HUNDRED AND SIXTY-SEVENTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1988-89)

(EIGHTH LOK SABHA)

IMPORT AND DISTRIBUTION OF FERTILIZERS

MINISTRY OF AGRICULTURE (DEPARTMENT OF FERTILIZERS)

Presented to Lok Sabha on 28-4-1989

Laid in Rajya Sabha on 28-4-1989

LOK SABHA SECRETARIAT
NEW DELHI

April, 1989/Vaisakha, 1911 (Saka)

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CORRIGENDA TO THE 167TH REPORT OF PUBLIC ACCOUNTS COMMITTEE (8TH LOK SABHA)

Page	Para	Line	For	Read
(vii)	12	2	"Xecutive"	"Executive"
2	1.5	Last line	"able for certain States etc"	"Audit Report mentioned above"
8	2.17	3	"priodical"	"periodical"
8	2.17	10	"rgret"	"regret"
12	4.3	1	"are"	"were"
15	4.11	4	"fase"	"face"
18	5.4	1	"WOPE"	"HDPE"
22	6.7	7	"applicants"	"applications"
30	8.7	2	"completed"	"complete"
35	9.12	10	"transforof"	"transfer of"
43	Read para No.11.19 for 1.19			
46	13.1	26	"sated"	"stated"
46	13.1	28	"igher"	"higher"
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(1988-89)

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*Appointed as Chairman w.e.f. 5.9.1988 *vice* Shri C. Madhav Reddy who resigned from Chairmanship of the Committee.

@Appointed w.e.f. 7.12.1988 *vice* Shri Kalpanath Rai who ceased to be a member of the Committee on his appointment as a Minister of State.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Hundred and Sixty-Seventh Report of the Public Accounts Committee on Paragraph 4 of the Report of the Comptroller & Auditor General of India for the year 1984-85, Union Government (Civil) on Import and Distribution of Fertilisers relating to Ministry of Agriculture (Department of Fertilisers).

2. The Report of the Comptroller & Auditor General of India for the year 1984-85, Union Government (Civil) was laid on the Table of the House on 7 May, 1986.

3. In this Report the Committee have pointed out that there were excessive imports of fertilisers due to over-estimation of demand during 1981—83 resulting in accumulation of stocks valued at Rs. 392 crores. They have hoped that the Government would take all necessary steps to avoid recurrence of such unpleasant situations in future. The Committee have urged that assessment of actual needs for imports should be made on the basis of reliable data in respect of the consumption needs. The Committee have deplored the fact that in preparing import plans, opening stocks were taken on lower side in 1981-82 and 1982-83 by 7.78 lakh tonnes and another stock of 2.93 lakhs held by manufacturers were also not accounted for.

4. Though in pursuance of an earlier policy decision two technologies, one of M/s. Haldor Topse and the other of M/s. Pullman Kellog were selected in 1980 only the technology of M/s. Haldor Topse was adopted. However, from the materials, made available to them, the Committee are not convinced that the continuous preference shows for Haldor Topse technology has been based on objective criteria. The Committee have recommended that the reasons for non-implementation of policy decision to have more than one technology and also the circumstances responsible for the preference to Haldor Topse should be investigated.

5. The Committee have been informed by the industry that "a competent technological base has progressively been built up in the country for absorption of all assortment of imported technologies". Notwithstanding the reported absorption of technology, and agreement for transfer of technology by Haldor-Topse the Committee have been surprised to note that foreign exchange requirement continues at a high level of about 30%. The Committee have recommended that the necessity for and circumstances under which foreign collaboration is continued at present level may be

investigated. Now that plants of all types small, medium and big plants are already in existence, the Committee have recommended that a comparative study on cost effectiveness of the plants including the cost of infrastructure required to be set up for each type of plant may be conducted, so that the issue is placed on a proper perspective and appropriate policy decision can be taken for the future.

6. Between 1978-79 to 1984-85 subsidy paid to the industries for sale of fertilisers at controlled prices amounted to Rs. 3500 crores, in 1985-86, Rs. 1600 crores, in 1986-87, Rs. 1700 crores and in 1987-88, Rs. 3000 crores. Considering the substantial outgo, the Committee have recommended that the application of the retention price formula and the correctness of subsidy paid to each manufacturer should be subjected to appropriate audit check by the C&AG of India and that the results of audit reported to Parliament. The Committee have also recommended that the feasibility of effecting reduction in cost of production by adjustment of levies on administered inputs may be conducted, so that the cost of production does not get unduly inflated, thereby requiring payment of more subsidy.

7. The Public Accounts Committee examined the Audit Paragraph, at their meetings held on 27 October, 1987, 14 September and 3 October, 1988 and 23 January, 1989. They considered the issue of non-furnishing of documents by the Department of Fertilisers at their meetings held on 4 November 1988 and 8 March 1989.

8. The Committee considered and finalised this Report at their meeting held on 26 April, 1989. The Minutes of the sittings form Part II of the Report.

9. For reference, facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have been reproduced in consolidated form in Appendix IV to the Report.

10. The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1987-88) in taking evidence and obtaining information for the Report.

11. The Committee express their thanks to the officers of the Departments of Fertilisers and Agriculture, the MMTC and the Food Corporation of India for the cooperation extended by them in furnishing information and tendering evidence before Committee.

12. The Committee also express their thanks to the Fertiliser Association of India and its xecutive Director, Shri Pratap Narayan for assisting the Committee by furnishing documents and tendering evidence before it.

13. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

NEW DELHI;
April 27, 1989
Vaisakha 7, 1911 (*S*)

AMAL DATTA
Chairman,
Public Accounts Committee.

REPORT

1. INTRODUCTORY

1.1 Fertiliser is one of the crucial inputs in raising agriculture production. The National Commission on Agriculture (1976) had estimated that nearly 80 per cent of the increased production will depend on increased use of fertilisers. Though quantity-wise, India is the fourth largest consumer of chemical fertilisers in the world, the level of consumption of fertilisers in the country is 49 Kg. per hectare as compared to the consumption of about 160 Kg. per hectare in China and over 300 Kg. per hectare in Japan. At present fertiliser application is confined only to irrigated areas and to cereal crops with the result that better the monsoon, more the consumption of fertilisers. Of the total fertilisers used in the country, more than 80 per cent are used in only 162 districts where irrigation and other infrastructure have been developed and more than 60 per cent are consumed in less than 100 districts out of the total of 418 districts, in the country. Various measures are however being undertaken to improve the level of consumption of fertilisers by the Central and State Governments.

1.2 The three main nutrients required for the crop are nitrogen (N), phosphorous in the form of phosphate (P) and potassium in the form of potash (K). Whereas indigenous manufacture of nitrogenous (N) and phosphatic (P) fertilisers has been progressively increasing, the country is totally dependent on imports for potassic (K) fertilisers. In respect of nitrogenous and phosphatic fertilisers also, the indigenous production being inadequate, the shortfall is met by imports in the form of urea and DAP. The imports are made on Government account. While indigenous fertilisers are marketed directly by the manufacturers, the imported fertilisers are disposed of by Government through various authorised outlets. According to Government policy, the fertilisers both indigenous and imported are sold to farmers at the prices statutorily notified. In respect of sale of potassic fertilisers by Government to the manufacturers, they are charged ex-wharf price less cost of handling and bagging at the port and distribution margin. Whenever non-potassic fertilisers are sold to manufacturers, the price charged at present includes average cost of import and handling charges for the concerned product plus addition of certain overheads and profit margin as worked out from year to year. To enable sale of indigenous production of fertilisers by the manufacturer to farmers at the statutorily fixed price, subsidy is paid by Government to cover the difference between cost

of production, profit margin etc. and the sale price in accordance with the prescribed guidelines.

1.3 In Paragraph 34 of the Audit Report (Civil) for the year 1970, Audit had brought out that there were excessive imports of fertilisers during the three years eneded 1968-69 due to over-estimation of the consumption needs and that indigenous production fell short of the installed capacities of plants, resulting in need for increase in imports. It was also pointed out that as on 1st April 1969, there was an accumulation of 11.53 lakh tonnes of fertilisers valued at Rs. 200 crores. The audit paragraph was examined by the Public Accounts Committee and the Committee's recommendations in regard to the needs for (i) increasing the level of consumption of fertilisers, (ii) devising proper machinery to collect data on consumption needs, (iii) improving indigenous capacity and production, (iv) bringing down the cost of production of indigenous fertilisers, (v) improving distribution system etc. are contained in their 28th Report (1971-72) (Fifth Lok Sabha).

1.4 Import and distribution of fertilisers has again been discussed in paragraph 4* of the Audit Report of the Comptroller and Auditor General for the year 1984-85, Union Government (Civil). The audit paragraph as pointed out *inter alia,* that (i) there were excessive imports of fertilisers during 1981-82 and 1982-83 to the extent of Rs. 13.22 lakh tonnes of nutrients costing Rs. 391.86 crores; (ii) the accumulated stock had to be disposed of by granting rebate to the extent of Rs. 69.63 crores; (iii) correctness of 'retention price' fixed for indigenous manufacturers involving a subsidy of over Rs. 3500 crores could not be verified due to non-production of documents to Audit; (iv) steep increases in handling charges and service charges to FCI and MMTC were allowed without adequate justification; (v) data on stock position of fertilisers was not available for certain states etc.

1.5 This Report is based on an examination of paragraph 4 of the able for certain states etc.

*Appendix I

2. ASSESSMENT OF DEMAND

2.1 Agricultural production targets as well as consumption targets of various inputs including fertilisers, are fixed jointly by the Planning Commission, Ministry of Agriculture and Rural Development in consultation with State Governments. The long term demand for fertilisers (covering a period of 5 years) is assessed on the basis of additional foodgrains targets fixed by the Planning Commission. The short term demand (annual as well as for each crop season) is assessed by the Ministry of Agriculture in consultation with State Governments and fertiliser industry. Factors like consumption during the previous season, area under various crops, both irrigated and un-irrigated, area under high yielding variety of crops and annual growth rate of consumption are considered while forecasting requirements of fertilisers for each crop season. Explaining the methodology adopted in preparing consumption estimates, a representative of the Ministry of Agriculture stated during evidence that fertilisers targets are derived targets for the Plan period, that foodgrain targets for the whole country are first fixed and for that purpose requirements of extra fertilisers are worked out and that this is on the whole a rough estimate.

2.2 In a note furnished to the Committee, the Department of Fertiliser have stated that the Department of Agriculture and Cooperation convenes Kharif and Rabi conferences to determine the State-wise requirement of fertilisers in association with the respective State Governments. These discussions are generally held four to eight weeks before the respective crop season. The representatives of Planning Commission, Department of Fertilisers and the fertiliser industry also participate in the discussions. The demand level of fertilisers so fixed is taken note of by the Department of Fertilizers.

2.3 Import of fertilisers is planned with reference to the demand level as fixed, and forecast of indigenous production as assessed by the Department of Fertilisers. This assessment of import is presented to a Committee of Secretaries headed by the Cabinet Secretary, which, after considering the matter, approves a certain level of import to be made during the following year. On the basis of authorisation given by the Committee of Secretaries a Steering Committee headed by the Secretary, Department of Fertilisers, regulates the actual import and within that limit Minerals and Metals Trading Corporation of India Ltd. (MMTC—which is the agency entrusted with import of fertilisers) is authorised to import. In case it becomes necessary to import in excess of the level determined by the Committee of Secretaries, the matter is referred back to that Committee,

2.4 According to the Import Plan for 1981-82 and 1982-83, the department decided to keep a buffer stock of 9.90 lakh tonnes (revised in November, 1981 as between 8.73 and 10.85 lakh tonnes) and 10.23 lakhs tonnes of nutrients in 1981-82 and 1982-83 respectively so that fertilisers could be made available to the consuming areas in time and at short notice. Against this, the buffer stock of fertilisers (imported as well as indigenous) as on 1st February 1982 and 1983 was 16.53 lakh tonnes and 16.82 lakh tonnes of nutrients respectively. The excess import of 6.63 lakh tonnes and 6.59 lakh tonnes of nutrients during 1981-82 and 1982-83 respectively involved blocking of capital/foreign exchange to the extent of Rs. 391.86 crores. On analysing the reasons for excess imports it was found by Audit that, while preparing the Import Plan for the years 1981-82 and 1982-83, opening stock of fertilisers was taken on lower side i.e. 6.01 lakh tonnes instead of 9.51 lakh tonnes and 12.25 lakh tonnes instead of 16.53 lakh tonnes respectively. This itself accounted for excess import by 7.78 lakh nutrients tonnes in two years (approximate value : Rs. 26.22 crores).

2.5 The table below indicates the position as furnished by Government in respect of the opening stock, production import, consumption and closing stocks of fertilisers* for the years 1981-82 to 1986-87 :

	Opening Stock	Production	Import	Consumption	Closing stock
		(in lakh tonnes)			
1981-82	9·24£	40·93	20·41	60·64	20·27
1982-83	20·27	44·04	11·32	63·88	19·55
1983-84	19·55	45·33	13·55	77·10	9·92
1984-85	9·92	51·80	36·24	82·11	15·58
1985-86	15·58	57·56	33·99	87·37	29.62@
1986-87	29·62	70·70	22·82	87·38	38·24@

(Note : £Represents central Pool Stock only.
@includes stocks at Port area)

2.6 The table would indicate that the closing stocks at the end of 1981-82 and 1982-83 were in excess of the buffer stock levels and that after 1983-84, the closing stocks increased at a rapid pace. The Department stated that an age-wise analysis of the closing stocks was not available with them.

* Nutrient-wise details given in Appendix II.

2.7 On the action actually taken by the Steering Committee for regulating imports during the year 1981-82 and 1982-83 with reference to anticipated consumption following position was noticed from the minutes of the meetings :

1981-82 : In the Steering Committee meeting held on 12 February 1981, the Committee noted that "even after taking into account the higher production which was likely to be available from domestic sources (38 lakh tonnes of nutrients), it would be necessary to organise imports of quantities higher than was done in 1980." In the meeting held on 31 July 1981, the Chairman of the Steering Committee placed the Department of Agriculture's estimates of requirements of further quantities of imported material upto the period of January 1982 and the assumptions were based on latest estimates of consumption, internal production and desirable stock level as on 1 February 1982. Details of those assumptions were, however, not mentioned in the minutes of the meeting.

1982-83 : In the meeting held on 10 December 1981, the Department of Agriculture estimated the requirement of import at 17 to 20 lakh tonnes of urea (N), 11 to 12 lakh tonnes of DAP (P) and 12 lakh tonnes of MOP (K). For DAP, the figures were stated to be tentative. In the meeting held on 22nd and 24th April, 1982, after taking into account the existing level of stock, anticipated production, and estimated consumption, the Steering Committee fixed the requirement of Urea (N) at 5.50 lakh tonnes, DAP (P) at 2.77 lakh tonnes and MOP (K) at 12 lakh tonnes— in all an import of 20.27 lakh tonnes was decided.

2.8 In the meeting held on 23 August 1982, a review of extent of imports was conducted and MMTC was authorised to go ahead with the purchase of urea (N) under EEC grant amounting to 36 million ECUs (to be utilised by December 1982) : For DAP (P), the requirement of import for remaining period was fixed at 4 lakh tonnes and for MOP (K), no change was considered necessary.

2.9 In the meeting held on 4 November 1982 the representative of the Department of Economic Affairs explained that the grant portion of the Dutch funds could be utilised even for shipments before December 1982 and the Committee decided that quantity shortfall in purchase under EEC grant and from Rupee Payment Area may be done under the Dutch grant.

2.10 On the quantities imported from various sources since 1982-83 the following particulars were furnished by the Department of Fertilisers :

year	Free Foreign Exchange	AIDS Grants	Rupee Payment Area
			(in lakh tonnes)
1982-83	11·69	2·81	5·10
1983-84	15·43	5·79	5·53
1984-85	57·66	2·24	9·52
1985-86	35·82	3·41	11·46
1986-87	23·06	5·66	14·84
1987-88	4·91	3·93	7·85
Total	148·57	23·84	54·30

(Details given in Appendix III)

2.11 The above table would indicate that over a period of 6 years, 67% of import was against Free Foreign Exchange, 10% against AIDS/ Grants and 23% from Rupee Payment Area.

2.12 The reasons for excessive imports in 1981-82 and 1982-83 according to the Department of Fertilizers were that the imports were based on projected consumption levels, there was a steep fall in the rate of growth of consumption of fertilisers and there was an increase in the indigenous production (40.93 lakh tonnes) over the target (38.00 lakh tonnes). Further, the Department of Fertilisers stated that according to the procedure followed for planning import of fertilisers, the indigenous stocks were not being taken into account upto 1981-82 on the ground that the agricultural year for import planning was being taken as the year ending January each year which also happens to be the end of the peak fertiliser consumption season. It has also been contended that indigenous production was comparatively low upto 1980-81 and the entire production was allocated for sale during the season itself and therefore not much of indigenous stocks were expected to remain at the end of January.

2.13 The Ministry added that when the import plan for 1982-83 was initially cleared in March 1982, the indigenous stocks were not taken into account as per the previous practice and when the position of indigenous stocks at the end of January 1982 was assessed in May 1982 it was found that more than 4 lakh tonnes of nutrients of indigenous fertilisers were in stock. According to the Ministry, at this juncture a policy decision was taken that in future indigenous stocks of fertilisers would also be taken into account while finalising the import plan. Subsequently, the Committee of Secretaries was apprised of the correct stock

position and it slashed the import plan from 20.18 lakh tonnes of nutrients to 15.84 lakh tonnes of nutrients for 1982-83.

2.14 Asked as to why the import requirements were not scaled down during the years when the requirements were not as anticipated, the Secretary, Deptt. of Fertilisers replied "corrective were applied year after year". In this connection the Secretary also gave following particulars :

Year	Quantity planned initially for import	Quantity as scaled down later for import	Remarks
	(in lakh tonnes)		
1981-82 . . .	31·89	20·4	
1982-83 . . .	15·84	11·32	
1983-84 . . .	13·10	14·10	Raised due to additional demand by Deptt. of Agriculture
1984-85 . . .	34·00	32·00	
1985-86 . . .	38·05	36·43	
1986-87 . . .	30·00	23·00	

2.15 On the question of review of requirements for import, the Secretary stated during evidence as follows :

> "The system does provide for review. Reviews are done and checks are exercised. Of course, in retrospect, if there are certain developments about the consumption ultimately falling significantly below the levels that were assessed or if the production being significantly above the targets set, on hindsight, one has the realisation that perhaps this should have been reduced still further. But again, I would like to make a point that any Government would perhaps like to have a minimum over-supply of fertilisers rather than having some shortfall. The Department of Agriculture plans on the basis of a good season, expecting the normal monsoon to be there. We had a situation in 1983-84 when there was a shortage of fertilisers in the country and there were number of complaints."

2.16 In paragraph 34 of the C&AG's Audit Report (Civil) for the year 1970, it was pointed out that there were excessive imports of fertilisers during the three years ended 1968-69 due to over-estimation of the consumption needs and that as on 1st April, 1969 there was an accumulation of 11.53 lakh tonnes of fertilizers Valued at Rs. 200 crores. On examination of the aforesaid audit paragraph the Committee* had empha-

*Paragraph 2·34 of PAC's 28th Report (1971-72)—5th LS.

sized the need for realistic provisioning based on the actual consumption of each kind of fertilisers and had recommended that the Government shall devise a proper scientific machinery to collect the data regarding actual consumption of fertilisers for the accurate assessment of future needs as the Government were not in the know of the extent of actual consumption of fertilisers throughout the country. The Committee are distressed to note that instead of learning lesson from the earlier over provisioning of fertilisers, Government have allowed a similar situation of excessive imports due to overestimation of demand to recur during 1981-82 and 1982-83 resulting in accumulation of stocks valuing Rs. 391.88 crores in total disregard of the Committee's recommendation to exercise due caution in provisioning of fertilisers. The Committee attach great importance to implementation of their recommendations and hope that the Government will take all necessary steps to avoid recurrence of such unpleasant situation in future.

2.17 The Committee have been informed that the import level for each year is determined by the Committee of Secretaries and within that limit, the Steering Committee regulates the import, after taking priodical stock of the supply and demand position. The Committee, however, note from the minutes of the meetings of the Steering Committee for the years 1981-82 and 1982-83 that the minutes do not indicate the assessment of demand in terms of number of tonnes needed, extent of indigenous production, stock position etc. before a particular level of import was decided. All that the minutes say are that a review of needs was done and that the Steering Committee decided at a particular level of import. The Committee rgret to note that the Steering Committee failed to apply themselves with the seriousness required for such an important task. The Committee urge that assessment of actual needs for import should be made on the basis of reliable data in respect of the consumption needs and the minutes of the meetings should indicate, an overall assessment with facts and figures so that it will be feasible to identify where the assessments failed for appropriate remedial action in future.

2.18 The Committee deplore the fact that in preparing import plans opening stocks were taken on the lower side in 1981-82 and 1982-83 by 7.78 lakh tonnes. The stocks of fertilisers held by manufacturers to the extent of 2.93 lakh tonnes as in February 1981 were also not taken note of on the plea that according to the procedure followed for planning import of fertilisers, the entire indigenous stocks allocated for sale were taken to have been consumed during the year of production. These lapses were the main reason for excessive import of fertilisers during 1981-82 and 1982-83. This is, to put it mildly, the negation of objective of planning. At this stage the Committee can only suggest that Government should draw appropriate leesson from such mistakes so that this type of mistake is not repeated.

2.19 The Committee note in this regard from the minutes of the Steering Committee meetings that one of the considerations for continuous of import was to utilise Grants/Aids as also balance of trade with Rupee Payment Areas. It is however seen that during 6 years ended 1987-88, over two thirds of imports were against Free Foreign Exchange. The Committee are surprised that the Ministry could deem it proper to advance the plea of obligation to rupee payment areas. The Committee are dismayed to note that suitable reductions were not made in order placed in regard to Free Foreign Exchange imports during 1981-82 and 1982-83 so as to offset the level of import to be maintained against Aids/Grants and RPA. The Committee recommend that the reasons for not making appropriate reductions in order for import from Free Foreign Exchange areas be investigated and findings reported to them.

3. EXCESSIVE IMPORTS OF DAP

3.1 Audit has also pointed out that in spite of a pending stock of 5 lakh tonnes of Di-ammonium Phosphate (DAP) in April 1981, the Department imported 8.30 lakh tonnes of DAP during 1981-82 (approximate value Rs. 155 crores), though the average liftings during the years 1978, 1979 and 1980 were only 4.75, 4.87 and 5.70 lakh tonnes respectively. Contracts for imports of over four lakh tonnes of DAP from USA were concluded with 4 firms on the plea that "India buying a smaller tonnage than usual could result in closure of factories (which would not be in the interest of the consumers in the long run) owing to inadequate relief to suppliers to liquidate their stocks immediately". This unnecessary import resulted in accumulation of stocks, blocking of funds and loss of potency of the fertilisers due to long storage. The Department of Fertilisers have stated that import of these nutrients was planned to meet the gap between the assessed demand and available supply and also to provide for the planned pipeline requirement so that there are no shortage of these crucial inputs. However, the closing balance of phosphatic fertilisers in terms of P2 Q5 at the end of 1980-81 was 2.67 lakh tonnes against 1.70 lakh tonnes and 1.82 lakh tonnes in earlier years of 1979-80 and 1978-79. Further, the international price of DAP ranged between US $250 in January 1980 and $190 in May 1981. The prices of DAP in subsequent months June-October 1981 fluctuated at much lower levels. In fact, international price of DAP had declined sharply from US $260-265 per M.T. in April 1980 to US $ 205-210 per M.T. in May 1980 and thereafter remained depressed at lower levels.

3.2 The Committee recommend that this unnecessary import of 8.30 lakh M.T. of DAT may be probed in depth with a view to fix responsibility.

4. FALL IN CONSUMPTION

4.1 According to the Secretary, Department of Fertilisers one of the reasons for accumulation of stocks was also on account of drought conditions which resulted in shortfalls in consumption as compared to original targets. The targets and actual consumption during the years 1982-83 to 1987-88 were as under :

(in lakh tonnes)

Year	Target	actual consumption	Variation	Percentage of variation over actuals
1982-83	78·94	63·88	(—)14·56	23
1983-84	87·72	77·10	(—)10·62	14
1984-85	96·50	82·11	(—)14·39	18
1985-86	95·50	87·37	(—)8·13	9
1986-87	103·00	87·38	(—)15·62	18
1987-88	103·00	90·72	(—)12·28	14

4.2 On the procedure adopted for determination of anticipated consumption before import levels are determined, the Department stated that till 1985-86 they were generally guided by the assessments made by the State Governments which were slightly excessive over the actual likely consumption. During evidence, the representative of the Department stated : "the States have always a slightly more ambitious target than Government of India. The national target is broken into State targets. The State Governments pitch their targets higher, because no State Government would like to show lesser achievements than what they have committed to Government of India—subject to factors outside their control, e.g. monsoon. There is a tendency to jack up the demand. State Governments have no financial stake in the projection of demand, because the entire bill is paid by Government of India. They presume that normal monsoon conditions will prevail next year". The Ministry of Agriculture is stated to have since refined the exercise and since 1985-86 two types of exercises are done every year for detailed assessment; one is taken up during November-December for working out import requirement for the next year and then before Kharif and Rabi season, States are asked to intimate their production plans for the respective seasons and crop-wise irrigation facilities available and also their past consumption etc. All these statistics are obtained in advance from the States and discussed in details in Zonal Conferences held each season.

4.3 The representative of the Department further stated, at the time of Kharif Zonal Conferences held February-March fertiliser requirements are

finalised assuming normal weather conditions. Correctives are applied as indicated by the Ministry of Agriculture officials, Planning Commission and Fertiliser Industry. Demand projected by the States are moderated wherever felt necessary on the basis of past performance of a State and its consumption of fertilisers in the preceding seasons. Supply of good quality seeds is also considered in projection of fertilisers demand. Then certain growth rate on the basis of targets for achieving foodgrains production is projected. Closing stocks available to users in April next year and consumption during Rabi next year are also projected."

4.4 In a paper published in "FAI Seminar 1986" by the Fertiliser Association of India, following position has been reported in regard to projected consumption and difference over actual consumption for the year 1985-86, the actuals being less than projections.

Zone	Projected consumption ('000 MP)			Total	Difference over actual consumption ('000 MP)			
	N	P	K		N	P	K	To
East . .	870·7	277·7	179·2	1327·6	156·0	39·7	49·7	245·4
North . .	2730·8	847·7	198·4	3776·9	114·1	104·3	48·1	266·5
South . .	1830·3	763·8	502·4	3096·5	519·0	173·6	134·5	827·1
West . .	1393·5	602·1	217·8	2213·4	278·9	130·9	52·8	462·6
All India . .	6825·3	249·3	1097·8	10414·4	1013·9	428·0	250·5	1692·4

(Note : Zonal total will not add up to All India total as the latter include plantations).

4.5 In the same publication, following suggestions have been made for demand and consumption assessment :

"1. A long term and an annual projection of fertiliser demand should be made for each State on a scientific model. These projections should be compared with the plan targets to find out what requires to be done to achieve the target through stimulating growth rather than to meet the gap through imports. The present system for arriving at requirements of different States by piecing together a number of assumption such as best season, last highest consumption level, assumed rates of application, etc. should be given up as it does not reflect a realistic picture.

2. Quick assessment of consumption and stock should be made at different levels of distribution points in the pipeline, which manufacturers and on ports. The industry should actively collaborate with Government in this assessment.

3. There should be a continuous monitoring of demand supply situations and import should be regulated on this basis.

4. In order to avoid recurrence of glut or shortage, it is necessary to provide a buffer stock at field points. In the present system of producers themselves acting as pool agencies, it will not be possible to make them responsible for the operation of the buffer stock. It may be necessary to create a separate independent agency to hold the buffer stock and release it under instructions from the Government whenever shortages are felt".

4.6 Analysing the causes for the glut a representative of Fertiliser Association of India stated before the Committee in evidence as under :—

> "So far as glut is concerned, it has caused a very difficult situation. Unfortunately, for four years, the country suffered heavily due to drought and the demand which was projected did not go up and at the same time because of the various investments undertaken plus improvement in the performance of industry, the increase in indigenous production was very sharp. New plants were commissioned and the existing plant utilisation capacity was increased. Indigenous availability also increased significantly. The problem come up with the import. In the years 1984-85, 1985-86 and the first half of 1986-87, excessive imports were resorted to by the Government. That was one factor. The people started projecting in terms of percentage without realising that weather plays an important part in the country because 70 per cent of our area is rain-fed and there we have to depend upon the weather conditions. On that basis since we got 21 per cent increase in 1983-84, for the future projections we thought that every year we will be able to get 21 per cent.
>
> Secondly when the base on which you are projecting growth is low, you can get a higher rate of growth, but when it becomes wider, the rate of growth was to go down. Unfortunately, in regard to projections, we go by seeing more on the rate of growth or by seeing that past rate of growth was this much and therefore, future growth rate should be this much. By means of this, inflated projections were made. So excessive imports were made".

4.7 The Committee enquired why the drought conditions and increased indigenous production was overlooked, the witness replied :

> "In April 1985, we told them that in 1984-85 the weather was bad and so you please slow down the imports".

4.8 The imports in 1984-85 and 1985-86 were at the highest level at 36.24 lakh tonnes and 33.99 lakh tonnes respectively. Asked about the

compelling reasons for imports by Government, even in the face of deficient demand and droughts, the witness stated :—

> "It is very difficult for me to say. But the second factor which was the worst is this. If the Government has an optimistic assumption and does not want to face the shortage, then there is no problem. But import is basically resorted to only to meet the gap between the demand and the indigenous availability. In other words, imported material is residual to the indigenous supplies. If the demand does not come up for some reason, the imported material is supposed to be kept as buffer.
>
> Unfortunately in 1986 what they did was that while even indigenous production was not fully allocated for movement as the demand did not come up to the extent of the indigenous availability, the imported material was released in the market to the extent of 1 million tonnes of nitrogen and 0.5 million tonnes of phosphate with the result that imported material which was supposed to meet the residual demand started competing with the indigenous material. The result was that it artificially induced glut."

4.9 In recent years fertiliser industry has been passing through a critical phase with heavy built up of inventories. Projected demand did not materialise as the country faced unprecedented droughts and excessive imports all through the Eighties aggravated the problem greatly. The Ministry of Agriculture cannot absolve itself from the responsibility of the glut of fertilisers as it has developed mainly due to faulty assessment of demand. The gravity of overassessment will be evident from the fact that according to the industry, consumption was overestimated by 16.92 lakh tonnes in 1985-86 i.e. by over 16% on the projected consumption. Till 1985-86 the Ministry of Agriculture had been projecting yearly demand on the basis of requirements indicated by the States who have been stated to be putting up "more ambitious requirements as they did not like to show lesser achievements than what have been committed to the Centre and they had no financial stake in projection of demand". Now this exercise is stated to have been refined to some extent. The Committee note that the reasons adduced now are no more than a repetition of the reasons given to the Committee in 1970-71 when excessive imports for a period of 3 years were examined by the Committee. The Committee's examination and the facts brought out by Audit amply bring out the fact that Ministry of Agriculture notably failed to formulate a proper methodology for assessing the demand correctly. The exercises done each year lacked-scientific analysis in-depth though it was not a difficult task to assess the consumption realistically. The Committee are strong of the

view that demand assessment was taken up in a casual and perfunctory manner which cost avoidable losses to the exchequer.

4.10 It is shocking to note that demand projections of fertilisers had been made by using too simplistic methods and assumptions which are basically devoid of realities. It is distressing that normal weather conditions were assumed persistantly when some parts of the country had been experiencing deficient rains consecutively for 2-3 years followed by severe drought all over the country and correctives do not seem to have been applied during the course of the year. Besides, the application of incremental output ratio on previous estimates instead of actuals when various parts of country had been experiencing inadequate rains was a grave mistake. For instance, shortfall in consumption of 10.62 lakh tonnes in 1983-84 cannot be attributed to drought conditions but considering the fact that consumption in 1982-83 was only 63.88 lakh tonnes the Committee cannot but feel that raising of target of consumption from 78.94 lakh in 1982-83 to 87.72 lakh tonnes was too ambitious an assessment without taking realities into account. It is unfortunate that the Ministry of Agriculture failed to moderate requirements on scientific basis. It is apparent that faulty planning and gross over-estimation of demand led to indiscriminate imports during the recent years and the Government paid it dearly in terms of heavy foreign exchange outgo, increased burden of subsidies, heavy storage cost etc. The Committee consider it imperative for the forecasting technique to be based on scientific analysis of data with a view to minimise the chances of a mistake. The Committee note in this regard that the fertiliser industry has offered certain suggestions for proper estimation. The Committee recommend that these may be considered and the Central and State Governments may hold dialogue with the industry so as to ensure that estimate of needs is done scientifically, the same is subjected to periodical review and imports strictly regulated according to needs, after taking into account the extent of buffer stock needed at the end of the season.

4.11 The Committee are at a loss to understand why timely warnings of industry since as early as 1984-85 to slow down the import of fertilisers were not heeded to. They would like to know the reasons for heavy imports despite warning and in the fase of mounting inventories to be investigated and a report given.

4.12 The Committee recommend that a review of the composition of the steering committee may be conducted to see whether it represents all

interests including indigenous producers and how far it would be necessary to have consultations with indigenous producers before deciding the level of imports.

4.13 The Committee also recommend that the circumstances under which imports were allowed to be released in 1986 for consumption even before indigenous production was fully allocated should be investigated and responsibility fixed.

5. DISTRESS SALES

5.1 As a result of excessive imports, the stock position on 1 April 1969 had soared up to 11.53* lakh tonnes with a good portion thereof relating to period of over two years. By slowing down the imports from 1969-70, it was then reported to the Committee that the stock position would be normal by the end of the Kharif season 1970.

5.2 Audit has now pointed out that excess imports in 1981-82 and 1982-83 resulted in the stock inventory raising to the level of about 21.63 lakhs tonnes as on 1 May 1983, of which 13.79 lakh tonnes were lying with Food Corporation of India (FCI) with a sizeable quantity thereof two years old. Such accumulations resulted in heavy inventory cost and deterioration of quality and the Government launched a special drive by grant of incentives to dispose the accumulated stock. According to Government the incentive scheme was successful and FCI could dispose of 12.15 lakh tonnes out of 12.93 lakh tonnes of more than 2 years. The extent of rebate paid has been assessed by Government at Rs. 76.25 crores, based on FCI's accounts, vide details below :—

(Rs. in crores)

1982-83	2·80
1983-84	67·43
1984-85	5·99
1985-86	0·03
	76·25

*Paragraphs 2·33 & 2·34 of PAC's 28th Report (1971-72)—5th Lok Sabha.

5.3 The Department could not give information on the extent of loss of nutrient value due to long storage but stated that FCI had transferred 13,858 tonnes to unsound stocks (valued at Rs 1.52 crores) during the years 1982-83 to 1985-86.

5.4 On the reason for accumulating old stock of over 2 years, the Department stated that (i) FCI, which was mainly concerned with procurement and distribution of foodgrains, was not having a well knit marketing system for distributing fertilizers, (ii) Unlike other pool handling agencies and indigenous producers, who had their own marketing set up FCI had to depend on State Institutional Agencies, (iii) Nominees of the State Government used to lift fertilizers from FCI according to their needs, against the allocations made to them by State Governments and did not lift all the stocks allocated to them from the FCI godowns and (iv) jute bags were used for bagging imported stocks, whereas with indigenous manufacturers

using WOPE bags, the demand for fertilisers packed in jute bags by FCI was adversely affected.

5.5 The Chairman FCI informed the Committee during evidence in this regard that the FCI was chosen as an agency for handling imported fertilisers primarily because FCI had import infrastructure as most of the port, that under the arrangement Government decided where the fertilisers would be stored and that FCI would sell only on the basis of allotment letters issued to State Governments or their nominees. In the circumstances FCI was not a free agent for marketing fertilisers and it could not also impose any penalty even if the allottee failed to lift the stock.

5.6 Because of the demand recession, indigenous manufacturers have been resorting to heavy discounts and rebates in sale of fertilisers to clear accumulated stocks affecting their profitability adversely. Asked to state the amount of discounts given by the various fertilisers plants in the country. The Department stated as under :

> "Due to unfavourable weather conditions during the last three years in a row, fertiliser consumption has been below the targetted levels. The wide gap of 16 lakhs tonnes between the targeted consumption of 103 lakh tonnes and actual consumption of 87.3 lakh tonnes during the year 1986-87 resulted in additional accretion to the stocks of unsold fertilisers. Since the supply was far in excess of demand, fertiliser suppliers started giving heavy discounts to clear their stocks. However, sale of fertilisers failed to pick up because of insensitivity of fertiliser demand to price. The details of discounts and rebates given by the manufacturers in the Public and Co-operative sector during 1986-87 are as follows :

(Rs. in crores)

1. PPL	4·50
2. FACT	4·52
3. RCF	23·13
4. NFL	20·70
5. FCI	23·59
6. HFC	9·45
7. MFL	7·84
8. IFFCO	22·64
9. KRIBHCO	29·26
Total	145·63

5.7 The Committee are surprised to note that Government have blamed FCI for accumulation of old stocks in 1983-84 stating that FCI lacked a well-knit marketing system. The Committee note in this regard that the services of FCI were utilised essentially for port clearance operations and storage at places specified by Government and they were to deliver the

fertiliser to those to whom Government have authorised. In the circumstances, the Committee consider it highly improper on the part of the Government to try to pass on the responsibility for accumulation of old stocks to FCI, instead of owning it and taking corrective measures. The Committee have been informed in this regard that the Government have no idea of the age of the stocks held on their behalf. Such a situation is hardly in keeping with the system of efficient management. The Committee recommend that urgent steps are called for to ensure that Government, as the owner of the fertilisers in FCI's custody, ascertain periodically the accumulation of old stocks, ensure their first issue before fresh arrivals are allowed to be lifted and regulate the accumulations within the prescribed buffer stock levels.

5.8 The Committee note that cooperative and public sector organisations had to allow discounts and rebates to the extent of Rs. 145.63 crores for liquidation of their stock. The corresponding position for private organisations is not known to Government. In the context of the extent of distress sales that have been resorted to, the Committee need hardly emphasise their earlier recommendations for a scientific assessment of needs, regulation of imports etc.

5.9 The Committee understand that special rebates that are allowed for clearance of accumulated stock are not separately exhibited in Government account because the information on rebate allowed to FCI has been given with reference to accounts of FCI. In view of the position the Committee recommend that the Government should indicate separately in their account the normal subsidy and special subsidy paid.

6. LEVEL OF INDIGENOUS PRODUCTION

6.1 The indigenous production of fertilisers has been far below the needs of the country with the result that during the year 1967-68 to 1968-69, import accounted for 69% to 85% of the nitrogenous fertilisers and 36 to 100% of phosphatic fertilisers. The reasons for low level production in the country were then attributed to "persistent shortfall in the utilisation of the installed capacity of the fertiliser factories"... and the price of fertiliser being "the highest in India as compared with other countries". The high cost of fertilisers in the country was attributed by Government to small size of factories and non-use of new technology, apart from under-utilisation of capacity.*

6.2 The table below indicates the installed capacity of fertiliser plants in the country, extent of production and level of imports during the years 1981-82 to 1986-87 :

	Capacity	Production (in lakh of tonnes)	Import	Percentage of	
				Production to capacity	Import to total programme
	1	2	3	4	5
1981-82	62·01	40·93	20·41	66	33
1982-83	66·66	44·04	11·32	66	20
1983-84	68·14	45·33	13·55	67	23
1984-85	73·60	51·50	36·24	70	42
1985-86	87·85	57·56	33·99	66	37
1986-87	90·94	70·70	22·82	77	224

*Paragraphs 2·47 and 2·48 of PAC's 28th Report (1971-72) 5th Lok Sabha.

6.3 The latest position on the comparative cost of indigenous and imported fertilisers is reported by the Department as under :

	Indigenous	Imported
Average cost per tonne of Urea	Rs. 3383	Rs. 2188
D A P	Rs. 4147	Rs. 3413

6.4 The Department stated that the import cost of fertilisers does not necessarily represent their cost of production because the price depends on many factors such as international demand and supply situation, price of feedstocks and vintage of the plants in the countries from where imports are made. On the other hand, cost of indigenous fertilisers are high because of high cost of plants, high cost of inputs etc., the high cost of plants being due to relatively higher cost of infrastructural development and other

fiscal reasons. The Department also conceded that import duty on plant and machinery partly contributes to increase in the capital cost of fertilisers plants resulting in higher subsidy and retention price.

6.5 On the extent of subsidy paid, Audit has pointed out that during the period 1978-79 to 1984-85, subsidy of over Rs. 3500 crores was paid to the industry with reference to retention price and statutory price for sale of fertilisers, the retention price being dependent for each manufacturer on the feed stock used, capital investment and operational efficiencies.

In the above context, the Committee desired to consider the following issues :

(i) Technology adopted for establishing new plants and the cost effectiveness of such technology;

(ii) Cost of production and relative cost effectiveness of big, medium and small size plants; and

(iii) Effectiveness of subsidy scheme.

6.6 The Committee took evidence of the Department of Fertilisers on 14 September 1988, on the issues mentioned above and not being satisfied with the evidence given by the Department issued a questionnaire and called for certain documents listed below. Though oral and written replies to the questions put by the Committee were given, the Department refused to make available the documents to the Committee, which were called for on 16 September 1988.

6.7 The documents called for by the Committee which the Department has so far refused to furnish to the Committee are as follows :—

1. Minutes of discussions on economy, efficiency etc. small sized fertilisers plants along with background papers.

2. List of the committees/groups which went into the choice of technology and consultant(s) before the Thal and Hazira fertiliser consultancy and contracts were awarded.

&

the records of discussions of those committees/groups along with background papers.

3. List of similar committees groups after the above two jobs were awarded.

&

records of discussions with backgrounders.

4. World Bank study on the cost of fertiliser plants & cost of production of fertiliser.

5. Sanctioned cost of fertiliser plants under implementation, their capacity, product mix and names of their consultants.

6. Similar information on the projects under consideration/applicants pending.

7. The study of the Confederation of Engineering Industry as to how the project cost of fertiliser plants have gone up.

6.8 The Minister of State for Fertilisers, addressed a letter to the Chairman on 22 September, 1988 observing that "documents and notes asked for do not relate to the issues under examination by the Public Accounts Committee and therefore, he should not insist on furnishing these documents". The Chairman, Public Accounts Committee in reply asked the Minister "to allow the Committee to be the best judge on the materials which the Committee require and also its scope of enquiry." The Public Accounts Committee met on 3 October, 1988 to further examine the subject and the issue of non production of documents was raised therein. The meeting was adjourned pending supply of documents called for by the Committee. Subsequently, the Department of fertiliser sought the permission of the Hon'ble Speaker under Rule 270 of the Rules of Procedure and Conduct of Business in Lok Sabha stating that these documents are not relevant to the subject under examination.

6.9 The Hon'ble Speaker thereupon sought the views of the Committee and the Committee unanimously approved the memorandum to be submitted to the Hon'ble Speaker holding that the information/documents sought for from the Department of Fertilizers were relevant to the enquiry being made by the Committee. The views of the Committee were placed before the Hon'ble Speaker who held against the plea "of lack of relevance" raised by the Department. The ruling of the Hon'ble Speaker was given on 2 December, 1988.

6.10 The Department, however, even after failing to get the approval of the Hon'ble Speaker under Rule 270 of the Rules of Procedure and Conduct of Business in Lok Sabha to withhold the production of the information/documents, instead of producing the information/documents made another appeal to the Hon'ble Speaker. The matter was again referred to the Committee for their views and the Committee again unanimously reiterated its earlier view to the effect that the documents were relevant and essential for the examination of the issues which the Committee desired to examine. The decision of the Hon'ble Speaker is still awaited.

6.11 However, the Committee have examined the issues on the basis of the evidence before it and proceeded to make an interim report on them pending the decision of the Hon'ble Speaker and production of the information/documents sought by them.

6.12 The Committee are unhappy over the attitude of the Government in refusing to place the documents before the Committee and feel that no public interest would have suffered if the documents had been placed before it. The Committee hope that the Government would not take such rigid stand in future.

7. SELECTION OF NEW TECHNOLOGY

7.1 In 1970-71, the Committee were informed as under* :—

> "The cost of production is influenced by the technology and the size of the factories.....one of the major steps we have taken towards reduction of price is to see that new technology is utilised... So the major trend here is towards reduction in the cost of production and the major thing is adoption of new technology and higher size of plants."

7.2 A working group was appointed in October 1977 to shortlist the companies in the area for selection of new technology and it shortlisted six companies. A negotiating Committee evaluated the bids that were received from them and placed its recommendations before a special Committee of Secretaries on fertiliser projects. This Secretries Committee recommended M/s. C. F. Braun technology for ammonia and Snam Progetti and Chiyoga for urea. An expert Committee was appointed by Government to go again into the question in 1980 and to recommend whether it would be desirable to choose the same consultants for two sets of plant in public sector that were being then set up—Thal and Hazira. The expert Committee recommended (June 1980) M/s. C. F. Braun for one set of plants but there was no agreement for the other set of plants. This was considered by a Cabinet sub-committee which decided that there should be two sets of consultants. In regard to the recommendation of giving one set of plants to M/s. C. F. Braun, the Cabinet Sub-Committee found that the recommendation suffered from certain drawbacks as mentioned below :—

(i) The main consideration in recommending Braun was low energy consumption in the technology offered. It was, however, observed that the manner in which Braun agreed to undertake responsibilities and liabilities virtually loosened this foundation. Braun's responsibility in the case of failure to achieve rated capacity was limited to the extent that such failure was attributable to the "consultant's negligence". In effect, this was no guarantee of the efficacy of the technology or its performance;

(ii) Braun had no experience of having built and operating a plant in India. This was a matter of considerable significance as earlier proven technologies had floundered in Indian conditions.

(iii) It was observed that contract offered by Braun suffered from several legal lacunae. Braun refused to take responsibility for

*Paragraph 2·46 of PAC's 28th Report (1971-72) 5th Lok Sabha.

overall project schedule and limited their responsibility to only aspects arising out of their negligence. Their offer in respect of transfer of technology, in case only one set of plants was awarded, was equivocal.

(iv) The technology offered by Braun was developed by them in the early sixties and further progress in the field of "Forward Looking" technology could not be expected from them. This was particularly so in the context of its acquisition by "Santa Fe International", a large oil drilling and related construction firm, when its future in the field of ammonia consultancy would be uncertain. According to information available, out of 10 ammonia projects around the world finalised in the previous two years, Braun was invited only once. Kellog 11 times and Topsoe 16 times.

7.3 In the circumstances, the technology of Braun was dropped from consideration, the Committee recommended M/s. Haldor Topsoe technology for Thal Vaishat project and Pullman Kellog for Hazira project and this was accepted by Government in September 1980. The delay in taking decision on technology resulted on a delay of 2 years in fixing up consultants for Thal and Hazira plants and consequently cost of the plants escalated from Rs. 511.34 crores to Rs. 889 crores. The cost escalation consequent on delay was adversely commented upon by the Committee on Public Undertakings*.

7.4 Though the 1980 decision was to have two sets of contemporary technologies, the ammonia plants set up subsequently at Bijaipur, Aonla and Jagdishpur all have Haldor Topsoe technology. Two other plants in the pipeline are also based on Haldor Topsoe technology. Asked about efficiency and economy of ammonia and Urea technologies of M/s. Haldor Topsoe the Department of Fertiliser have stated that :

"At the time ammonia technology was selected, Topsoe technology was the most efficient, energy efficiency and cost wise. Against energy consumption of Kellog technology at 8.5 million Kcal/te ammonia, Topsoe's energy consumption guaranteed was 7.85 million Kcal/te. In the Vijaipur and Aonla plants where guarantee tests have been performed recently, the energy consumption achieved was 7.84 million Kcal for Vijaipur and 7.739 million Kcal for Aonla. It is reported that 2 to 3 plants have been recently commissioned in Europe and Canada where lower energy consumption has been claimed. This claim has, however, to be read in conjunction with the design criteria and climatological con-

*Committee on Public Undertakings 21st Report (1980-81) 7th Lok Sabha).

ditions that are associated with the plants in India and Europe/Canada. One most important factor is the difference in the climatic conditions. Plants in India are designed for high ambient temperature and cooling water temperature whereas in Europe and Canada ambient temperature and cooling water temperature are much lower. This difference accounts for higher energy consumption in Plants in Tropical region. The second most important factor is the extent of recovery of carbon dioxide. In foreign plants, carbon dioxide is not fully recovered because it is not needed, but in India full recovery of carbon dioxide is a must for complete conversion of ammonia to Urea. Full recovery of carbon dioxide involves additional energy consumption. Therefore, when corrections are made for higher ambient and cooling water temperature and full recovery of carbon dioxide, the lower energy consumption reportedly being achieved in some plants abroad will go up when these plants work in India."

7.5 According to Fertiliser Association of India (FAI) performance of Hazira plants based on Kellog Technology had been better than Thal Vaishat Plant based on Haldor Topsoe technology in terms of consumption of energy though it is very difficult to say whether it is the fault of technology or maintenance.

In support, the following figures on energy consumption were given by the FAI.

	Thal Plant (Million Kilo Calories per tonne)	Hazira Plant
Guaranteed performance	8·08	0·44
1986-87	10·60	9·01
1987-88	9·81	8·58

7.6 The capacity utilisation was also reported to be 72% and 88.6% at Thal plants and 93.7% and 105.5% at Hazira Plants in 1986-87 and 1987-88 respectively.

7.7 The Executive Director, FAI observed during evidence in this regard :—

"Evidently, it took longer time to come up to full capacity utilisation in the case of Thal Project based on Haldor-Topsoe technology as compared to Hazira Plant based on Kellog technology."

7.8 The Committee note that a policy decision was taken in 1980 by the cabinet sub-Committee that there should be two sets of technologies

and this policy decision is also supported by the industry. The Committee, however, note that though in pursuance of this policy, two technologies one of M/s. Haldor Topsoe and the other of M/s. Pullman kellog were selected in 1980, in the plants established after 1980, only the technology of M/s. Haldor Topsoe was adopted. The Committee also understand that compared to units with Haldor Topsoe technology, the one established with Kellog technology has a lower energy consumption and better capacity utilisation. Due to non-production of documents for scrutiny by the Committee, the matter could not be investigated by the Committee. However, from the material made available to them, the Committee are not convinced that the continuous preference shown for Haldor Topsoe technology has been based on objective criteria. The Committee recommend that the reasons for non-implementation of policy decision to have more than one technology should be investigated, as also the circumstances responsible for the preference to Haldor Topsoe, notwithstanding the better performance in the plant established with Kellog technology and responsibility fixed. The Committee further recommend that the cost of wrong decision if any, to the country should be quantified as also its effect on fertilizer pricing.

8. REJECTION OF A RECOMMENDED TECHNOLOGY

8.1 One of the reasons assigned by Government in rejecting M/s. C. F. Braun technology in 1980 was that further progress in the field of forward looking technology could not be expected from them in the context of its acquisition by "Santa Fe International" a large oil drilling and related construction firm. Reacting to it, Executive Director FAI stated in evidence :—

> "Being taken over by somebody does not necessarily mean that there is no development. Taking over of one company by another company invariably leads to further development. I do not think, it was a very valid reason to take because all the time structural changes in the industry are taking place. You take over something only when there is potential to develop. I do not know on what basis it has been said. Even if we take fertilisers, most of the marketing people have come from the oil industry. They are allied fields".

8.2 Another reason for rejection of M/s. C. F. Braun technology was that they had no experience of having built and operated any plant in India. The Committee enquired about the position of M/s. Haldor Topsoe. In reply they were told that "In certain parts they were already there but not for the whole processing plant. Based on the experience of its working of series 200 ammonia technology and agreement to simultaneous transfer of technology, that project was given to it".

8.3 Another point made by Government in rejecting M/s. C. F. Braun was that out of 10 ammonia projects around the world finalised in the previous 2 years, Braun was invited only once, Kellog 11 times and Topsoe 16 times. Asked to react about it, the representative of FAI stated in evidence :—

> "Well, whether Braun was invited or not, to my mind that is not the correct criterion. I will not go into that. I have got information with me. Some plants have been completed recently by M/s. C. F. Braun or are likely to be completed shortly. I have got these plants. In Venezuela, Pequiben plant of 1500 tonne per day capacity is likely to be completed by 1991. Another plant of the same capacity will come soon after. In Trinidad, a Government plant was completed in January 1988. There is another unit in Trinidad of the same capacity. In Netherlands also they have put up an ammonia plant of 1750 tonne capacity. That was completed in 1987. Even prior to that, I have a list of plants which Braun

had put up in various parts of the world. The source of this information is from a chemical journal."

8.4 The Committee were subsequently furnished a statement detailing the number of ammonia projects executed by M/s. C. F. Braun and Haldor-Topsoe all over the world by 1977.

8.5 Though so far no plant has been installed in India based on M/s. C. F. Braun technology, in 1988 Projects Development of India Ltd. (PDIL) is reported to have conducted a technology evaluation and norm study of contemporary technologies having gas as feedstock in fertiliser sector for the Council for Scientific and Industrial Research. The energy consumption norms under various technology processes per tonne of ammonia according to this study are as under :—

(in million kilo calories)

Energy consumption	C.F. Braun	Kellog	ICI AMV	Haldor-Topsoe Low Energy
Feed, fuel, Electricity all on LHV basis, product NH_3 at 33°C (with full CO_2 recovery and cooling water temperature of 33°C) . . .	7·28	7·43	7·31	7·36

8.6 The Committee were informed that when decisions on award of the Hazira and Thal Projects were taken, yet another study was undertaken and published by Project Development India Ltd. They had also done some exercise about the energy consumption under various processes using gas as feedstock. Their figures were 7.89 for Topsoe technology, 7.80 for C.F. Braun, 7.2 for ICI and 7.55 for Kellog process. This was based on a world study of 22 plants and conducted by two technologists who were with the PDIL.

8.7 The Committee note that the technology of M/s. C. F. Braun was recommended for two new plants by the Secretaries Committee but was recommended for one of the two new plants only by an expert Committee, there being no agreement in the Expert Committee on the choice of technology for the other plants. The Cabinet sub-Committee, is however, reported to have rejected the technology of M/s. C. F. Braun for both the plants for certain specified reasons. From the information available to the Committee, it seems that reasons for rejection were not based on reliable performance figures or sound arguments. On the other hand, technically preference should have been for C.F. Braun technology rather than Haldor Topsoe technology when the decision was taken. The

Committee regret to mention that their efforts to examine the matter independently has not been completed due to non-production of documents to which reference has been made before. In the circumstances, the Committee have to come to the conclusion on the basis of the materials available to them, that the decision to reject technology of M/s. C. F. Braun was not based on any objective and proven criteria and recommend that the entire issue may be thoroughly investigated by an expert committee.

9. NEED FOR CONTINUANCE OF FOREIGN COLLABORATION

9.1 In spite of the fact that a number of ammonia and urea plants based on Haldor-Topsoe process have been set up since 1980 with gas as feed stock, yet the country is still inviting foreign contractors to set up new plants at enormous cost. Asked why the technology has not been absorbed till now, the Executive Director, FAI replied in evidence :—

> "We have absorbed the technology. There is no difficulty. Why it is not being done is a matter which I cannot answer; it is for the Government to say."

9.2 From a publication by Fertiliser Association of India, it is seen that all the world renowned processes have been installed in India in some plant or the other and that a competent technological base has progressively been built up in the country for absorption of an assortment of imported technologies which themselves are undergoing continual change. Indigenous skills and expertise have been developed in running a broad spectrum of engineering services and premier consultancy organisations in the country like Projects and Development India Ltd. (PDIL), FACT Engineering and Design Organisation (FEDO) and Engineers India Ltd. (EIL), besides others are in a position to take up complete jobs for the fertilizer industry starting with feasibility studies, process design, basic engineering followed by detailed engineering, comprehensive procurement, construction and supervision, project management commissioning supervision and running of fertiliser plants.

9.3 The Committee asked why Government have preferred foreign contractors at comparatively high cost vis-a-vis indigenous contractors in implementation of fertilizer plants. In reply the Department of Fertilizers have stated that in the implementation of Thal and Hazira Plants, the involvement of PDIL in Urea plant was more than in Ammonia plant in the sense that foreign consultant provided only limited supervision for PDIL's work and procurement assistance provided by foreign consultant was limited to a few critical equipment only. The same arrangement was repeated for Vijaipur project where PDIL worked under Topsoe for ammonia while for Urea PDIL was co-contractor to Snam.* In Aonla Project also, more or less the same contractual arrangement was repeated but this time Snam was the foreign contractor.

9.4 For the plants in private sector viz. Jagdishpur, Aravali, Tata and Nagarjuna, Snam is the prime contractor with PDIL as the Nominated contractor/co-contractor working under Snam's supervision.

*Snam refers to Snam Pregetti which is the holding Company of Haldor-Topsoe.

9.5 It has been further stated that "The promotors of these projects wanted experienced contractor to be in charge of the project to ensure its timely execution. The promoters were initially asked by Government to get the services of PDIL as prime contractor but all the promoters stated that while they had faith in the technical capability of PDIL in design/engineering, they did not believe that PDIL had the project management capability to ensure timely completion of such large projects where they have a large stake and they did not want to take any risk of time and cost overrun by appointing PDIL as the prime consultant.

9.6 It has been further added that in the face of opposition from the promoter's (10% of the project cost is to put as promoter's contribution) to have PDIL as prime consultant, Government had no alternative but to allow them to have an experienced contractor as the prime contractor for the project. But the Government ensured that the fees were kept to the minimum and equipment were procured on competitive basis rather than supplied by the contractor on a lump sum basis. Asked if these Organisations were not competent enough to establish new fertiliser plants, the Department of Fertilisers have stated :

> "PDIL and FEDO have absorbed the technology of Ammonia through respective Transfer of Technology agreements by which they can design ammonia plants. But design/engineering is only one of the many facets of project execution. Procurement, inspection, expediting and most importantly project management are other important components of successful project execution. These organisations have not so far handled project execution of large fertiliser projects as prime contractors. However PDIL was actively associated with Nanrup-III project. It requires appropriate organisational set-up with complement of experienced personnel in various disciplines to deliver the services as prime contractor. It will take time for these organisations to attain the level of competence required to become prime contractor and created confidence among the customers. It is with this end in view, that PDIL has been made the Nominated contractor/co-contractor working under the prime contractor's supervision for the Jagdishpur, Aravali, Tata and Nagarjuna plants."

9.7 Asked about the extent of self-reliance achieved in setting up the fertiliser plants the executive Director, FAI stated in evidence as under :

> "Higher the size, the greater is the difficulty in the indigenisation of the equipment. If we had gone ahead with only the fuel based plants, the PDIL would have acquired the capability to designing themselves with only the royalty to be paid for the process licence.

The moment we shift to 1350 tonnes the designing etc. will have to be done by some of the foreign contractors. If we had continued with the 900 tonnes capacity plant then the compressor could have been supplied by the BHEL but in the case of 1350 tonne BHEL was not in a position to supply the main compressors. Therefore, higher the size of the plant, the equipment availability within the country is limited. The other reason which comes in is that when you import the equipment, its transportation cost is also very high. Some special arrangements for this heavy equipments are also to be made which also adds to the cost. For the process licence for gas/naphtha based plants we would still have to go to foreign contractors but the designing etc. could be done by the PDIL; some equipment can be made by the BHEL, which is not being done in the case of these plants. To that extent I think upgrading the capacity has not served the cause of indigenisation."

9.8 On the extent of payment involved for collaboration arrangement with foreign consultants, the Executive Director, FAI stated during evidence, "In the case of Thal project, fees were shared by the foreign contractor and PDIL in the ratio of 50 : 50. But in the case of subsequent two plants, PDIL's content of the fee was 33 per cent and they continued to be subcontractors and have not yet been assigned the role of the prime contractor. To that extent, benefits of transfer of technology visualised have not been realised".

9.9 The statement below indicates the completion cost and extent of indigenisation achieved in setting up 900 tpd/1300 tpd ammonia projects.

A. *Project Completion Cost 900 tpd ammonia plants*

(Rs. crores)

Plant	Date of commercial production	Total cost	Foreign component	Local currency	Percent share of local to total
(1)	(2)	(3)	(4)	(5)	(6)
I. Gas-based					
1. RCFL, Trombay V	July, 1982	172·6	43·2	129·4	75
II. Naphtha-based					
1. IFFCO, Phulpur	March, 1981	205·2	100·1	105·1	51
III. Fuel oil-based					
1. NFL, Panipat	Sept. 1979	223·5	15·3	168·2	75
2. NFL, Bhatinda	Oct. 1979	239·4	67·9	171·5	72
3. NFL, Nangal II	Nov. 1978	132·5	40·2	92·3	70
4. FCI, Sindri (M)	Oct. 1979	183·2	56·0	127·2	69

Plant	Date of commercial production		Total cost	Foreign component	Local currency	Percent share of local to total
(1)		(2)	(3)	(4)	(5)	(6)
IV. Coal-based						
1. FCI, Ramagundam	Nov.	1980	224·1	47·4	176·7	79
2. FCI, Talchar	Nov.	1980	223·1	47·5	175·6	79
			Avg. local share 71, per cent			
B. 1350 ammonia plants						
I. Gas-based						
1. Indo-Gulfd, Jagdishpur	Nov.	1988	720·0	196·0	524·0	73
2 IFFCO-Aonla	Oct.	1988	696·0	295·0	401·0	58
3. NFL-Vijaipur	July.	1988	587·1	245·4	341·7	58
4. KRIBHCO (2 plants), Hazira	March	1986	890·0	438·9	451·1	51
5. RCFL (2 plants), Thal	April July	1985 1985	916·6	266·5	650·1	71
II. Fuel oil-based						
1 GNFC, Brauch	July	1982	427·7	95·0	332·7	78
			Avg. local share 64 percent			

9.10 As the content of indigenous components in 1350 tpd ammonia plants has gone down to 64 per cent (average) from 71% earlier in 900 tpd ammonia plants, the Executive Director, FAI, was asked to comment on it. He stated :

"The physical content of the work should have gone up."

9.11 The Committee enquired why the foreign licensors of technology did not transfer process technology so that the country after absorbing the same can become self reliant in technology as well as capital cost. The witness replied :—

"Actually when the agreement with the Haldor-Topsoe were finalised, these were on the basis of transfer of technology. Progressively their fee was to be reduced and Indian part was to take up increasing role."

9.12 The Committee have been informed that when in 1980, Government decided to adopt Haldor Topsoe technology, the agreement was on the basis of transfer of technology. The Committee have also been informed by the industry that "a competent technological base has progressively been built up in the country for absorption of all assortment of imported technologies". In regard to establishment of plants, the Committee understand that had we continued with 900 ton capacity plants, no import of plant would be needed whereas for bigger size plants of 1350 tonnes, designing would need to be done by foreign contractors. Notwithstanding the reported absorption of technnology, and agreement for transforof technology by Haldor Topsoe, the Committee are surprised to note that foreign exchange requirement continues at a high level of about 30%. Here again Committee's efforts to examine the issues independently failed due to non-production of documents. The Committee recommend that the necessity for and circumstances under which foreign collaboration is continued at present level may be investigated by a Committee.

10. COST OF PRODUCTION AND RELATIVE MERITS OF BIG, MEDIUM AND SMALL SIZE PLANTS

10.1 Fertilizer projects in India cost higher than similar plants elsewhere in the world. This is attributed by the Department to the following factors :

(a) The projects are located in the backward/undeveloped areas, very remote from ports, which necessitates considerable expenditure on infrastructure development and transportation cost of equipment;

(b) The indigenous equipment costs are somewhat higher than imported ones, because of present recession in the world Capital Goods Industry;

(c) The inventory level of spare parts has to be necessarily higher because of long lead required to procure them from foreign sources;

(d) Higher incidence of local taxes, duties and interest rates;

(e) Fluctuation in the parity rates of exchange; and

(f) Higher costs of steel and cement.

10.2 The Department also contended that on comparable scopes of project infrastructure development, sources of supply of equipment, cost of steel and cement, taxes and duties/interest rates etc., the project costs in India do compare well with those in other developing countries.

10.3 Giving an analysis of cost of a project in India, Department gave following particulars :

"A grass-root gas-based project today could cost nearly Rs. 647 crores in India. The foreign exchange for equipment would be about Rs. 147 crores CIF. The indigenous equipment would cost about Rs. 100 crores. Indigenous equipment is on an average 30% more expensive than international price. If this equipment is procured at international price, it will be cheaper by Rs. 25 crores. The interest rate on long-term loan in India is 15% whereas internationally the rate is not more than 10%. Customs duty @ 15% is levied on imported equipment on CIF basis and on indigenous equipment, nearly 10% of the ex-works cost is levied as excise duty and sales tax.

Most of the gas-based plants are at inland locations. A project built on the sea coast internationally, would have following savings :—

Customs duty	Rs. 22·0 crores
Excise duty & Sales tax	Rs. 20·0 crores
Indigenous procurement	Rs. 25·0 crores
Interest on long-term loan	Rs. 12·0 crores
Inland handling	Rs. 10·0 crores
	Rs. 89·0 crores

10.4 The Committee desired to know the efforts made since 1980 to reduce operational cost of indigenous fertilizer plants. In reply the Department of Fertilizers have stated that the main elements of the cost of production of fertilisers are :

(a) Feedstock/raw materials.

(b) Fuel and Utilities.

(c) Conversion cost including salaries and wages and packing materials etc. and

(d) Depreciation, interest, etc.

10.5 The Department further stated :

"The prices of feedstock/raw materials and fuel are centrally administered and the fertiliser producer has no control thereon. Similarly, freight rates on feedstock and raw materials and also the cost of power is beyond the control of producers. Capital costs are reflected in the cost of production through provision of depreciation and interest on borrowings. Because of the relatively high cost of fertilizer plants, these capital related costs are also high. The main reasons for high capital cost are higher cost of indigenous equipment, fall in value of rupee *vis-a-vis* other foreign currencies, lack of adequate infrastructure, etc. Any economy on the capital related cost is thus hardly possible. The conversion cost comprises roughly 19% of the cost of production. Items like cost of salaries and wages are determined by wage packages awarded to workmen and officers. There is some scope, of course, to reduce the wage bill by restricting overtime. There is also a certain amount of overstaffing in some of the older units of PSUs, but reduction of surplus manpower is an uphill task, 'Overheads' is an item on which economies are possible if proper efforts are put in and managements keep a close watch on the same. The company has to incur expenditure on catalysts, chemicals, repairs and maintenance and packing materials on which there is hardly any room for further economy.

The consumption efficiencies improve with higher capacity utilisation. Continuous running of the plant is essential since stoppages/ start-ups adversely affect the consumption efficiencies. The fertiliser industry has been badly hit from time to time by power cuts and interruptions. To overcome this, captive power plants, whereever possible, have been provided to reduce dependence on external power. This will allow uninterrupted running of the fertiliser plants has been showing gradual upward trend. At the moment, capacity utilisation is particularly poor in old units of *FCI (Fertiliser Corporation of India) and HFC, where a number of modernisation and revamping schemes are being considered. Modernisation programme of Gorakhpur plant is already being processed. It has been already decided to take up Phase-I Rehabilitation of the Ramagundam unit of the *FCI. The revamping of the HFC units is under consideration of the Government."

10.6 The Committee were informed that in December 1986, a Ministers' level meeting was held to consider cost reduction measures in the critical sectors of economy. Thereafter, Secretary (Coordn) in the Cabinet Secretariat, held a series of meetings, the main conclusion of which was that since most of the enterprises had no control over input costs, which are subject to a regime of administered prices, the reduction in cost could be brought about mainly by physical efficiency parameters. Since the fertiliser industry has no control over price of feedstock, power coal etc., it has been decided by the Department that as the only factors where cost reduction is possible are capacity utilisation and consumption efficiencies, in the context of power shortage, certain reservations and allocation of power from the central sector power projects would be made for the fertiliser industry.

10.7 As the economic consideration placed for big size plants has not nationalised, the Department was asked to state why medium sized plants are not being allowed. The Ministry stated :

"Large capacity fertilizer plants of the size currently under implementation viz : 1350 tonnes/day ammonia and 2250 tonnes/day Urea plants required high investment and the smaller sized projects of ammonia and urea would perhaps require relatively less investment. The Department has got this aspect examined by a Specialist Group constituted for the purpose, who found that the investment per tonne year of Urea is significantly less in large capacity plants compared to smaller sized plants. For example, the specialist group has found that a 900 tpd ammonia/1500 tpd Urea complex is

*Refers to Fertiliser Corporation of India.

13.8% cheaper compared to 220 tpd ammonia/333 tpd Urea complex in terms of outlay per annual tonne of urea. In terms of operational costs also, the larger plants have clear advantage over the smaller plants. Since fertilizer is under retention price-*cum*-subsidy scheme, a higher unit investment and higher operational costs of smaller plants will involve higher unit subsidy.

The above comparison was done for grass roots plants for either capacity. There could, however, be instances wherein existing plants smaller size plants may be required in replacement of old plants of similar capacity, taking advantage of the existing infrastructure. Government would consider such cases individually on merit. Further, technology is being developed for smaller plants to make them as cost effective and efficient as the large-sized plants. These development are being watched."

10.8 On the economic consideration placed by Government on big size plants in preference to small plants the representative of FAI stated. "It is debatable whether going in for higher size of the plant is the most economic thing to do because the higher size of plants require higher investments in infrastructure also."

10.9 The witness further stated :

"Apart from indigenisation, it also did not reduce the cost of production. Even for the transportation cost for equipment, if you have made special arrangements, every addition to the capital cost goes to increase the cost of production. Normally one expects that when the scale of operation goes up, the unit cost of production should come down. When there is technological advancement, you are saving energy consumption. The cost of production should come down. But the advantages of the economies of scale and the advantages of improving the technology has been more than offset by increase in capital cost. If you look at it, it is that for some of the old plants based on naphtha, their prices which are fixed by the Government, are much lower than the ex-factory price of new plants. So, the capital cost plays an important part. It is for two reasons. One is inflation, the other is by upgrading the size of the plant, the cost of infrastructure also increases. The principle of economy of scale does not operate under inflationary condition. This will be valid if the inflation does not take place. If today you approve a plant and start it after one year or so, then the cost goes up."

10.10 The witness further told the Committee that the transportation cost and the cost for developing the transportation facilities will be higher

for 1350 tonnes plant than the 900 tonnes plant even after taking out inflation. Marketing and distribution also entails more cost per unit of output in the case of larger size plants.

10.11 The Committee were informed in 1970 that for cost effectiveness, it would be necessary to establish big size plants. The Committee are now informed that prices of feedstocks/raw materials fuel etc. are centrally administered and hence industry have no control. Because of high cost of fertiliser plants, provisions for depreciation and interest on borrowings are high for big size plants. The Department have also stated that a specialised group had assessed a 900 tpd plant cheaper than a 220 tpd plant but have not compared the cost between a 1350 tpd and 900 tpd plant. According to industry, it is debatable as to which of the three—small, medium or big—is cost effective. The Committee consider it unfortunate as well as evidence of negligence of the Government that on the cost effectiveness of small, medium and big plants Department themselves are still not on safe grounds on the basis of firm and meaningful cost data. Now that plants of all types are already in existence, the Committee recommend that a comparative study on cost effectiveness of the plants including the cost of infrastructure required to be set up for each type of plant may be conducted, so that the issue is placed on a proper perspective and appropriate policy decision can be taken for the future.

11. SUBSIDY ON FERTILISERS

11.1 The fertiliser pricing policy in India has been evolved to make available to farmers fertilisers at stable and reasonable prices to encourage its use and consequently optimise agricultural production. It also aims at ensuring manufacturers a reasonable return on their investment, not only efficient operations but also increased production to meet increasing demand. In order to achieve these objectives, consumer price of fertilisers has been controlled statutorily. Under the Retention Price Formula, price for different manufacturers has been fixed by the Ministry of Agriculture taking into account capital investment involved, feedstock used and assuming 80% efficiency in running the plant, life of catalysts, packing charges etc. In addition to retention price subsidy, freight subsidy is also paid to indigenous manufacturers under the equated freight scheme. Audit has pointed out that between 1978-79 and 1984-85, the subsidy paid by Govt. exceeded Rs. 3500 crores but the correctness could not be examined due to non-production of records. The subsidy subsequently paid amounted to Rs. 1600 crores in 1985-86, Rs. 1700 crores in 1986-87 and 3000 crores in 1987-88. With the increase in fertilisers consumption in the years to come, this subsidy is likely to go on increasing every year.

11.2 Commenting on the ever increasing subsidy bill, the Executive Director FAI stated that urea price in 1974-75, immediately after the oil crisis was Rs. 2000 per tonne; and official price (January 1988) was Rs. 2350 per tonne, which is only 18 per cent increase in prices. However, with the 7½% discount announced by the Government in 1988, there has been hardly 9 per cent increase over 1974-75 prices. In the case of DAP, the increase is stated to be only 20 per cent.

11.3 The Department of Fertiliser stated that "Just to reduce subsidy burden, Government do not propose to increase consumer prices of fertilisers especially in the context of increasing foodgrains production."

11.4 The main reasons for sharp increase in subsidy are stated to be significant increase in production of indigenous fertilisers mainly coming from newly commissioned plants having higher capital cost per unit of product and consequently higher capital related costs—depreciation, interest and return on net worth. Sharp increase in the prices of raw materials and utilities and interest rates have also contributed significantly to increase in production cost of fertilisers. According to Fertiliser Association of India, during the last 14 years since 1974-75, price of naphtha has gone up by 393%, the price of furnace oil by 102%, and the price

of gas for IFFCO Kalol has gone up by 1,600%. Similarly, in the case of imported material which is channelised through Government agencies, the price of phosphoric acid has increased by 200%, the index of the cost of power which was 100, has become 485 and foodgrains price index has also become 222. On the other hand, price mechanism in fertiliser industry for all aspects are virtually controlled by Government; the location of new plants; feedstock; technology; price of raw material and subsidies such as petroleum products, coal, imported ammonia, sulphur, rock phosphate, phosphoric acid, electricity etc. and also the retention prices are all fixed by the Government and its agencies.

11.5 According to an analysis done by the Fertiliser Association of India it is stated, increasing subsidy is not a drain on exchequer because it is getting back to the Government in the form of increased feedstock prices supplied by PSUs. It shows that in respect of fifteen companies controlling 24 major plants with 63 per cent of nitrogen and phosphate which were in existence in 1980-81 and 1987-88 the net subsidy between 1980-81 and 1987-88 was 843 crores. Against it, the increase in the cost of indigenous feedstock and inputs accounted for Rs. 733 crores, increase in the cost of imported ammonia, phosphoric acid, rock phosphate and sulphur etc. accounted for Rs. 72 crores and increase in railway freight on finished products accounted for Rs. 162 crores. This money has thus gone to ONGC, Railways and Oil Companies and do not constitute drain on exchequer.

11.6 Though unprecedented hike in investment cost per tonne of new plants has been the result of inflationary trends all round, a major chunk is also attributed by Government to customs and excise duties charged on imported/indigenous equipment. These elements and resulting financial charges constitute nearly 16-17 per cent of total cost of a plant.

11.7 According to the Department of Fertilisers subsidised prices of inputs would reduce cost of production of fertilisers and thereby outgo on subsidy under retention price scheme would also go down. No specific study in this regard has, however, been conducted.

11.8 The Committee note that between 1978-79 to 1984-85 subsidy paid to the industries for sale of fertilisers at controlled prices amounted to Rs. 3500 crores, in 1985-86, Rs. 1600 crores, in 1986-87, Rs. 1700 crores and in 1987-88, Rs. 3000 crores. Considering the substantial outgo, the Committee recommend that the application of the retention price formula and the correctness of subsidy paid to each manufacturer should be subjected to appropriate audit check by the C&AG of India and that the results of audit reported to Parliament.

1.19 The Committee note that despite substantial increases in prices of inputs that go in manufacture, cost of establishment of new plants, the interest and depreciation charges thereon, the fertiliser prices have very rightly been pegged at a specified level for encouraging better foodgrain production. Viewed in this context, the Committee are convinced that it is inescapable to pay subsidy for survival of the indigenous industry. As, however, it is claimed by the industry that major portion of outgo by way of subsidy returns to Government coffers by way of freight, taxes, duties etc. the Committee recommend that the feasibility of effecting reduction in cost of production by adjustment of levies on administered inputs may be conducted, so that the cost of production does not get unduly inflated, thereby requiring payment of more subsidy.

12. INCREASE IN SERVICE CHARGES

12.1 Import of fertilisers is handled by the MMTC. There had been steep increase in service charges paid to MMTC for arranging imports from Rs. 3.12 crores in 1974-75 to Rs. 19.32 crores in 1984-85.

12.2 The service charges paid to MMTC for arranging imports was fixed as a percentage of the total value of fertilisers imported without linking it to the overhead cost actually incurred by MMTC. Further the service charges were increased from 0.5 per cent to 1.5 per cent in September 1971 with retrospective effect from 1-1-1970. The MMTC have furnished the following details in support of 1.5 per cent service charges charged by it.

(1) Loss of interest to MMTC for about 30 days for 10 per cent of the value for fertiliser imports.	0.3%
(2) Overhead charges	1.0%
(3) Incentive commission	0.2%

12.3 The interest liability actually incurred by MMTC during the years 1980-81 to 1984-85 was stated to be much more. As regards overhead charges MMTC has clarified that "there is no system of maintaining the overhead expenses separately for each commodity handled by them.

12.4 Accordingly, the MMTC maintained, the overhead expenses are always related to the turnover and the percentage thereof is worked out accordingly.

12.5 The MMTC have stated that during the years 1978-79 to 1984-85, its lowest ratio of overhead to sales was 0.8 per cent and have claimed this as the overhead expenses.

12.6 The Department of Fertilisers have further stated that on this basis the service charges allowed to MMTC would cover only interest liability and overhead charges and not the incentive commission of 0.2 per cent. It has also been stated that rationalisation of service charges allowed to MMTC is being taken up with the MMTC.

12.7 The Secretary, Department of Fertilisers also stated in evidence :

> "It is not a very satisfactory system that with increased quantities and increased values, the Commission that we have to pay should be so much. In fact, we propose to take up with the MMTC and to see what alternative method can be more satisfactory."

12.8 Service charges at the rate of 1.5 percent of turnover paid to MMTC appear to he on higher side. Though percentage-wise it might not be appear to be so, yet it has amounted to Rs. 19.32 crores in 1984-85 against Rs. 3.12 crores paid in 1974-75 with the increased volume of imported fertilisers. The MMTC's claim that commodity-wise overhead expenses have not been maintained and therefore, these are always related to turnover and a percentage thereof might be a good commercial proposition, yet it is not a fair practice for a prime public sector undertaking who has been entrusted to handle all the imports of a commodity on behalf of the country on monopoly basis. The Committee trust that an alternative satisfactory system, taking into account increased volume and value of fertilisers and also the fact that MMTC has been sole agency in handling fertiliser imports would be evolved soon to impart greater cost effectiveness to the transactions.

13. ABNORMAL INCREASE IN HANDLING CHARGES

13.1 Prior to 1 March 1976, stocks of imported fertilisers were borne on Government account. A significant part of the Central Government's budget deficit for the year 1975-76 was reported to be on this account. Consequent upon the increase in petroleum prices, the value of stocks of fertilisers increased. To relieve the Central Government of budget deficit, the Ministry of Finance decided that stocks should be financed by banking channels. As there was no other Central Organisation at that time to handle the fertilisers at ports and distribute it to States, Food Corporation of India was entrusted with this work and made principals to enable it to get credit for imported fertilisers. The infrastructure already built by the FCI to handle imported foodgrains also weighed in its favour. In 1978-79, multi-agency system was introduced and some indigenous fertiliser manufacturers in public, private and joint sectors were also inducted to handle imported non-potassic fertilisers more efficiently. By this time, growth rate of consumption of fertilisers had come down and selling of fertilisers involved considerably promotional efforts and marketing drive. Food Corporation of India could not respond to the changed situation effectively. At this stage the Department of Fertilisers realised that cost of handling fertilisers by FCI was very high. The FCI demanded a provisional rate of Rs. 446 per MT for the year 1978-79 as against the provisional rate of Rs. 286.40 per M.T. fixed by the Government. Earlier the Corporation did not incur any interest rate on the stocks during the year 1976-77 and a part of 1977-78 because it was financed from Government funds as explained above. Accordingly, their financing charges were nominal. It is sated that if "interest had been paid by the FCI on these stocks to the Government or to the banks, financial charges would have been much igher". The details of the handling charges for imported non-potassic fertilisers claimed by the FCI and provisionally approved by the Remuneration Committee for the years 1978-79 to 1981-82 are as under :—

Rates of remuneration for handling imported non—potassic fertilisers-Food Corporation of India as claimed by the Corporation.

Sl. No.	Elements	1978-89	1979-80	1980-81	1981-82
1	2	3	4	5	6
		Rs.	Rs.	Rs.	Rs.
1.	Portdues and port handling . . .	100·17	45·92	52·16	117·36
2.	Cost of bags . .	105·67	123·24	134·42	150·52

1	2	3	4	5	6
3.	Depot handling . .	(included in Item No. 1)	75·60	95·85	81·22
4.	Product loss . .	45·24	67·77	90·07	114·78
5.	Admn. overhead and contingencies . .	36·16	21·37	26·31	75·89
	Sub-total . .	278·24	333·90	398·91	(including Rs. 44·12 per MT towards misc expenses relating to previous year) 559·77
6.	Inland freight . .	112·37	189·99	184·08	265·97
7.	*Inventory*				
	(a) finance charges	126·40	196.81	246·50	732·95
	(b) Storage charges	24·42	32·10	36·91	81·94
	(c) Interest .	Included in item No 7(a)			
	Sub-total .	150·82	228·91	283·41	814·89
	Grand Total . .	550·43	752·70	866·30	1620·63

13.2 It will be seen from above that finance charges including inventory holding cost has escalated from Rs. 126.40 per M.T. in 1978-79 to Rs. 732.95 per M.T. in 1981-82.

13.3 Clarifying, the Chairman, FCI stated that basic reason for high handling charges was that "a major part of the cost was incurred on storing. If inventory cost is added to the current cost, than the current cost become inflated."

13.4 Another reason contributing to higher handling charges incurred by FCI vis-a-vis other handling agents (introduced under the multi-agency system) was that against the normative loss of 1.5% allowed to cover the losses at ports in unloading and standardization and losses in transit and in storage, losses of FCI were around 1.96% of value in 1976-77 which gradually went upto 3.64% by 1981-82.

13.5 The Committee were informed that this issue of higher losses in handling fertilisers and some other issues are under dispute for many years between FCI and the Ministry of Agriculture and the matter is referred to arbitration. The main points involved in arbitration are as under :—

(i) The FCI have regularised losses only to the extent of 0.06 lakh tonnes which is quite negligible as compared to the total loss. The total amount of losses incurred by FCI upto the end of 1985-86 for which accounts have been rendered has been

Rs. 69.99 crores out of which 54.88 crores have been reimbursed and the balance of Rs. 15.11 crores are under dispute.

(ii) The FCI have not been able to render the details of the accounts under Special Rebate Schemes. Therefore, against the claim of Rs. 73.45 crores, an amount of Rs. 73.45 crores, an amount of Rs. 65.50 crores has been released. The balance amount of Rs. 7.95 crores is under dispute.

(iii) In view of the high demand for fertilisers during 1983-84 the FCI was asked to liquidate entire stocks of fertilisers by 30 September, 1984 and it was *inter alia* decided that no inventory cost would be paid beyond this date. However, FCI have preferred an inventory carrying cost and interest on overdrawals claim of Rs. 16.88 crores for the period 1-10-1984 to 31 March, 1985 and Rs. 23.55 crores for the year 1985-86. The claim for 1986-87 (understood to be Rs. 19 crores) has not yet been received. These claims are under dispute.

13.6 The cost of import and handling charges per tonne paid to Indian Potash Ltd. and the FCI from 1978-79 to 1984-85 for non-potassic non-potassic fertilisers were as under:

(in lakh tonnes)

Year	Qty. imported (non-potassic)	Rate/Rs. (per tonne)	Handling charges I.P.L.	F.C.I.
1978-79 . . .	32·21	1183·14	Rs. 345/- (Prov.)	Rs. 550·43
1979-80 . . .	33·91	1438·07	Rs. 483·95 (Prov.)	Rs. 752·70
1980-81 . . .	39·37	1875·16	Rs. 653/- from 1-4-80 Rs. 747/- from 6-8-80	Rs. 866·30
1981-82 . .	27·70	2078·92	Rs. 858/- from 1-4-81 Rs. 918/- from 11-7-81 Rs. 934/- from 15-8-81 to 31-1-82	Rs. 1620·63
1984-85 . . .	54·48	2148·81	Rs. 1002/- for Urea Rs. 1127/- for DAP	Rs. 925/- Urea Rs. 1050/- DAP under commercial scheme.

13.7 The Committee are unhappy to note that with a view to relieve Central budget from deficit on account of financing fertilisers import, Ministry of Finance decided in 1976 to finance its imports through banking channels. This decision led to steep increase in handling charges of imported fertilisers. The finance charges alone which were negligible earlier as no interest liability to banks etc. was there, rose manifold from Rs. 126.40 in 1978-79 to Rs.732.95 in 1981-82. Thus the Committee find that decision to finance imports through banking channels was most unfortunate as it inflated the cost of fertilisers. It is alarming to note that as against the cost of Rs. 2079 per tonne of imported fertilisers in 1981-82, cost of handling charges paid to FCI was @ Rs. 1621. Charges on account of port-handling and its dues, transit and storage losses, storage charges and contingencies also increased substantially. This increase had been mainly due to the fact that Food Corporation of India which was made principals and entrusted with the imports of Fertilisers had no marketing net work and could not complete with the indigenous manufacturers who were also inducted to handle imported fertilisers since 1978-79 under multi-agency system. So the stocks with FCI rose leading to higher cost on storage and financing charges.

13.8 The Committee are unhappy about this state of affairs and particularly because the concerted effort appears to have been made by the Department of Fertiliser and the Food Corporation of India to reduce the cost on this account.

13.9 The storage and transit losses in the case of FCI was also quite high at around 1.96% of value in 1976-77. It further went up to 3.64% in 1981-82. The normative loss allowed on this account was 1.5%. It involves 3.28 lakh tonnes of material valued at Rs. 69.20 crores and had been a point of dispute between FCI and Ministry of Agriculture for many years and has been referred to arbitration. The Committee would like the Ministry to get the arbitration award expedited as well as devise the ways and means to reduce the storage and transit losses to a relatively low and acceptable figure.

13.10 The Committee further note that there were some dispute between FCI and the Ministry of Agriculture on total losses suffered by FCI in handling imported fertilisers and the accounts of the same have not been rendered. The FCI also could not comply with the directive of the Ministry to liquidate entire stocks of fertilisers by 30 September 1984 and it has preferred an inventory carrying cost and interest claims amounting to Rs. 16.88 crores for the period 1-10-1984 to 31-3-1985 and of Rs. 23.55 crores for the year 1985-86. The Committee trust that these disputed points lingering on for years would be sorted out expeditiously. They would like to be apprised of the latest position in this regard.

13..11 The Committee are at the same time dismayed that Food Corporation of India could not liquidate the stock by 30 September 1984 inspite of demand in the market and directive by the Ministry of Agriculture. The Committee consider that this was due to the inability of FCI to develop an adequate distribution and marketing network. The Committee are of the view that this matter has not so far received proper attention of the Ministry of Supply and the FCI and recommend that the matter be studied in depth and appropriate remedial measures taken expeditiously.

AMAL DATTA
Chairman,
Public Accounts Committee

NEW DELHI;
April, 27, 1989
Vaisakha 7, 1911 (*S*)

APPENDIX I

Paragraph 4 of The Report of Comptroller & Auditor General of India For The Year 1984-85—Union Government Civil, Volume-1

4. *Imports and Distribution of Fertilisers*

4.1 *Introduction* : The Central Fertiliser Pool (Pool) was set up in 1944-45 as State Trading Scheme to popularise the use of fertilisers, make them available at economic rates, ensure equitable distribution of available supplies and rationalise their movement.

The Pool, operated under the aegis of the Ministry of Agriculture and Rural Development, Department of Agriculture and Co-operation (hereafter referred to as department), arranged for import of fertilisers to meet the gap between the indigenous production of fertilisers and the demand.

Till December 1969, the department arranged for the imports through the State Trading Corporation of India (STC). From January 1970, the import from East European countries (Rupee payment areas) was entrusted to the Minerals and Metals Trading Corporation (MMTC) and the import from other sources to the Department of Supply. After July 1975, MMTC was entrusted with imports from all the regions.

A Steering Committee consisting of Secretaries to the Department of Chemicals and Fertilisers, Ministry of Shipping and Transport, Department of Economic Affairs and the Chairman, MMTC under the Chairmanship of Secretary (Agriculture and Co-operation) was set up in September 1978 to oversee the import and distribution of fertilisers.

While the responsibility for import was with MMTC, the work of handling, storage and distribution of non-potassic fertilisers was entrusted to the Food Corporation of India (FCI). Originally FCI undertook this responsibility on agency basis and from March 1976, this is being done on ownership basis.

Since the cost of handling fertilisers by FCI was high and since import was rising, a multi-agency system for handling and distribution of imported non-potassic fertilisers was introduced in May 1978. Under this arrangement, FCI, Indian Potash Limited (IPL), Southern Petro Chemical Industries Corporation (SPIC), Rashtriya Chemicals and Fertilisers (RCF), Hindustan Fertilisers Corporation (HFC) and

Mangalore Chemicals and Fertilisers (MCF) are handling and distributing imported non-potassic fertilisers in specified areas on ownership basis. From 1984-85, Indian Farmers Fertilisers Corporation Limited (IFFCO), Krishak Bharati Corporation (KRIBHCO), Gujarat National Fertilisers Corporation (GNFC), Gujarat State Fertiliser Corporation (GSFC) and Madras Fertilisers Limited (MFL) have also been inducted as handling agencies.

The fertilisers are allotted to the handling agencies when these are on the high seas. Identification of the ports at which these agencies have to handle shipments and the States to which they have to distribute these fertilisers are decided by the department.

In the case of potassic fertiliser, however, the entire import is being handled and distributed exclusively by the IPL on ownership basis since April 1974.

4.1.1 *Payment Procedure.*

As soon as a contract for supply of fertilisers is finalised by MMTC, the same is intimated to the department alongwith copy of the relevant contract. MMTC claims 90 per cent of the amount of letter of credit required to be opened in favour of the suppliers as advance payment from the department. The balance 10 per cent payment together with bank charges and service charges is subsequently claimed on receipt of a formal sanction from the department.

4.1.2 *Fixing of fertilisers price*

The prices of all fertilisers are fixed by the department under Fertiliser (Control) Order, 1957. These prices are uniform throughout the country and are subsidised. The Ministry of Chemicals and Fertilisers introduced retention price schemes for nitrogenous and phosphatic fertilisers with effect from 1st November 1977 and 1st February 1979 respectively. Under these schemes, the indigenous manufacturers of fertilisers were allowed a post-tax return of 12 per cent on the net worth provided they operated at stipulated levels of efficiencies.

4.1.3 *Financial results*

The details of purchase and sale of imported fertilisers during 1976-77 to 1985-86 was under :-

(Rupees in crores)

Year	Purchase*	Sale**	Shortfall
1	2	3	4
1976-77	433·54	381·07	52·47
1977-78	500·96	546·87(—)	45·91

1	2	3	4
1978-79	752·06	631·98	120·08
1979-80	856·62	574·82	281·80
1980-81	1311·83	976·57	335·26
1981-82	1118·22	1018·00	100·22
1982-83	539·19	483·83	55·36
1983-84	521·67	379·84	141·83
1984-85	1899·87	1172·56	727·31
1985-86	2000·63 (BE)	1599·81 (BE)	600·82 (BE)

BE—Budget Estimates.

*This includes cost of fertiliser, freight, departmental charges, handling charges, price differential, demurrage charges and other miscellaneous expenditure.

**This includes sale realisation, price differential and miscellaneous receipts.

The shortfall has been borne by the department.

4.1.4 *Consumption, indigenous production and import of fertilisers*

Consumption, indigenous production and import of fertilisers in terms of nutrients excluding opening and closing stock at the beginning/ end of the year during the period 1976-77 to 1984-85 were as under :—

(In lakh tonnes)

Years	Consumption	Production	Imports
1976-77 . . .	34·11	23·80	10·51
1977-78	42·86	26·70	15·21
1978-79	51·77	29·40	19·88
1979-80	52·56	29·83	20·05
1980-81	55·16	30·05	27·59
1981-82 . . .	60·64	40·93	20·41
1982-83	65·91	44·04	11·32
1983-84	77·20	45·33	13·55
1984-85	83·74 (estimated)	51·80	36·24

It can be seen from the above that imports which were of the order of 10.51 lakh tonnes (30.8 per cent of consumption) in 1976-77 had gone upto 36.24 lakh tonnes (43.3 per cent of consumption) by 1984-85.

4.2 *Excessive imports*

4.2.1 According to the Import Plan for 1981-82 and 1982-83, the department decided to keep a buffer stock of 9.90 lakh tonnes (revised

in November 1981 as between 8.73 and 10.85 lakh tonnes) and 10.23 lakh tonnes of nutrients in 1981-82 and 1982-83 respectively so that fertilisers could be made available to the consuming areas in time and at short notice. Against this, the buffer stock of fertilisers (imported as well as indigenous) as on 1st February 1982 and 1983 was 16.53 lakh tonnes and 16.82 lakh tonnes of nutrients respectively. The excess import of 6.63 lakh tonnes and 6.59 lakh tonnes of nutrients during 1981-82 and 1982-83 respectively, involved blocking up of capital foreign exchange to the extent of Rs. 391.86 crores worked out on the basis of average price per tonne of fertiliser nutrients imported during the years 1981-82 and 1982-83. On analysing the reasons for excess imports it was found that, while preparing the Import Plans for the years 1981-82 and 1982-83, opening stock of fertilisers was taken on lower side i.e. 6.01 lakh tonnes instead of 9.51 lakh tonnes and 12.25 lakh tonnes instead of 16.53 lakh tonnes respectively. This itself accounted for excess import by 7.78 lakh nutrient tonnes in two years (approximate value : Rs. 26.22 crores).

It was also seen that the following stocks of fertilisers with the indigenous manufacturers were not taken into account while formulating the Import Plan till 1981-82.

(In lakh tonnes)

Period as on 1st February	Stock of fertilisers in hand in terms of nutrients
1979	3·23
1980	2·66
1981	2·93

Omission to take into account the stock in hand of imported fertilisers correctly and stocks held by the indigenous manufacturers led to excess imports. This not only resulted in blocking up of capital and avoidable outflow of foreign exchange, but also ultimately led to the use of qualitatively inferior fertilisers.

This was particularly is in the case of Di-ammonium Phosphate (DAP). With pending stock of 5 lakh tonnes in April 1981, the department went for import of 8.30 lakh tonnes of DAP during 1981-82 (approximate value : Rs. 155 crores), though the average lifting during 1978, 1979 and 1980 (Kharif and Rabi) was only 4.75, 4.87 and 5.70 lakh tonnes respectively.

It was observed that contract for imports of over four lakh tonnes of DAP from country 'A' were concluded with four firms in May 1981, as per details given below on the plea, that "India buying a smaller tonnage than usual could result in closure of factories (which would not be in the

interest of the consumers in the long run) owing to inadequate relief for suppliers to liquidate their stock immediately."

		Rate per tonne (US$)
Firm 'A'	3,50,000 tonnes	190 (f.o.b.)
Firm 'B'	20/30,000 tonnes	247.40 (c&f)
Firm 'C'	15,000 tonnes	252 (c& f)
Firm 'D'	15,000 tonnes	252 (c&f)

4.2.2 It was noticed that fertiliser stock as on 1st May 1983 was about 21.63 lakh tonnes with various handling agencies. Out of the above stock, a quantity of 13.79 lakh tonnes was lying with FCI and a sizeable quantity thereof was two years' old. Since this resulted in heavy inventory cost and deterioration of the quality of fertilisers, the department launched a special drive during Rabi season (1982-83) to liquidate this stock by giving certain incentives. During the special drive, the department was able to liquidate only 1.58 lakh tonnes against the target of 2.26 lakh tonnes. Details of the actual amount of incentive paid were called for (February 1984) and are awaited (March 1986).

As on 1st July 1983, 9.06 lakh tonnes of Urea and 3.87 lakh tonnes of DAP were lying with FCI for more than two years and the department allowed a rebate of 10 per cent (July 1983) on the statutorily fixed maximum retail prices to accelerate their disposal. The amount of rebate on 8.56 lakh tonnes of Urea and 3.17 lakh tonnes of DAP allotted (till October 1983) to various agencies would work out to Rs. 69.63 crores.

As on 31st May 1984, a quantity of 1.61 lakh tonnes of fertilisers over 3 years' old was lying undisposed with FCI. The latest position in this regard was called for (August 1985) but was awaited (March 1986).

4.3 *Fixation of retention price*

Retention price fertiliser fixed by the erstwhile Ministry of Chemicals and Fertilisers varied from year to year and manufacturer to manufacturer depending on the feed stock used, capital investment involved and efficiency in the running of the plant. This involved subsidy of over Rs. 3500 crores during the period 1978-79 to 1984-85. The correctness of the retention price fixed for various manufacturers from time to time could not be verified as the relevant records had not been made available to Audit (March 1986) despite request made in February 1984.

4.4 *Steep increase in service charges*

The service charge paid to MMTC for arranging for the imports was fixed as a percentage of the total value of fertilisers imported without linking it to the overhead cost actually incurred by MMTC and it rose from

Rs. 3.12 crores in 1974-75 to Rs. 19.32 crores in 1984-85 as detailed below :—

Year	Quantity (In lakh tonnes of material	Fo. b./ c & f value	Service charges at 1·5 per cent of f.o.b./c&f value
			(Rupees in crores)
1974-75	10·50	208·31	3·12
1975-76	9·38	190·32	2·85
1976-77	20·73	197·17	2·96
1977-78	28·53	267·06	4·01
1978-79	41·82	385·43	5·78
1979-80	40·11	426·28	6·39
1980-81	52·50	723·57	10·85
1981-82	38·94	608·86	9.13
1982-83	19·17	188·68	2.83
1983-84	26·74	323·36	4.85
1984-85	70·34	1287·68	19·32
TOTAL . .	358·76	4806·72	72.09

The mode of fixation adopted in this case was different from that adopted in certain other Government departments which do not allow automatic proportionate increase with every increase in value, as the overhead cost need not necessarily increase in direct proportions to the increase in the value of goods handled. For example, the Railways pay the Directorate General, Supplies and Disposals service charges at 0.75 per cent for purchases upto first Rs. 2 crores and at 0.25 per cent thereafter.

Also it was seen that prior to 1st January 1970 STC was paid service charges at 0.5 per cent of the value of fertilisers. However, in September 1971 the service charges payable to MMTC were increased from 0.5 per cent to 1.5 per cent with retrospective effect from 1st January 1970. It was also seen that MMTC had not given details of the actual overhead costs incurred (requested for in February 1982) to the department so far (March 1986).

4.5 *Abnormal increase in rate of handling charges*

Multi-agencies like FCI, IPL, SPIC, RCF, HFC and MCF have been nominated for handling non-potassic fertilisers. The rates of handling charges payable to various agencies include port handling and port dues, transit and storage losses, depot handling charges, finance charges, storage charges, administration charges, contingencies, freight, inventory handling cost, bags and taxes. It was seen that in the case of FCI, the handling charges in respect of import in bulk and that in bags had increased from

Rs. 362.10 and Rs. 209.30 per tonnes in 1976-77 to Rs. 1,200 and Rs. 1,070 per tonne respectively in 1981-82. FCI had claimed handling charges at increased rate of Rs. 1,620.63 per tonne and Rs. 1,470.11 per tonne for bulk and bagged fertiliser respectively from 1981-82. From the details given in Annexure, it is seen that while the rate had increased year after year in respect of all the agencies, the increase was the highest in the case of FCI. An analysis of the reasons for the abnormal increase in the case of FCI indicates that it was mainly due to increase in finance charges including inventory holding cost which had gone up from Rs. 20.70 per tonne (5.7 per cent of total handling charges on bulk imports) in 1976-77 to Rs. 732.95 per tonne (45.2 per cent of total handling charges claimed for bulk imports) in 1981-82.

Similarly, in the case of IPL, handling charges had increased from Rs. 483.95/362 in 1979-80 to Rs. 1,358/1,226 per tonne of bulk and bagged quantities respectively in 1982-83. In this case also, inventory carrying cost on bulk imports had increased from Rs. 44.79 (9.3 per cent of total handling charges) to Rs. 639.89 (47.1 per cent of total handling charges).

The increase in finance charges (including inventory holding cost) and consequent increase in handling charges were attributable to excess imports commented upon in sub para 4.2. Had the imports been restricted to the actual requirements, the service charges paid to MMTC would also have been considerably less.

4.6 *Other points of interest*

(i) *Storage losses*

The department has got 102 cases of storage losses of fertilisers pertaining to the period prior to 1st March 1976 awaiting regularisation (March 1986). Out of these, 4 cases involved storage losses of over 100 tonnes, 18 cases of more than 10 tonnes, 18 cases of more than 5 tonnes but less than 10 tonnes, 31 cases from 1 to 5 tonnes and 31 cases less than one tonne. An uptodate list of cases of storage losses was awaited. (March 1986). However, the department stated (March 1986) that there were only 92 cases awaiting regularisation.

(ii) *Disposal of sub-standard fertilisers*

On 1st March 1976, when the department transferred the functions of handling and distribution of non-potassic imported fertilisers to FCI on ownership basis, the ownership of existing sub-standard fertilisers remained with the department. The stock of sub-standard fertilisers on that day was 62,565 tonnes. On the basis of an average price of Rs. 1,192 per

tonne of fertilisers purchased during 1970-71 to 1975-76 (upto February 1976) the value of the sub-standard fertilisers worked out to Rs. 7.46 crores. However, the department assessed the value of the sub-standard fertilisers at Rs. 365.78 per tonne and the total value thereof at Rs. 2.29 crores. The resultant loss is thus estimated at Rs. 5.17 crores on this account, 9,250 tonnes (value : Rs. 1.10 crores) remained to be disposed of October 1984); latest position is still awaited.

The loss on this account has also not been regularised so far (March 1986).

(iii) *Payment/recovery due revision in prices of fertilisers to/from States, Union Territories and various handling agencies*

The department has been revising the prices of fertilisers from time to time. In the event of upward/downward revision of prices, recovery/compensation was to be made/paid for the quantity of Pool fertilisers in stock on the date of such revision.

A scrutiny of the register maintained for watching payments/recovery due to decrease/increase in prices of Pool fertilisers revealed that while increase in prices took place on 8th June 1980 and 11th July 1981, the States of Bihar, Punjab, Jammu & Kashmir, Nagaland and Union Territory of Pondicherry did not furnish any information about the stock position of Pool fertilisers on the eve of the above increases. The amount recoverable on account of increase in the price from these States/Union Territory could not be ascertained in audit.

(iv) *Non-adjustment of 'on account' payment/advances paid to various officials/agencies*

An amount of Rs. 239.62 crores paid as advances during May 1974 to March 1983, was awaiting adjustment (March 1986).

Out of this, Rs. 21.50 crores related to advances given prior to 31st March 1979.

Summing up :

Excess import of 13.22 lakh tonnes of nutrients during 1981-82 and 1982-83 resulted in blocking upto of capital/avoidable outflow of foreign exchange to the extent of Rs. 391.96 crores, besides resulting in the use of qualitatively inferior fertilisers.

In the case of DAP, the department imported 8.30 lakh tonnes (approximate value : Rs. 155 crores) during 1981-82 far in excess of the needs.

The department disposed of 8.56 lakh tonnes of Urea and 3.17 lakh tonnes of DAP at a rebate of 10 per cent July 1983) on the

statutorily fixed maximum retail price to accelerate disposal of accumulated stock. The amount of rebate allowed worked out Rs. 69.63 crores.

Retention price of fertiliser fixed by the erstwhile Ministry of Chemicals and Fertilisers varied from year to year and from manufacturer to manufacturer. The correctness of the retention price fixed for various manufacturers from time to time could not be varified in audit as the relevant records were not made available (March 1986). This involved subsidy of over Rs. 3,500 crores during 1978-79 to 1984-85.

There had been steep rise in payment of service charges made to MMTC from Rs. 3.12 crores in 1974-75 to Rs. 19.32 crores in 1984-85. The increase in service charges from 0.5 per cent to 1.5 per cent in September 1971 with retrospective effect from 1st January 1970 was not based on actual overhead cost incurred.

Rates of handling charges of FCI had increased from Rs. 362.10 and Rs. 269.30 per tonne in 1976-77 to Rs. 1,620.63 per tonne (claimed) and Rs. 1,470.11 per tonne (claimed) in 1981-82 for fertilisers imported in bulk and bags respectively. The increase was highest in the case of FCI mainly due to increase in finance charges (including inventory holding cost) which had gone up from Rs. 20.70 per tonne (5.7 per cent of total handling charges) in 1976-77 to Rs. 732.95 per tonne (45.2 per cent of total handling charges claimed) in 1981-82 because of increased expenditure on buffer stocking.

92 cases of storage losses of fertilisers pertaining to the period prior to 1st March 1976 were awaiting regularisation (March 1986).

The value of 62.565 tonnes of sub-standard fertilisers held on 1st March 1976 was taken as Rs. 2.29 crores against Rs. 7.46 crores based on the average rate of price. Latest position of 9,250 tonnes of stocks remaining undisposed in October 1984 was awaited (March 1986). The loss to the department on this account had also not been regularised so far (March 1986).

The State/Union Territory of Bihar, Punjab, Jammu and Kashmir, Nagaland and Pondicherry did not furnish any information about the stock position of Pool fertilisers consequent upon the upward revision of prices of fertilisers on 8th June 1980 and 11th July 1981. Hence the amount recoverable from them on this account could not be ascertained.

Advances aggregating Rs. 239.62 crores paid during May 1974 to March 1983 were awaiting adjustment (March 1986); out of these, Rs. 21.50 crores were outstanding for more than 6 years.

ANNEXURE

Rate of handing charges allowed/claimed by various handling agents during 1976-77 *to* 1984-85. (Rupees in tonn e)

Name of handling agents	1976-77		1977-78		1978-89		1979-80	
	Bulk	Bagged	Bulk	Bagged	Bulk	Bagged	Bulk	Bagged
1	2	3	4	5	6	7	8	9
FCI	362·10	269·30	517·80	409·80	550·43	444·76	752·70	629·46
IPL	—	—	—	—	345	263	483·95	362
SPIC	—	—	—	—	—	—	402	304
MCF	—	—	—	—	364	—	480	340
HFC	—	—	—	—	396	306	525	345
RCF	—	—	—	—	—	—	465	342
MFL	—	—	—	—	—	—	—	—
GSFC	—	—	—	—	—	—	—	—
IFFCO	—	—	—	—	—	—	—	—
KRIBHCO	—	—	—	—	—	—	—	—
GNFC	—	—	—	—	—	—	—	—

AND

(Rupees in tonne)

Name of handling agents	1980-81		1981-82		1982-83		1983-84		1984-85		
	Bulk	Bagged	Bulk	Bagged	Bulk	Bagged	Bulk	Bagged	Bulk		Bagged
									Urea	DAP	
1	10	11	12	13	14	15	16	17	18	19	20
FCI	866·30	731·88	1620·63	1470·11	—	—	—	—	925	1053	740
IPL	747	599	934	802	1358	1226	1080	928	1002	1127	827
SPIC	586	433	649	514	825	688	800	645	883	1073	708
MCF	671	525	726	698	919	789	870	755	862	1112	687
HFC	617	432	617	432	—	—	822	672	901	976	676
RCF	465	342	524	389	465	342	610	475	732	820	527
MFL	—	—	—	—	—	—	—	—	614	709	439
GSFC	—	—	—	—	—	—	—	—	753	843	578
IFFCO	—	—	—	—	—	—	—	—	773	860	598
KRIBHCO	—	—	—	—	—	—	—	—	727	805	552
GNFC	—	—	—	—	—	—	—	—	723	810	548

NOTE —1. The above rates in respect of some periods are provisional

2. Higher rare of handling changes has been taken where there were more than one rate during a year.

APPENDIX II

(Referred in Para 2·5)

(figures in lakhs M.T.)

Years	OPENING STOCK (POOL & NON-POOL				PRODUCTION				IMPORT			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
1981-82 .	5·51	2·32	1·41	19·24*	31·44	9·49	—	40·93	10·54	3·43	6·44	20·4
1982-83 .	13·79	5·41	1·07	20·27	34·24	9·80	—	44·04	4·25	0·63	6·44	11·325
1983-84 .	13·10	5·32	1·13	19·55	34·85	10·48	—	45·33	6·56	1·43	5·56	13·51
1984-85 .	6·96	2·55	0·41	9·92	39·17	12·63	—	51·80	20·08	7·45	8·71	36·24
1985-86 .	11·06	3·52	1·00	15·58	43·28	14·28	—	57·56	16·80	8·16	9·03	33·99
1986-87 .	19·58	8·31	1·73	29·62**	54·10	16·60	—	70·70	11·13	2·87	8·82	22·82

(figures in lakkh M.T.)

CONSUMPTION				CLOSING STOCK			
N	P	K	Total	N	P	K	Total
40·69	13·22	6·73	60·64	13·79	5·41	1·07	20·27
42·24	14·37	7·27	63·88	13·10	5·32	1·13	19·55
52·05	17·30	7·75	77·10	6·96	2·55	0·41	9·92
54·87	18·86	8·38	82·11	11·06	3·52	1·00	15·58
58·15	20·68	8·54	87·37	19·58	8·31	1·73	29·62**
57·73	21·05	8·60	87·38	27·36	8·48	2·50	38·24**

*Pool stocks only

**Including stocks at Port-area.

APPENDIX III

Details of quantities imported from various sources

		FFE	Aids Grants	RPA
1982-83	DAP	1,41,203	—	—
	MOP	6,97,348	—	3,86,963
	Urea	3,31,086	2,80,828	1,22,537
	Total	11,68,637	2,80,828	5,09,500
1983-84	DAP	2,72,775	1,20,478	—
	MOP	7,13,205	—	2,89,575
	Urea	5,56,784	4,58,980	2,63,044
	Total	15,42,764	5,79,458	5,52,619
1984-85	DAP	17,65,485	13,302	—
	MOP	10,26,196	—	4,26,450
	Urea	29,74,206	2,10,417	5,25,677
	Total	57,65,887	2,23,719	9,52,127
1985-86	DAP	17,49,705	—	—
	MOP	10,62,000	—	4,27,954
	Urea	17,70,500	3,41,437	7,17,553
	Total	45,82,205	3,41,437	11,45,508
1986-87	DAP	5,58,519	—	48,708
	MOP	11,33,442	—	4,51,901
	Urea	6,15,819	5,66,369	9,83,715
	Total	23,05,780	5,66,369	14,84,324
1987-88	DAP	—	—	—
	MOP	4,90,637	3,30,010	5,27,204
	Urea	NIL	62,899	2,57,815
	Total	4,90,637	3,92,909	7,85,019

APPENDIX IV

Statement of observations and recommendations

Sl. No.	Para No.	Ministry/Department concerned	Observations/Recommendations
1	2	3	4
1.	2.16	Fertilizers/Agriculture & Cooperation	In paragraph 34 of the C&AG's Audit Report (Civil) for the year 1970, it was pointed out that there were excessive imports of fertilisers during the three years ended 1968-69 due to over estimation of the consumption needs and that as on 1st April, 1969 there was an accumulation of 11.53 lakh tonnes of fertilizers valued at Rs. 200 crores. On examination of the aforesaid audit paragraph the Committee* had emphasized the need for realistic provisioning based on the actual consumption of each kind of fertilisers and had recommended that the Government shall devise a proper scientific machinery to collect the data regarding actual consumption of fertilisers for the accurate assessment of future needs as the Government were not in the know of the extent of actual consumption of fertilisers throughout the country. The Committee are distressed to note that instead of learning lesson from the earlier over provisioning of fertilisers, Government have allowed a similar situation of excessive imports due to overestimation of demand to recur during 1981-82 and 1982-83 resulting in accumulation of stocks valuing Rs. 391.88 crores in total disregard of the Committee's recommendation to exercise due caution in provisioning of fertilisers. The Committee attach great importance to implementation of

*Paragraph 2.34 of PAC's 28th Report (1971-72)—5th LS.

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			their recommendations and hope that the Government will take all necessary steps to avoid recurrence of such unpleasant situations in future.
2.	2.17	Fertilizers/Agriculture & Cooperation	The Committee have been informed that the import level for each year is determined by the Committee of Secretaries and within that limit, the Steering Committee regulates the import, after taking periodical stock of the supply and demand position. The Committee, however, note from the minutes of the meetings of the Steering Committee for the year 1981-82 and 1982-83 that the minutes do not indicate the assessment of demand in terms of number of tonnes needed, extent of indigenous production, stock position etc. before a particular level of import was decided. All that the minutes say are that a review of needs was done and that the Steering Committee decided at a particular level of import. The Committee regret to note that the Steering Committee failed to apply themselves with the seriousness required for such an important task. The Committee urge that assessment of actual needs for import should be made on the basis of reliable data in respect of the consumption needs and the minutes of the meetings should indicate, an overall assessment with facts and figures so that it will be feasible to identify where the assessment failed for appropriate remedial action in future.
3.	2.18	do.	The Committee deplore the fact that in preparing import plans opening stocks were taken on the lower side in 1981-82 and 1982-83 by 7.78 lakh tonnes. The stocks of fertilisers held by manufacturers to the extent of 2.93 lakh tonnes as in February 1981 were also not taken note of on the plea that according to the procedure followed for planning import of fertilisers, the entire indigenous stocks

			allocated for sale were taken to have been consumed during the year of production. These lapses were the main reason for excessive import of fertilisers during 1981-82 and 1982-83. This is, to put it mildly, the negation of objective of planning. At this stage the Committee can only suggest that Government should draw appropriate lesson from such mistakes so that this type of mistake is not repeated.
4.	2.19	do.	The Committee note in this regard from the minutes of the Steering Committee meetings that one of the considerations for continuance of import was to utilise Grants Aids as also balance of trade with Rupee Payment Areas. It is however seen that during 6 years ended 1987-88, over two thirds of imports were against Free Foreign Exchange. The Committee are surprised that the Ministry could deem it proper to advance the plea of obligation to rupee payment areas. The Committee are dismayed to note that suitable reductions were not made in orders placed in regard to Free Foreign Exchange imports during 1981-82 and 1982-83 so as to offset the level of import to be maintained against Aids/Grants and RPA. The Committee recommend that the reasons for not making appropriate reductions in orders for import from Free Foreign Exchange areas be investigated and findings reported to them.
5.	3.2	do.	The Committee recommend that this unnecessary import of 8.30 lakh M.T. of DAT may be probed in depth with a view to fix responsibility.
6.	4.9	do.	In recent years fertiliser industry has been passing through a critical phase with heavy built up of inventories. Projected demand did not materialise as the country faced unprecedented droughts and excessive imports all through the Eighties aggravated the problem greatly. The Ministry of Agriculture cannot

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			absolve itself from the responsibility of the glut of fertilisers as it has developed mainly due to faulty assessment of demand. The gravity of over assessment will be evident from the fact that according to the industry, consumption was over-estimated by 16.92 lakh tonnes in 1985-86 i.e. by over 16% on the projected consumption. Till 1985-86 the Ministry of Agriculture had been projecting yearly demand on the basis of requirements indicated by the States who have been stated to be putting up "more ambitious requirements as they did not like to show lesser achievements than what have been committed to the Centre and they had no financial stake in projection of demand." Now this exercise is stated to have been refined to some extent. The Committee note that the reasons adduced now are no more than a repetition of the reasons given to the Committee in 1970-71 when excessive imports for a period of 3 years were examined by the Committee. The Committee's examination and the facts brought out by Audit amply bring out the fact that Ministry of Agriculture notably failed to formulate a proper methodology for assessing the demand correctly. The exercises done each year lacked scientific analysis in-depth though it was not a difficult task to assess the consumption realistically. The Committee are strongly of the view that demand assessment was taken up in a casual and perfunctory manner which cost avoidable losses to the exchequer.
7.	4.10	Fertilizers/Agricultur & Cooperation	It is shocking to note that demand projections of fertilisers had been made by using too simplistic methods and assumptions which are basically devoid of realities. It is distressing that normal weather conditions were assumed persistently when some parts of the country had been experiencing deficient rains consecutively for 2-3 years followed by severe drought all over the country and correctives do not seem to have been applied during the course of the year.

			Besides, the application of incremental output ratio on previous estimates instead of actuals when various parts of country had been experiencing inadequate rains was a grave mistake. For instance, shortfall in consumption of 10.62 lakh tonnes in 1983-84 cannot be attributed to drought conditions but considering the fact that consumption in 1982-83 was only 63.88 lakh tonnes the Committee cannot but feel that raising of target of consumption from 78.94 lakh in 1982-83 to 87.72 lakh tonnes was too ambitious an assessment without taking realities into account. It is unfortunate that the Ministry of Agriculture failed to moderate requirements on scientific basis. It is apparent that faulty planning and gross over-estimation of demand led to indiscriminate imports during the recent years and the Government paid it dearly in terms of heavy foreign exchange outgo, increased burden of subsidies, heavy storage cost etc. The Committee consider it imperative for the forecasting technique to be based on scientific analysis of data with a view to minimise the chances of a mistake. The Committee note in this regard that the fertiliser industry has offered certain suggestions for proper estimation. The Committee recommend that these may be considered and the Central and State Governments may hold dialogue with the industry so as to ensure that estimate of needs is done scientifically, the same is subjected to periodical review and imports strictly regulated according to needs, after taking into account the extent of buffer stock needed at the end of the season.
8.	4.11	do.	The Committee are at a loss to understand why timely warnings of industry since as early as 1984-85 to slow down the import of fertilisers were not heeded to. They would like to know the reasons for heavy imports despite warning and in the case of mounting inventories to be investigated and a report given.

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9	4.12	Fertilizers	The Committee recommend that a review of the composition of the steering committee may be conducted to see whether it represents all interests including indigenous producers and how far it would be necessary to have consultations with indigenous producers before deciding the level of imports.
10.	4.13	do.	The Committee also recommend that the circumstances under which imports were allowed to be released in 1986 for consumption even before indigenous production was fully allocated should be investigated and responsibility fixed.
11.	5.7	do.	The Committee are surprised to note that Government have blamed FCI for accumulation of old stocks in 1983-84 stating that FCI lacked a well-knit marketing system. The Committee note in this regard that the services of FCI were utilised essentially for port clearance operations and storage at places specified by Government and they were to deliver the fertiliser to those to whom Government have authorised. In the circumstances, the Committee consider it highly improper on the part of the Government to try to pass on the responsibility for accumulation of old stocks to FCI, instead of owning it and taking corrective measures. The Committee have been informed in this regard that the Government have no idea of the age of the stocks held on their behalf. Such a situation is hardly in keeping with the system of efficient management. The Committee recommend that urgent steps are called for to ensure that Government, as the owner of the fertilisers in FCI's custody, ascertain periodically the accumulation of old stocks, ensure their first issue before fresh arrivals are allowed to be lifted and regulate the accumulations within the prescribed buffer stock levels.
12.	5.8	Fertilizers,/Agriculture & Cooperation	The Committee note that cooperative and public sector organisations had to allow discounts and rebates to the extent of Rs. 145.63 crores for liquidation

			of their stock. The corresponding position for private organisations is not known to Government. In the context of the extent of distress sales that have been resorted to, the Committee need hardly emphasise their earlier recommendations for a scientific assessment of needs. regulation of imports etc.
13.	5.9	Fertilizers	The Committee understand that special rebates that are allowed for clearance of accumulated stock are not separately exhibited in Government account because the information on rebate allowed to FCI has been given with reference to accounts of FCI. In view of the position the Committee recommend that the Government should indicate separately in their account the normal subsidy and special subsidy paid.
14.	6.12	do.	The Committee are unhappy over the attitude of the Govt. in refusing to place the documents before the Committee and feel that no public interest would have suffered if the documents had been placed before it. The Committee hope that the Govt. would not take such rigid stand in future.
15.	7.8	do.	The Committee note that a policy decision was taken in 1980 by the cabinet sub-Committee that there should be two sets of technologies and this policy decision is also supported by the industry. The Committee, however, note that though in pursuance of this policy, two technologies one of M/s Haldor Topsoe and the other of M/s Pullman Kellog were selected in 1980, in the plants established after 1980, only the technology of M/s Haldor Topsoe was adopted. The Committee also understand that compared to units with Haldor Topsoe technology, the one established with Kellog technology has a lower energy consumption and better capacity utilisation. Due to non-production of documents for scrutiny by the Committee, the matter could not be investigated by the Committee. However. from the material made available to them, the Committee are

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			not convinced that the continuous preference shown for Haldor Topsoe technology has been based on objective criteria. The Committee recommend that the reasons for non-implementation of policy decision to have more than one technology should be investigated, as also the circumstances responsible for the preference to Haldor Topsoe, notwithstanding the better performance in the plant established with Kellog technology and responsibility fixed. The Committee further recommend that the cost of wrong decision if any, to the country should be quantified as also its effect on fertilizer pricing.
16.	8.7	Fertilizers	The Committee note that the technology of M/s C.F. Braun was recommended for two new plants by the Secretaries Committee but was recommended for one of the two new plants only by an expert Committee, there being no agreement in the expert Committee on the choice of technology for the other plants. The Cabinet sub-Committee is, however, reported to have rejected the technology of M/s. C. F. Braun for both the plants for certain specified reasons. From the information available to the Committee, it seems that reasons for rejection were not based on reliable performance figures or sound arguments. On the other hand, technically preference should have been for C. F. Braun technology rather than Holder Topsoe technology when the decision was taken. The Committee regret to mention that their efforts to examine the matter independently has not been complete due to non-production of documents to which reference has been made before. In the circumstances, the Committee have to come to the conclusion on the basis of the materials available to them, that the decision to reject technology of M/s C. F. Braun was not based on any objective and proven criteria and recommend that the entire issue may be thoroughly investigated by an expert committee.

17.	9.12	do.	The Committee have been informed that when in 1980, Government decided to adopt Haldor-Topsoe technology, the agreement was on the basis of transfer of technology. The Committee have also been informed by the industry that "a competent technological base has progressively been built up in the country for absorption of all assortment of imported technologies." In regard to establishment of plants, the Committee understand that had we continued with 900 tonne capacity plants, no import of plant would be needed whereas for bigger size plants of 1350 tonnes, designing would need to be done by foreign contractors. Notwithstanding the reported absorption of technology, and agreement for transfer of technology by Haldor-Topsoe, the Committee are surprised to note that foreign exchange requirement continues at a high level of about 30%. Here again Committee's efforts to examine the issues independently failed due to non-production of documents. The Committee recommend that the necessity for and circumstances under which foreign collaboration is continued at present level may be investigated by a Committee.
18.	10.11	do.	The Committee were informed in 1970 that for cost effectiveness, it would be necessary to establish big size plants. The Committee are now informed that prices of feed stocks/raw materials fuel etc. are centrally administered and hence industry have no control. Because of high costs of fertiliser plants, provisions for depreciation and interest on borrowings are high for big size plants. The Department have also stated that a specialised group had assessed a 900 tpd plant cheaper than a 220 tpd plant but have not compared the cost between a 1350 typd and 900 tpd plant. According to industry, it is debatable as to which of the three—small, medium or big—is cost effective. The Committee consider it unfortunate as well as evidence of negligence the Government that on the cost effectiveness of small, medium and big plants. Department themselves are still not on safe grounds on the basis of firm and meaningful cost

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			data. Now that plants of all types are already in existence, the Committee recommend that a comparative study on cost effectiveness of the plants including the cost of infrastructure required to be set up for each type of plant may be conducted, so that the issue is placed on a proper perspective and appropriate policy decision can be taken for the future.
19.	11.8	Fertilizers	The Committee note that between 1978-79 to 1984-85 subsidy paid to the industries for sale of fertilisers at controlled prices amounted to Rs. 3500 crores, in 1985-86, Rs. 1600 crores, in 1986-87, Rs. 1700 crores and in 1987-88, Rs. 3000 crores. Considering the substantial outgo, the Committee recommend that the application of the retention price formula and the correctness of subsidy paid to each manufacturer should be subjected to appropriate audit check by the C&AG of India and that the results of audit reported to Parliament.
20.	11.9	do.	The Committee note that despite substantial increases in prices of inputs that go in manufacture, cost of establishment of new plants, the interest and depreciation charges thereon, the fertiliser prices have very rightly been pegged at a specified level for encouraging better foodgrain production. Viewed in this context, the Committee are convinced that it is inescapable to pay subsidy for survival of the indigenous industry. As, however, it is claimed by the industry that major portion of outgo by way of subsidy returns to Government coffers by way of freight, taxes, duties etc. The Committee recommend that the feasibility of effecting reduction in cost of production by adjustment of levies on administered inputs may be conducted, so that the cost of production does not get unduly inflated, thereby requiring payment of more subsidy.

21.	12.8	Fertilizers/Commerce	Service charges at the rate of 1.5 percent of turnover paid to MMTC appear to be on higher side. Though percentage-wise it might not appear to be so, yet it has amounted to Rs. 19.32 crores in 1984-85 against Rs. 3.12 crores paid in 1974-75 with the increased volume of imported fertilisers. The MMTC's claim that commodity-wise overhead expenses have not been maintained and therefore, these are always related to turnover and a percentage thereof might be a good commercial proposition, yet it is not a fair practice for a prime public sector undertaking who has been entrusted to handle all the imports of a commodity on behalf of the country on monopoly basis. The Committee trust that an alternative satisfactory system, taking into account increased volume and value of fertilisers and also the fact that MMTC has been sole agency in handling fertiliser imports would be evolved soon to impart greater cost effectiveness to the transactions.
22.	13.7	Fertilizers/Fenance	The Committee are unhappy to note that with a view to relieve Central budget from deficit on account of financing fertilisers import, Ministry of Finance decided in 1976 to finance its imports through banking channels. This decision led to steep increase in handling charges of imported fertilisers. The finance charges alone which were negligible earlier as no interest liability to banks etc. was there, rose manifold from Rs. 126.40 in 1978-79 to Rs. 732.95 in 1981-82. Thus the Committee find that decision to finance imports through banking channels was most unfortunate as it inflated the cost of fertilisers. It is alarming to note that as against the cost of Rs. 2079 per tonne of imported fertilisers in 1981-82, cost of handling charges paid to FCI was @ Rs. 1621. Charges on account of port-handling and its dues, transit and storage losses, storage charges and contingencies also increased substantially. This increase had been mainly due to the fact that Food Corporation of India which was made

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			principals and entrusted with the imports of fertilisers had no marketing net work and could not compete with the indigenous manufacturers who were also inducted to handle imported fertilisers since 1978-79 under multi-agency system. So the stocks with FCI rose leading to higher cost on storage and financing charges.
23.	13.8	Fertilizers	The Committee are unhappy about this state of affairs and particularly because the concerted effort appears to have been made by the Department of Fertiliser and the Food Corporation of India to reduce the cost on this account.
24.	13.9	Fertilizers/Commerce	The storage and transit losses in the case of FCI was also quite high at around 1.96% of value in 1976-77. It further went up to 3.64% in 1981-82. The normative loss allowed on this account was 1.5%. It involves 3.28 lakh tonnes of material valued at Rs. 69.20 crores and had been a point of dispute between FCI and Ministry of Agriculture for many years and has been referred to arbitration. The Committee would like the Ministry to get the arbitration award expedited as well as devise the ways and means to reduce the storage and transit losses to a relatively low and acceptable figure.
25.	13.10	do.	The Committee further note that there were some dispute between FCI and the Ministry of Agriculture on total losses suffered by FCI in handling imported fertilisers and the accounts of the same have not been rendered. The FCI also could not comply with the directive of the Ministry to liquidate entire stocks of fertilisers by 30 September 1984 and it has preferred an inventory carrying cost and interest claims amounting to Rs. 16.88 crores for the period 1-10-1984 to 31-3-1985 and of Rs. 23.55 crores for the year 1985-86. The Committee trust that these disputed points lingering on for years would be

			sorted out expeditiously. They would like to be apprised of the latest position in this regard.
26.	13.11	do.	The Committee are at the same time dismayed that Food Corporation of India could not liquidate the stock by 30 September 1984 inspite of demand in the market and directive by the Ministry of Agriculture. The Committee consider that this was due to the inability of FCI to develop and adequate distribution and marketing network. The Committee are of the view that this matter has not so far received proper attention of the Ministry of Supply and the FCI and recommend that the matter be studied in depth and appropriate remedial measures taken expeditiously.

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