the loading and unloading operation twice as compared to only once in India for which no additional payment is made to the Dealers. Considering the above factor, it was recommended to continue with allowing Nu.5/- Per cylinder as loading and unloading charges during the review of PoL pricing structure in 2009 and subsequently the same has been approved by the Ministry. It is also evident the labors are demanding Nu. 10 as loading/unloading charges in the field and the dealers have been bearing the differential. As such, we would like to request RAA to consider the same.

### **3.7 Inadmissible Charges of Home Delivery Cost in Pricing of LPG (Nu. 112.11Million)**

Prior to November 2014, the LPG dealer commission was declared on composite basis, which include all expenses of the Distributors. It was only in November 2014 that the DoT received revised commission wherein they have segregated the commission into two parts namely a) Establishment Charges and b) Home Delivery Charges;

Upon receipt of the above intimation, the DoT revised the LPG dealer commission immediately whereby we have omitted the provision of Home Delivery Charges and implemented the revised rate with effect from 5<sup>th</sup> November, 2014. The copies of which have also been shared with the Audit team as well.

In India, Distributor's commission is based on the quantum of expected business by the distributor. Accordingly, the distributors are categorized into normal and Rajiv Gandhi Gramin LPG Vitaran (RGGLV) Distributors. Normal Distributors are expected to sell about 8800 refill per month. The RGGLV Distributors are expected to sell about 2000 refill per month.

LPG dealers require certain minimum refill sales so that the investment on infrastructure and operating requirements are compensated. If this is strictly applied, then there could be many places where a LPG Distributorship cannot be operated and vast majority of the

customers will be left uncovered. In order to help the customers in such underserved areas, a new format LPG distributorship, namely, RGGLV was launched. In case of RGGLV distributors, who are normally rural distributors with low sales volumes (less than 2000 refill sales per month), the refill cylinders are delivered directly from the distributor's go-down and yet they are entitled for full commission, including both Establishment Charges & Delivery Charges, even though refill cylinders are delivered from the distributor's godown.

In case of Regular LPG Distributors, the delivery charges are to be given as rebate to the customers who collect the refills directly from the godown of the distributors. Such customers are required to give an affidavit (one time) declaring that they are taking godown delivery of their own and they will be responsible for safety of the cylinder enroute.

In view of the above, if we really compare the monthly sales volume of the Bhutanese Distributors and the Indian Distributors, the Bhutanese dealer's falls under the RGGLV category (**Table below shows annual sales of LPG Dealers of Bhutan**) and as per the Ministry of Petroleum & Natural Gas, GoI, the RGGLV Distributors are entitled for full dealer commission. The distributors and their entitlement of dealer commission are available at MoPNG website [www.indane.co.in/rgglvs.php](http://www.indane.co.in/rgglvs.php).

#### LPG SALES QUANTITIES (NO. OF CYLINDERS)

Dealer	2010	2011	2012	2013	2014
BoD/BoC	360886	389022	398207	367725	382108
DPCL	110254	109348	84956	55396	70093
DPD	14577	14697	24885	21600	20700
TOTAL	485717	513067	508048	444721	472901

The above figure is consolidated of all the gas depots of the dealers within the country. If we break up the figures depot wise, then almost all the depots sell less than 2000 cylinders in a month (refill).

However, the DoT has made immediate revisions as per the invoice received from the IOCL and as such we would like to inform that the DoT directly deals with the Oil Companies and not with the GoI, Ministry of Petroleum & Natural Gas (MoPNG). Our Contact point in India is the IOCL /BPCL as far as the PoL pricing is concerned. The copies of the agreements with both the Oil Companies have already been shared with the Audit Team.

**If the operation becomes unviable due to pricing, the quality of service will suffer and we can expect severe public outrage. Therefore, we recommend that we follow the Indian model as there are no options in the PoL market.**

In view of above, we would like to request the RAA to kindly drop the same.

### **3.8 Unjustified Inclusion of Depreciation Cost in Pricing of LPG (Nu. 74.16 Million)**

The depreciation element provides wear and tear or loss in value of LPG cylinder. Nu. 15.00 per cylinder is presently added to arrive in retail selling price for domestic LPG. The depreciation on LPG depends on cost of cylinder, life span of cylinder, salvage value and average rotation of the cylinder.

On average, a cylinder gets filled 7 to 8 times a year (taking consumption of about 40 to 45 days per cylinder) and thus the total depreciation cost collected is Nu 105 to Nu 120 per year. This works out to about 10%, which is in line with normal depreciation accounting methods.

In Bhutan, the dealers own the LPG cylinder and hence the depreciation is included in the cost for arriving at the selling price. Presently, the life span of the cylinder as approved by the Ministry is 15 years (10 years in India) and it is a scrap value at which the cylinder will be sold at the end of its serviceable useful life.

If a customer continues to take LPG even after 15 years, he/she will not pay deposit again, but the cylinder should be replaced by the Distributor. Apart from the above, the Distributor has to bear the cost of replacement of cylinders, in case the cylinder fails before 15 years due to any reason.

Concept of Depreciation cost is prevalent in India also and the same is a part of pricing structure in India. As the domestic cylinder rates are fully subsidized in India, cost of depreciation is kept unrevised from 2002 and is pegged at Rs. 1275 per MT, which is based on elaborate cost working. This cost of Rs. 1275 per MT works out to Rs. 18.105 per cylinder which is more than the depreciation cost included in pricing of Dealers of Bhutan. The IOC also accounts the depreciation value of LPG cylinders in their balance sheet as required by Indian laws and hence extension of similar approach to Dealers in Bhutan is fully justified and is in line with pricing policy of India.

Cylinders in Bhutan are property of the Distributors and they scrap the same as and when they become unserviceable. As it is their property, no records on the same were taken by DoT. Based on Audit observation, Distributors will be advised to keep proper record of disposal of scrapped cylinders from now onwards.

As per observation of RAA in point no. 3.11, there is shortage of LPG cylinders available with the Distributor as compared to the records. In fact such a shortage in all likelihood is commensurate with the numbers of cylinders that might have been scrapped by the Distributors.

As depreciation is a cost of the business in LPG Distribution, the same has to be a part of pricing and the same is a part of pricing in India also.

### **3.9 Distribution of Expired LPG Cylinders Posing Threat to Human Lives and Properties**

Although the standard life span of a LPG cylinder is 10 years, the cylinder at the time of re-filling at the Bottling Plants under goes automatic tensile strength test. As such, if the cylinder fails the requirement at Bottling Plants, then and there, the cylinders will not be re-filled and instead it will be rejected. As such, the technical requirement at the Bottling Plant take care the safety aspects of the serviceable cylinders. We would also like to inform that till now, the threat posed by such standard hardly came to light in any of our gas depots but rather it is the consumer handling behaviors which created threat to Human Lives and properties despite several awareness workshops conducted by DoT in collaboration with Oil Companies.

However, the RTIOs (Regional Trade & Industry Offices) have been constantly monitoring the operation of PoL ROs within their respective jurisdictions.

### **3.10 Security Deposits for LPG Cylinders used as Business Funds (Nu. 145.59 Million)**

The security deposit for LPG Cylinder is actually the cost of empty cylinder and this amount is refundable if a consumer wants to return the cylinder to the respective dealer. Even in India, on registration, the distributor will send an intimation letter through registered post.

The Consumer will need to carry this letter to the distributor to avail the connection. However before availing the new LPG connection, the consumer will be required to pay security deposit at the following rates:

India	Cylinder	Pressure Regulator
	Rs. 1450/- for 14.2 kg	Rs 150/-

Indian Oil Corporation loans Indane equipment to the consumer against the payment of the security deposit. It remains the Corporation's property and its maintenance and statutory testing is taken care of by the Corporation. However, consumers remain responsible for its safe handling while it stays in their custody. As and when the customer surrenders the connection, he/she gets back the security deposit which was actually paid for the connection ie. If a customer has paid Rs. 250 as Security Deposit in 1990 and surrenders the connection now, he gets back that amount only. Therefore, the Department has regulated the amount of security deposits as the IOCL does in India otherwise the distributors may charge more than the actual cost (security deposits).

Once the Security Deposits (SD) is fixed by the DoT, the distributors distribute new connection at the rate fixed by DoT and as such, the distributors cannot sell the cylinder at their rate. However, if a consumer wants to return the same, then he or she is entitled for full refund of SD at the current rate. Further, if we compare the amount of SD Vs Investment by Distributors, then consumer may end-up paying more than the present SD for the same 14.2 kg LPG Cylinder. The RAA pointed out that the amount collected as SD was being used as business fund is incorrect. The distributors have to procure new LPG cylinders from the Manufacturing Company in India and send the same for refilling whenever required. These cylinders are also subject to payment of 10% BST. As such, the memo issued against the security deposit may kindly be dropped.

### **3.11 Inadequate Control in Administering LPG connection**

It is important to understand that the PoL business is highly regulated by the Government in India and the same system has been transferred to Bhutan by default. The appointment of distributors and price fixation is done by the respective Governments.

As the nature of the job involves a lot of manual work, the Regional Trade & Industry Offices (RTIOs) have assigned one full fledged POL officer and an assistant to implement the regulation for POL services. This arrangement facilitates the monitoring part while also enabling effective and efficient control of deflection of POL products across the border towns.

The RTIOs have been mandated for the issuance of LPG connection on a first come first served basis based on Citizen Identity Card (CID) and refilling done based on LPG Consumer Card which has been implemented from 2014. In the border towns, our regional offices have a rationalized system of distributing such products that is done through customer identification number being allotted for LPG holders to avoid deflection since 2003. In the interior areas, the RTIOs have been issuing LPG connection based on CID card, the DoT/RTIOs also carry out monitoring system for quality and quantity through installation of weighing machines that has been made mandatory at all gas depots for LPG and density/filter paper for MS, HSD and SKO and even at the labl

established by the DoT. Where necessary, fuel samples were even referred to advanced labs in India.

In case customers face difficulties, they inform or submit a written complaint to the Department or the concerned RTIOs. Problems have been resolved effectively and amicably. As such, the issue on inadequate control in administering LPG connection is a case of misconception. As a matter of fact, the DoT in collaboration with our six regional offices regulates LPG connection. The figures on the new LPG connections therefore need to be re-examined for reconciliation.

**It may be noted that dealers have 20 to 30% of connections as standby cylinders in their stock. These cylinders cannot be considered as new connections but rotation stock that is necessary for the dealers to operate a cash and carry system.**

### **3.12 Deflection SKO in Border Towns by Bhutanese Individuals (Nu. 230.21 million)**

The distribution of quota kerosene is being streamlined through the coupon system. The purpose of the coupon system is to ensure that the quota kerosene reaches the targeted beneficiaries. The coupon system has been implemented with effect from July 1, 2007. Under this system, a coupon system liberalized the quota and distribution systems. Coupons of 10 liters and 50 liters per month were distributed through the Gups/Dzongdas/Regional Directors for use in lighting, cooking and heating purpose. The coupon system was a huge success and the consumption of kerosene declined to one third of the quota to about 5000 KL per annum.

The dealers sell kerosene against coupons and the coupons are the basis for the allocation. The quota kerosene is sold by the POL dealers at prices fixed by the Ministry of Economic Affairs. The Regional Trade and Industries offices were made responsible and accountable for distribution of coupons in their regions and maintenance of records thereof. They were also made responsible for issuance and monitoring of purchase orders of quota kerosene for the POL dealers. Every purchase of the POL dealers shall be supported by coupons.

Bhutan has been allocated 1250 KL of Kerosene per month on quota basis by the Government of India. In the years before the introduction of Coupon system in 2007, the

country suffered from acute shortages of kerosene, especially during the winter. The genuine beneficiaries, the rural populace and the urban poor suffered the most. It was suspected that substantial quantities were either used for adulteration or deflected in the past especially by the so called SKO agents meant for distribution within the rural areas. Many licensed SKO agents have expressed grievances and even appealed to the higher authorities for reconsideration of our decision to do away with the SKO agents. Many businesses and their welfare got affected but the Ministry was firm in its decision in the greater interest of the nation.

However, as a bona-fide citizen, every individual is entitled for 10 liter of SKO per month upon producing the Identity Card. As many families of lower income group are residing across the border towns due to non availability of affordable accommodation within the country, it may be true that they may collaborate with the locals for some possible deflection of quota items for some financial gains. However, such possible deflection by individual Bhutanese is marginal and insignificant. It is also practically not possible to stop these minor trades through the main gate or the entry and exit gates for the general commuters. However, the DoT has already instructed concerned RTIOs located in the border towns to reduce the issuance of SKO and take further preventive measures as far as possible. Therefore, we would like to apprise the RAA that despite the best practices we are pursuing, we can't completely stop such activities being carried out by the Bhutanese citizens residing in India.

**We wish to reiterate that our mandate is to ensure that dealers do not deflect and that the quota item reaches the intended beneficiary. Once the beneficiary gets the quota, we have completed our task and new rules and regulations might be needed to monitor to regulate the beneficiary.**

#### **3.13.1.2. Sale of Subsidized SKO to Non- Bhutanese & Business Entities (Nu. 251.37 million)**

The supply of quota SKO to commercial firms and business organizations are within the purview of the Ministry of Economic Affairs as long as the requirement is genuine and there is no deflection and shortage within the country. Preventive measures to reduce dependence on the quota SKO has also been put into place correspondingly by introducing kerosene coupon system and Industrial Kerosene for commercial firms from 2007 onwards which has significantly reduced the consumption of SKO within the country.

In the case of Industrial SKO, its consumption is very low due to high price of fuel and therefore, its sustainability is in question. Also the quota we get per month is 1250KL and if we cannot lift the entire quota, there is no benefit to the Government of Bhutan. As stated earlier, the planned assistance of GoI has no link with the quota kerosene. The balance SKO can be given to industries should they become competitive and help them reduce their cost of productions. Moreover, the Department has written a letter to the



Ministry of Finance to advise on the same clarifying on whether we can continue issuing SKO in bulk to the commercial firms or stop issuing henceforth.

A few industries, namely, three plaster of paris units in Pema Gatshel; Army Welfare Project and Penden Cement Authority were temporarily supplied with quota kerosene due to equipment and viability issues. They were asked to prepare for the transition. The provision of quota kerosene to commercial users was a major audit observation in the audit for the years 2006 to 2008. The Department was issued an audit memo amounting to Nu. 19.191 million Vide Ref. No. RAA/AR/ (RTICD-MoEA-DoT) 2006-2008/11706 dated 13.01.09. The amount was observed as a resultant loss to the Government by supplying subsidized SK Oil to business organizations.

The Department sought the approval of the Ministry of Finance to regularize the sale of quota kerosene to selected commercial users. The Ministry of Finance vides their letter no. MoF/FS-13/June/2009/6411, regularized the sale for the period July 1, 2006 to June 30, 2008, but asked the Ministry of Economic Affairs to stop issuing quota kerosene to commercial users.

The Ministry did not stop the issuance of quota kerosene to selected commercial users but has been pursuing the matter with the Ministry of Finance for an amicable resolution to the problem. The Ministry proposed, among others, a commercial charge of 50% of quota rate to regularize the provision of quota kerosene to selected commercial users. Such a mechanism would help the industries in their transition and also to curb suspected malpractices. The Ministry feels that a 50% commercial charge is fair and tenable.

The Ministry of Finance vides their letter no. MoF/PED/01/2010/10633 dated March 11, 2010, agreed to regularize existing users on payment of 50% commercial charge. They have not allowed the supply to any other new commercial users. The Department has implemented the 50% commercial charges with effect from April 1, 2010, vide order no. MEA/POL-12/21010/309 dated March 18, 2010.

The Ministry feels that the 50% commercial charge is reasonable as the new price of kerosene is less than half of the price of normal kerosene.

With regard to the issuance of SKO to non-Bhutanese residing in Border Areas (Nu.43.92 million), we would like to apprise that the subsidized SKO issuance to the community of Dathgari, Saralpara and Ultapani in India was made at the behest of Ministry of Home & Cultural Affairs (MoHCA) with an objective to maintain peace and friendship. Further, those communities played a crucial role during the time of emergency. As such, the RGoB felt that such facilities need to extend to those communities as they play a crucial role as far as security of the Nation is concerned. Similarly, the issuance of SKO to Assam Police and SSB were also considered in view of maintaining cordial relationship in the security prone areas. We keep on receiving verbal instructions from the concerned

higher authorities on the need to maintain this protocol. As such, we would like to inform the RAA that this kind of arrangement is necessary for smooth flow of activities within the border areas until the situation becomes favorable.

### **3.14 LPG and SKO outlets mostly concentrated in urban areas**

As of early 2006, about 75 % of the total Dzongkhags were covered with petroleum distribution services and retail business setups. During the 11<sup>th</sup> plan period, the Department proposes to cover the remaining Dzongkhags that has road network connections. We would also look into probable satellite towns and commercial centers to reduce dependence on major city centers. The Department has always been insisting the petroleum dealers to be mindful of petroleum norms in vogue (India), as per petroleum norms, at least 11 % of its coverage should go to remote service areas. As such, DoT has required dealers to establish ROs in remote locations. However, as the PoL infrastructure is part of the principal companies network, getting agreement of principal companies to support infrastructure in unviable areas has always been a challenge.

The DoT has issued several directives pertaining to standard norms for all PoL ROs that all the retail outlets should develop standards facilities irrespective of status and be able to deliver prompt and efficient services to its customers. There should not be any discrepancy in the quality / quantity and price aspects of the regulated products.

The Department is also emphasizing more on quality of fuel, as such, a quality control laboratory has already been put in place and operational. It is operational to ensure quality of fuel as per the requirement set by the government. There has been an improvement in the quality of fuel imported from the Indian Oil Corporation (IOCL) and Bharat Petroleum Corporation Ltd. (BPCL) (Euro III as bench mark as of now).

As mentioned above, the Department of Trade mainly focuses on distribution of POL coverage in the country, the only Dzongkhag left without fuel & gas station is Gasa. The Department has already instructed the management of BOD to establish PoL RO at Gasa on priority basis and the BOD management is currently working on the same. The land for fuel depot has already been identified and approval accorded by the Dzongkhag authority. The DoT is in the process of taking up the issues with principle oil companies in India for the necessary equipments/infrastructure as technical assistance given that the sales volume is low and not feasible for establishment.

Huge investment is required while establishing PoL ROs (PoL Retail Outlets) and as per the agreement drawn between the MoEA & Oil Companies, the principle Oil Companies provides all the necessary equipments and other related infrastructure required while setting up of any fuel & gas station in the country. This is in line with the existing norms in India and the same system has been brought to Bhutan as well as the PoL services is the extension of such facilities from India to Bhutan. The agreements with Oil Companies

have already been submitted to Audit team. While necessary equipments are provided by the principle Oil Companies, the other infrastructure including land and some basic requirements are to be borne by the respective dealers. Further, we would like to inform that it is very difficult and time consuming while obtaining approval from the principle oil companies in India regarding the requirement of necessary equipments. The oil companies always look into the reasonable returns on their investment, as such; it is very difficult to pursue principle oil companies for their assistance especially while establishing PoL ROs in rural areas in Bhutan.

However, taking full advantage of the excellent working relationship between the principle oil companies in India & the MoEA (RGoB), we have been able to cover almost 85 % of PoL services across the country. We would be pursuing with the oil companies in India for the remaining Dzongkhags/Dungkhags in a phase manner. The oil companies on other hand do not invest where they do not get reasonable returns on their investment, as stipulated by their corporate rules & regulations. So, we need to be skillful in our dealings in order to get maximum benefit from them.

In view of the above justifications, we would like to apprise the RAA that the MoEA is doing our level best as far as the PoL coverage are concerned. As such, the RAA is requested to drop the memo in question.

### **3.15 Inadequate controls to minimize risk of deflection**

#### **3.15.1 Weighbridge control not applied**

The installation of weighbridge and its operational aspects falls within the Department of Revenue and Customs (DRC's) domain. Until now, we have been never subjected to comply with these facilities in our day to day activities as we have our own adequate checks and balances in place by way of measurement of quantities by flow meters as well as dip rod system for POL products accompanied by challan slips duly signed by the supplier and the transporter before exiting the depot. The transporter in turn is required to handover the consignment to the recipient retail outlets repeating the same process of quantity and quality compliance. The challan contains all the required information and disputes if any is settled between the parties on the spot before taking the delivery. In the case of LPG, it is filled/sealed and certified by the bottling plants in India before dispatch to destinations after ascertaining all quantity/quality processes. We had also inspected their plants and we are fully convinced of the due processes they need to comply according to their standards in practice. So the mandatory application of weighbridge is not really important in view of reliable and equivalent systems in force. Therefore, the RAA is requested to drop the memo or else advise the DRC as deemed appropriate.

### **3.15.2 Non Inspection of PoL tankers & trucks leaving the country**

The current system in place is that the RRCO official inspects the tank lorries at the entry check points and after their assessment, let them proceed to go to their respective depots. Once the tanker laden with SKO consignment reaches their depot, one trade inspector is deputed at the site to confirm the receipt of SKO consignment and then unload it to U/G tanks in his presence. Only after completing the unloading processes, the tanker is permitted to leave the station. It is also certified by the Inspector on the invoice that the product has been received and unloaded in the depot.

Therefore, from our perspective, deflection in tank lorry is not at all possible. However, the RAA may still like to advise the RRCO officials to physically check the tankers and the trucks exiting the main check posts.

To control possible deflection, the POL dealers need to obtain allotment order for Petrol (MS), Diesel (HSD) including Premium fuel and Kerosene from the concerned RTIOs. No allotment orders shall be issued until the previous allotment order has been used and accounted. All the RTIOs have deputed one full-fledged POL officer and assistant to implement the regulation of POL services.

### **3.15.3 Inconsistent and inadequate controls in issuance of SKO coupons**

In keeping with notification issued by the Hon'ble Tengye Lyonpo vide reference no. DT/GEN-2/2007/948 dated 29<sup>th</sup> June 2007 and subsequent letter issued by this Department vide reference no. MTI/POL-17/2007/992 dated July 10, 2007; the distribution of quota kerosene is streamlined through a coupon system. The purpose of the coupon system is to ensure that the quota kerosene reaches the targeted beneficiaries. Under this system, a coupon for 10 liters quota kerosene per month is distributed to eligible households for lighting purposes in rural areas and for cooking and heating purposes in the urban areas.

The coupon system liberalizes the quota allocation regime among the POL dealers and the dealers compete for allocation which is based on performance. The dealers accordingly sell kerosene against coupons and the coupons are the basis for the allocation of their quota. The consumers in the remote locations exercise their choice to buy from any retail or micro trader. The quota kerosene is required to be sold by the POL dealers at prices fixed by the Ministry of Economic Affairs.

The Regional Trade and Industries offices are accordingly responsible and accountable for distribution of coupons in their regions and maintenance of records thereof. They also seek the assistance of Dzongkhag and Geog Authorities at times who are then made

responsible for issuance and monitoring of purchase orders of quota kerosene for the POL dealers. Every purchase of the POL dealers needs to be supported by the coupons.

The concerned respective RTIOs make an initial advance allocation to the POL dealers against which the subsequent allocation is made by the concerned RTIOs based on sales or performance. All the RTIOs verify the used coupons with the specimen signatures to avoid circulation of counterfeit coupons. The RTIOs are also responsible and accountable for proper maintenance of files and records. The RTIOs issue fresh coupon booklets only upon submission of duplicate copies of coupon books by Dzongkhag/Gewog authorities to their office. The Regional Trade and Industry Offices (RTIOs) have been distributing the quota kerosene coupon to the Dzongkhag authorities within their respective jurisdiction for the distribution of coupons to the consumers. The Dzongkhag authorities in turn have been forwarding the requirement to their respective RTIOs for the subsequent releases.

We can affirm that all the concerned RTIOs have been taking due diligence with regard to the issuance of coupons and monitoring thereof. As such, we would like to apprise that the distribution of SKO within the country is smooth and efficient. It reaches to every part of the country and there is no complaint on this issue as on date. However, if any lapses do come to light on its utilization in the rural areas, then the respective Dzongkhag/Dungkhag and the concerned Gups or authorized local representatives should be held accountable. We have provided necessary guidance both in written and through contacts to all the agencies involved. The RTIOs do not have sufficient employees to cover all parts of the country.

#### **3.15.4 Improper regulation of LPG**

The issuance of LPG cylinders was liberalized to the POL dealers in 2001. The initiative was a major reform undertaken by the then Ministry of Trade and Industry to reduce bureaucratic burden and improve the availability of LPG services. It was initiated to ease difficulties faced by the consumers. The dealers were mandated to issue new LPG connections on a first come first served basis and customers were also given the right to purchase LPG stoves from any firms of their choice. The requirement of application was done away and LPG cylinders could be bought like any other product. However, Audit Memo No. RAA/RTICD /DoT/2010-2011/01 Dated: 02/09/2011 was issued on Non-monitoring of LPG Supplies during the audit for the year 2010-2011, thereby directed the MoEA to monitor the supplies & distribution of LPG. As such, the old system which required approval from concerned RTIOs was revived and accordingly put in place.

We have a total of 700 MT per month since 2008 which is kept open for all three POL dealers to lift and supply where required. As such, we can hold the dealers accountable for non-supply of products and prevent a dry-out situation.

The issue on the DoT's improper regulation of LPG is a case of misconception. As a matter of fact, the DoT in collaboration with our six regional offices regulates the LPG supplies. We have been carrying out such monitoring both in terms of quality and quantity and deflection of the product. We made it mandatory for all the dealers to install standard weighing machines at all their gas depots for the customers to verify the weight of refilled cylinders before taking the delivery. In the border towns, our regional offices have rationalized the distribution system through customer identification number being allotted for LPG holders to avoid deflection.

We do not have a centralized database of new connections issued to citizens of the country linked with other relevant agencies and it is true that the success of the new card system does depend on the integrity of applicants. However we believe that the measures adopted by the respective RTIOs should be sufficient to begin with. Further, as a nation striving towards being a knowledge based society, we must allow people the benefit of the doubt that they will only have one LPG card per household and only take action when misuse is detected. The DoT and the six RTIOs currently does not have sufficient funds and human resources to immediately initiate actions to address the shortcomings as observed by the RAA. However, we will continue to work with the relevant stakeholders to improve the situation in a gradual manner.

### **3.16 Ineffective Commercialization of LPG (Bhutan Industrial Gas)**

M/s BIG (M/s Bhutan Industrial Gas) has been appointed by the Department as a dealer for commercial LPG in the country in 2011 and subsequently commercial LPG was introduced in the Bhutanese market from August 2012. The approval for the same has been accorded in accordance with liberalization of PoL sectors in 2011. This has been done in order to segregate the commercial & domestic users so as to curb the shortage of domestic LPG (14.2 kg) and also to prevent misuse of quota items by the commercial firms.

The Department has introduced commercial LPG in the country for all the commercial establishments since 2012. We have already implemented the distribution of commercial LPG in the western & central region in a phase-wise manner; we are taking up the issues with Indian Oil Corporation for their support and assistance so as to introduce commercial LPG for the eastern region as well.

The Department of Trade would also like to apprise that as the price of the commercial LPG is regulated in the interest of the consumers. As such, the introduction of

commercial LPG in the western & central region has drastically improved the availability of subsidized LPG for genuine household requirements. This move has been initiated by the Ministry with an objective of limiting the supply of the existing domestic LPG quota for household consumption only.

However, despite regular inspection and monitoring carried out by RTIOs, we have noted that only the bigger commercial establishments have been found using commercial LPG. The smaller firms seem to have switched over other alternative source of energy and electrical appliances as the refill cost of the commercial LPG is double the cost of refill of domestic LPG. Therefore, it is mainly due to the above reasons that the commercialization of LPG (BIG) is ineffective and no more sustainable to tiny commercial firms.

However, the Department has been constantly instructing RTIOs to carry out regular monitoring/inspection so that none of the commercial establishment should be using quota LPG. The RTIOs were directed to impose penalties as per rules in vogue for any non compliance by the commercial establishments.





इंडियन ऑयल कॉर्पोरेशन लिमिटेड

इंडियनऑयल भवन, २, गरियाहाट रोड (दक्षिण),  
कोलकाता - ७०० ०६८

**Indian Oil Corporation Limited**

INDIANOIL Bhavan, 2, Gariahat Road, (South).  
Kolkata - 700 068.

Phone : Office : EPABX : 2414-5555

: 2414-5888 / 5889 / 5003

http : www.iocl.com



IndianOil

विपणन प्रभाग, पश्चिम बंगाल राज्य कार्यालय

Marketing Division, West Bengal State Office

**WBSO/ Bhutan Supplies**  
**15-04-15**

To

**Joint Director**

**Trade Regulation & Monitoring Division**

**Department of Trade**

**Ministry of Economic Affairs**

Dear Sir,

**Sub: Clarifications sought by you vide your mail dt 07-04-15**

We have received your subject e-mail and the details / clarifications sought by you are given below.

**1. Export figures of all PoL products to BHUTAN from 2008-2014**

Export figures of SKO and LPG, year-wise, party-wise and supply plant wise, as per our records attached.

**2. Dealers' commission of Indian distributors in India & rational behind the same.**

The Dealers' commission is being reviewed and revised based on the Report of the Committee constituted by MOP&NG on 22.09.2010. The components are as under:

- Return on NFA (Net fixed asset)
- Return on working capital (considering standard inventory level for average monthly sale of 40 KL MS and 170 KL of HSD). Worked out based on billable product price of State capitals.
- Product Losses: Loss component has been taken as 0.75% for MS and 0.18% for HSD as recommended by the Committee.
- Operating Cost : Major elements of operating cost are Electricity cost, wages, miscellaneous expenses
- Service Tax on License Fee Recovery: Presently 12.36%.

Accordingly, dealer commission for HSD is a sum of Return on NFA + Operating cost + Return on working capital & product losses as 0.29% of billable product price (Rs./KL) + Service tax on Service station Licence fee (SSLF) @ 12.36%.

Towards compensating the dealer for working capital in line with Invoice value (as Invoice value is higher for Retail Outlets that are far away from Depots due to inclusion of higher delivery charges), the dealer commission was revised to accommodate a fixed (all over India) and a variable component in 2014 as under:

w.e.f	Retail HSD	
	Pre-Rev	Revised
1.11.2014	1274	1116.09 + 0.29% of Billable value

w.e.f	Retail MS	
	Pre-Rev	Revised
1.11.2014	1499.37 + 0.883% of Billable value	1499.37 + 0.887% of Billable value

### 3. Permissible Shrinkage allowance in PoL pricing in India & rational behind

A Scheme was developed by MOP&NG and announced by PPAC (then OCC) vide letter no 4001 / Price Revision dated 29.09.2000, giving compensation towards shrinkage of products encountered by RO Dealers and OMCs at road fed depots at high altitude locations. Oil companies recover this amount in the Depot Selling Prices for Road fed Depots to compensate for the shrinkage of product due to the temperature difference between the base supply location and the road fed Depot.

Separately, Retail Outlet Dealers recover this amount from Retail Selling Price over and above the Dealer Commission for the shrinkage of product due to the temperature difference between the road fed Depot/ supply location and the RO location.

Determination of applicable Shrinkage Allowance is as under :

- Details of latitude/longitude/altitude are sought from Survey of India for supply location, high altitude Depots and markets.
- Temperature differentials between market and supply points are based on Indian Metrology Dept (IMD) data furnishing 30 years average ambient temperatures.
- The differential temperature is converted into volume equivalents by using the factors of coefficient of expansion/contraction
- The volumetric expansion is converted to Rupee values by using weighted average ESPP and excise duty (Shrinkage Allowance = Volume X (ESPP plus Excise Duty))
- Shrinkage Allowance is based on Temperature differentials between market and supply. However if all OMCs do not have a supply point at the same location, the temperature differentials between common Pricing Point and Markets is considered.
- Shrinkage Allowance is being reviewed from time to time considering movement of POL prices.

#### 4. Loading/Unloading provision in pricing of LPG if any in India

Loading unloading of cylinders is carried out by our Transport Contractors and our transportation rate are inclusive of loading and unloading charges. As the transportation charges are built up in pricing of LPG cylinders, the loading unloading charges also become part of pricing. However this is not a part of LPG Distributors commission as this component of expenditure is made by IOC directly by making payment to Transport contractor and distributors are not carrying out this job.

Present the transportation charges paid by us to the contractors ex-Raninagar Bottling Plant, from where supplies are made to Bhutan are given below. These rates are decided based on public tenders called once in three years and have escalation clause for variation in Diesel prices.

Sno	Unit	Rate	
1	upto 60 Plain	Rs./Cyl	13.74
2	61-FDZ Plain	Rs./Cyl	16.19
3	Beyond FDZ Plain	Paisa/Cyl/RTKM	10.29
4	Within FDZ Hilly area	Rs./Cyl	25.89
5	Beyond FDZ Hilly Area	Paisa/Cyl/RTKM	21.01

For supplies to Bhutan, rates mentioned against beyond FDZ ( sno 3 and 5 ) should be applicable.



#### **5. Dealer commission for LPG dealer in India including break - Home delivery & establishment charges**

Dealer commission in India viz-a-viz Home Delivery is decided based on the type of Distributors. We have two categories of Distributors namely Normal Distributors, who sell about 8000 refill per month and RGGLV Distributors who sell about 2000 refills per month. Break up of Delivery charges presently applicable has already been communicated to you. Normal Distributors are expected to give cash and carry rebate equivalent to Home delivery charges when a customer takes the cylinder from LPG Godown after completing prior documentation. However RGGLV Distributors are not required to give Home Delivery and they are allowed to collect the Home Delivery charges mainly due to the economic viability.

#### **6. Depreciation cost of LPG in Pricing - rational behind**

LPG equipments like Cylinders and Regulators are purchased by us and given on loan to customers after collecting applicable Security Deposit. As the cylinders are owned by us, it is our responsibility to take care of replacement of the same as and when they are scrapped. In view of this cost of depreciation is calculated based on various factors. As pricing of Domestic LPG is fully subsidized not much changes are done in this component from time to time. Detailed working of depreciation is given in annexure and from the same it can be found that a cost of Rs. 1273 per MT is included into pricing of LPG.

Depreciation thus made is taken into consideration in our financial statement as per applicable clauses of our country.

#### **7. Safety aspects of LPG cylinder - including date expired cylinders**

As per Petroleum and Explosives Safety Organisation (PESO ) norms, under whose control LPG cylinders are manufactured and used in India, cylinder is to be tested after 10 years from the date of manufacturing and once in every 5 years after that. These tests are to be carried out by contractors who are authorized by PESO by us. Cylinders which are due for testing are segregated before filling by Bottling plants.

#### **8. Security Deposits for LPG new connection - rational behind**

The security deposit for LPG Cylinder is collected from the customers at the time of releasing new connection or when giving Double Bottle Connection ( DBC ) to cover the cost of cylinder which is purchased by us. Thus the security deposit is revised from time to time and currently the security deposit is kept at Rs. 1450 for one cylinder and Rs. 150 for one Pressure Regulator. After collecting the SD. Equipment is given on loan to the customer.

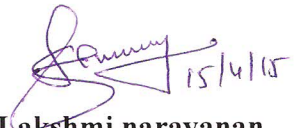
It remains the Corporation's property and its maintenance and statutory testing is taken care of by the Corporation. However, consumers remain responsible for its safe handling while it stays in their custody. As and when the customer surrenders the connection, he/she gets back the security deposit which was actually paid for the equipment.

Hope the above meets your requirement and in case any further clarification is required , please feel free to contact us.

Thanking you

**Yours Faithfully**

**For Indianoil Corporation**



**S.Lakshmi narayanan**

**Dy. General Manager ( LPG-Sales )**

Assessment of CVR cost basis 11.5% post tax returns & depreciation			
	Particluars	As per existing scheme	Pr b

<b>Input for working for Cylinder Depreciation</b>			
	<b>Cylinder Requirement per customer</b>		
	Fresh connection	1.000	
	Floor stock requirement	0.300	
	DBC requirement	0.650	
	Replacement @ 2%	0.000	
	<b>Total Cyls required</b>	<b>1.950</b>	
	<b>Regulator Requirement per customer</b>		
	Fresh connection	1.000	
	Floor stock requirement	0.020	
	Replacement @ 2%	0.000	
	<b>Total PR required</b>	<b>1.020</b>	

<b>Working for Cylinder Compensation</b>			
Sl No	Description	Unit	
		Rs.	700.00
1	Cost of 14.2 Kg cylinders	Cyls	1.95
2	Total Cylinders per customer	Rs.	1365
3	Cost per customer on cylinder ( 1 * 2 )		110.00
4	Cost of Regulator		1.02
5	Regulator Customer ratio		

6	Cost per customer on regulator ( 4 * 5 )		112.20
7	Total cost per customer (Cyl + Reg)		1477.20
8	Investment per customer @ 100 %		1477.20
9	Per capita consumption	Kgs	116.00
10	Customers required per MT sale per Annum	Nos.	8.62
11	Cost of equipment per MT sale ( 8 * 10 )	Rs.	12734.48
12	Cylinder/Regulator life	Yrs	12.00
13	<b>Cylinder/regulator depreciation @8.34%</b>		<b>1062.06</b>
14	Deposit received per customer (700 for cyl & and DBC and 100 for reg)	Rs.	1255.00
15	Deposit received per MT	Rs.	10818.97
16	Investment per MT of sale		1915.52
17	<b>11% Interest the differential investment</b>	<b>Rs.</b>	<b>210.71</b>
18	<b>Total CVR cost per MT</b>	<b>Rs.</b>	<b>1272.76</b>





འོང་འབབ་དང་ཅ་དམ་ལས་ཁུངས།  
དངུལ་ཅིས་ལྷན་ཁག།

DEPARTMENT OF REVENUE & CUSTOMS  
MINISTRY OF FINANCE  
THIMPHU



DRC/C-TIS/ (BTC)/02/2015/ 3810

April 10, 2015

The Auditor General  
Royal Audit Authority  
Thimphu

Subject: Justification on Draft Audit Report on import of LPG and SKO

Dasho,

This is with reference to the letter no. RAA (AG-SP)/2015/843 dated March 30, 2015 with regard to draft audit report on import of LPG and SKO; the department on behalf of Ministry of Finance would like to respond to the following audit findings:

1. Discrepancies in the import figures of LPG and SKO
  - a) Differences in import figures of RRCOs and BTS on LPG
  - b) Differences in import figures of RRCOs and BTS on SKO
2. Inadequate controls to minimize the risk of deflection
  - a) Weighbridge control not applied
  - b) Non inspection of POL tankers and trucks leaving the country

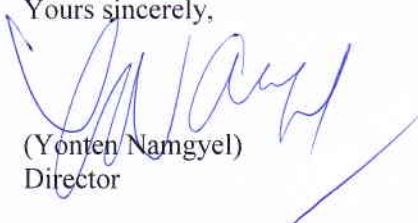
The department would also like to apprise Dasho that some of the members of the audit team including the supervising officer visited this office and discussed the possible occurrence of discrepancies in import figures. The department has shared the actual transaction details for the year 2009 and 2010 on import of LPG where the audit findings highlighted the highest data deviation in comparison with RRCO's data with that of published Bhutan Trade Statistics.

A copy of justification report along with the supporting documents is attached for your kind reference please.

The department would be pleased to respond to any further queries should there be a need from your end.

Thanking you.

Yours sincerely,

  
(Yonten Namgyel)  
Director

Royal Audit Authority  
Thimphu : Bhutan  
Dairy No... 52374  
Date... 10/4/2015

Copy to:

1. Hon. Minister, Ministry of Finance, Thimphu for your kind information please.
2. Hon. Secretary, Ministry of Finance for your kind information please
3. Collector, Customs & Excise Division, DRC for information and record.

**1. Audit Findings related to the Department of Revenue & Customs on import of LPG and SKO:**

- Discrepancies in the import figure of LPG and SKO
- Inadequate controls to minimize risk of deflection

**2. Justifications on the draft audit findings:**

**a. Discrepancies in the import figures**

**i. Differences in import figures of LPG of RRCO's and BTS data**

Bhutan Automated Customs System (BACS) is a standalone system with each regional offices having individual server while the Bhutan Trade Statistics is compiled at national level annually after collecting all the data from the respective regional worksite.

On the draft audit observation made regarding the differences in the import figures of LPG for the year 2009 and 2010, the department would like to clarify as follows:

- The Regional Revenue & Customs Office, Samdrup Jongkhar has wrongly recorded the quantity of LPG imported under one declaration as 4345.2 MT instead of 4.34 MT and 17,380.8 MT instead of 17.38 MT for the year 2009 and 2010 respectively, which has created the variation in the quantity of LPG imported (a copy of supporting documents attached as annexure III).
- The error in data recorded for the RRCO, Samdrup Jongkhar was also highlighted to the Audit Team during their investigation. The corrected data by the region was shared with the audit team. However, the corrected figure for LPG quantity for the corresponding years could not be updated in BTS database.
- Further, it was also noted that the import figure of LPG from respective regional offices reflected in draft audit findings has excluded imports made by the other importers not accounted in the data of other three distributors ( a copy of summary attached as annexure I).

**ii. Differences in import figures of SKO of RRCO's and BTS data.**

On the discrepancies of the import figures of SKO, the Department would like to clarify as follows:

- It was observed that the data recorded on the import of SKO accounted by the Audit team excluded the import figures of RRCO, Samtse for the whole study period of 2008 to 2013. ( A copy of the transaction details recorded by all the regions are attached as annexure II)

- Further, it is observed that the import figure submitted by the respective regional offices to the audit team has excluded import made by the other importers and has taken the imports of only three authorized distributors in Bhutan.

**b. In adequate control to minimize risk of deflection**

**i. Weighbridge control not applied**

On the non-application of weighbridge control by the Department, it may be appraised that:

- Considering the fact that the existing weighbridge was constructed more than two decades ago, the present location and specification of the machines do not cater to present import volume and number of transactions. The options are to either install new weighbridge or upgrade the existing weighbridge which has not been possible due to lack of adequate space and resources.
- It is also submitted that it is not mandatory for the all goods carrying conveyances to be weighed. It is also literally impossible to implement given the fact there is huge traffic congestions problems at entry/exit points.
- Further, it may invite unnecessary criticism from the importers/exporters for causing undue delay and entailing additional cost for the clearance of goods from the customs.

**ii. Non inspection of POL tankers and trucks leaving the country.**

On the issue of non-inspection of the POL tankers and truck leaving the country, the department would like to clarify as follows:

- The empty tankers and trucks leaving Bhutan are not subjected to any customs formalities. However, if customs officials have reasonable doubts or prior information, physical inspection is carried out.
- The Customs officers from preventive units under respective regional offices also conduct random physical check on goods entering and exiting the country and keep strict vigilance under the supervision of customs officers.
- Physically checking all the vehicles exiting Bhutan would not be feasible given the lack of non-intrusive inspection infrastructures and space at the customs border checkpoints.

**c. Causes of discrepancies in import figure:**

The department has observed some of the possible causes that could have attributed for discrepancies in data as follows:

- **Unit of measurement**

The standard unit of measurement for LPG is in kilogram and SKO in liters as per the Bhutan Trade Classification (BTC) whereas the invoice submitted by the supplier is in Metric tonne and Kilolitres. As such, during the unit conversion, the error has occurred occasionally which has often lead to discrepancies in the import figure.

- **Classification of commodity as per BTC**

The classification of goods as per the BTC does not have separate national code on LPG to record the imports of LPG made under different categories, like subsidized LPG imports from that of non-subsidized imports. So the above two categories of LPG imports are put under one code which may have resulted in discrepancies.



