

SEVENTH REPORT  
STANDING COMMITTEE ON  
PETROLEUM & CHEMICALS  
(1994-95)

(TENTH LOK SABHA)

MINISTRY OF CHEMICALS AND FERTILIZERS  
(DEPARTMENT OF FERTILIZERS)  
DEMANDS FOR GRANTS 1994-95

Presented to Lok Sabha on— 22 April, 1994  
Laid in Rajya Sabha on— 14 April, 1994



LOK SABHA SECRETARIAT  
NEW DELHI

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COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM &  
CHEMICALS (1994-95)

CHAIRMAN

Shri Sriballav Panigrahi

MEMBERS

*Lok Sabha*

2. Shri Barelal Jatav
3. Dr. Ravi Mallu
4. Shri Surinder Singh Kairon
5. Shri Sant Ram Singla
6. Shri A.G.S. Rambabu
7. Shri R. Prabhu
8. Shri C.P. Mudalagiriappa
9. Shri V.S. Vijayaraghavan
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12. Shri M. Krishnaswamy
13. Shri Gopi Nath Gajapathi
14. Shri K. Ramamurthee Tindivanam
15. Shri Ramkishore Rai
16. Dr. Laxminarain Pandey
17. Shri Janardan Prasad Misra
18. Shri Kashiram Rana
19. Shri Rameshwar Patidar
20. Shri Ratilal Kalidas Varma
21. Shri Somabhai Patel
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23. Shri Devendra Prasad Yadav
24. Shri Uddhab Barman
25. Dr. Asim Bala
26. Shri Surya Narayan Singh
27. Shri Simon Marandi
28. Shri Pius Turkey
29. Shri Muhiram Saikia
30. Dr. Jayanta Rongpi

(vi)

*Rajya Sabha*

31. Shri Lakkhiram Agarwal
32. Shri E. Balanandan
33. Shri Mohd. Masud Khan
34. Shri Pasumpon Tha. Kiruttinam
35. Shri G.Y. Krishnan
36. Shri Jagdish Prasad Mathur
37. Shri V. Narayanasamy
38. Shri Yeera Narayanaswamy
39. Shri Chimanbhai Haribhai Shukla
40. Shri Balbir Singh
41. Shri S.S. Surjewala
42. Shri Dineshbhai Trivedi

SECRETARIAT

- |                     |   |                             |
|---------------------|---|-----------------------------|
| 1. Shri G.L. Batra  | — | <i>Additional Secretary</i> |
| 2. Shri G.R. Juneja | — | <i>Deputy Secretary</i>     |
| 3. Shri Brahm Dutt  | — | <i>Asstt. Director</i>      |

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CHEMICALS (1993-94)

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39. Shri Jagdish Prasad Mathur
40. Shri V. Narayanasamy
- \*\*41. Shri Mentay Padmanabham
- \*\*42. Smt. Satya Bahin
- \*\*43. \*Shri Vishvjit P. Singh
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| 3. Shri Brahm Dutt  | — | <i>Asstt. Director</i>      |

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\* Nominated w.e.f. 3.4.94 Vice Chowdhry Hari Singh retired on 2.4.94 from the membership of Rajya Sabha.

\*\* Ceased to be Members of the Committee consequent upon his/her retirement from Rajya Sabha w.e.f. 2.4.1994.

## INTRODUCTION

1. the Chairman, Standing Committee on Petroleum and Chemicals having been authorised by the Committee (1994-95) to submit the Report on their behalf, present this Seventh Report on Demands for Grants of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilizers for the year 1994-95.

2. The Committee (1993-94) examined/scrutinised the Demands for Grants pertaining to the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for the year 1994-95 which were laid on the Table of the House on 17th March, 1994.

3. The Committee (1993-94) took evidence of the representatives of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers at their sittings held on 24th March, 1994.

4. The Committee (1994-95) feel obliged to the members of the Committee (1993-94) for the useful work done by them in taking evidence and sifting information which forms the basis of this Report.

5. The Committee (1994-95) wish to express their thanks to the Officers of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for furnishing the material and information which they desired in connection with the examination of Demands for Grants of the Ministry for the year 1994-95 and for giving evidence before the Committee.

6. The Committee (1994-95) considered and adopted the report at their sitting held on 8th April, 1994.

7. For the sake of convenience, the recommendations have been printed in bold letters.

NEW DELHI;  
*April 8, 1994*  

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*Chaitra 18, 1916 (Saka)*

**SRIBALLAV PANIGRAHI,**  
*Chairman,*  
*Standing Committee on*  
*Petroleum & Chemicals.*



# REPORT

## A. FIVE YEAR AND ANNUAL PLANS

The Deptt. of Fertilizers in the Ministry of Chemicals & Fertilizers is entrusted with the responsibility of sectoral planning, promotion and development of fertilizer industry, planning and monitoring of production, import and distribution of fertilizers and administrative responsibility for public sector undertakings and cooperative sector units engaged in production of fertilizers. Besides Public Sector units there are several fertilizer units in the private sector.

2. As against the approved plan outlay for (fertilizer units in public and cooperative sector) of Rs. 2708.75 crores for the 7th Five Year Plan (1985-90). The actual expenditure was Rs. 3186.12 crores. The approved outlay for 8th Five year Plan (1992-97) is Rs. 5484 crores.

3. The following table shows the approved plan outlay for various PSU's/organisation under DOF *vis-a-vis* actual expenditure during the years 1991-92 onwards:—

Year	Approved Outlay	Actual Exp.	(Rs. in crores)
			Budgetary support
1991-92	410.70	278.03	93.84
1992-93	1234.00	225.81	87.96
1993-94	935.00	755.65 (R.E.)	168.00 (R.E.)
1994-95	1041.50	-	184.00 (B.E.)

4. As against the above the investments in 7th Five Year Plan and in subsequent years the targets *vis-a-vis* actual production of fertilizer production have been as under:—

Year	(Lakh tonnes)			
	Nitrogen		Phosphate	
	Target	Production	Target	Production
1989-90 (Terminal Year of 7th Plan 1989-90)	65.60	67.47	21.90	17.96
1991-92	-	73.01	-	25.62
1992-93	77.00	74.30	27.50	23.06
(1st Year of 8th Plan)				
1993-94	78.00	73.00 (estimate)	22.00	18.30 (estimate)
1996-97	98.00	-	30.00	-

5. During the course of examination, the Committee pointed out the allocations under the Annual Plans were quite less and even the allocated funds were not fully utilized in any of the above years. Asked about the reasons for less provisions for it the Secretary, DOF replied:—

“You have to see the overall picture. We have two distinct sides—plan and the non-plan side. The planned budget is generally very small compared to the non-plan budget in this Department. The good reason being that there is an important element of retention prices-cum-subsidy scheme which is the difference between the selling price of various controlled fertilizers and the cost of product as assessed by us. The differential is paid to the various manufacturers as subsidy. This is in fact the real component of the non-plan budget, plus import of Urea. These two account for a major portion of the budget.”

6. The Committee further pointed out that the demand for fertilizers has been growing whereas the output of fertilizer has stagnated during the last three years. When asked about the reasons for fall in production of fertilizer during the year 1993-94, the DOF in a note stated that as against the targeted production of 140 lakh tonnes for urea, the estimated production was about 135 lakh tonnes. The shortfall in production was due to various reasons viz. restricted supply of gas, unforeseen shutdown in Jagdishpur Plant of Indo-Gulf Fertilizers, temporary suspension of production in HFC plants at Barauni and Durgapur due to working capital constraints, as also prolonged shutdown of Namrup-II Plant for maintenance jobs.

7. When asked about the production targets set for 1994-95, the Secretary, DOF replied:

“For 1994-95 we have yet to finalise the production targets, not only for these companies (PSUs) but for everybody. In fact, we will be having a meeting”.

8. Asked whether there was any proposal to enhance the production the Secretary, DOF stated during evidence:-

“We are trying to augment the availability of indigenous fertilizer through setting up new plants. Even next year, in fact, one plant would be going into production. In the month of December, another new plant had gone into production. Two of our public sector cooperative plants are now slated for expansion by 1997-98. We are trying to enhance the indigenous production capacity as much as possible. In spite of this if there is still a gap, we seek to make good that gap with imports.”

9. The witness further added:-

“We are exploring the possibility of setting up new plants in Qatar, Oman and Iran. In addition, there is also one of the private companies which is exploring the possibility of setting up a plant in Brunei. The idea is where we set up the plants, from there committed quantity of urea will be

available. Whatever be the world market, you are assured of this committed supply. Of course, the price is something which is negotiated between the Government and the partner. We will try to be the major equity partner. This is kind of a strategy which probably will be able to satisfy our urea demand in the course of the next few years.”

10. In reply to a question about the availability of gas for fertilizers units, the Secretary, DOF stated during evidence that as against the requirement of about 15 million cubic metres per day (qm.p.d.) for gas based fertilizer plants, the availability was around 12 million qm.p.d. He also stated that as against the required calorific value of about 9500 kilo calories per cubic metre, the actual calorific value was about 8500-9000 kilo calories.

11. When asked whether the matter regarding adequate supply of gas had been pursued with the concerned authorities, the witness replied:—

“The Department has been repeatedly taking up this matter but there seems to be an overall limitation on the availability of gas because not only gas has to be made available to the fertilizer sector and it is also committed to other sectors like power and steel industries and petro-chemicals. Therefore, GAIL is not in a position to increase gas supplies. During 1993-94, our experience has been that gas supply has been well below 15 million cubic metres per day. This has been due to two reasons. One is that the generation of gas is lower than what was expected. Secondly, the ONGC who are extracting gas off-shore are undertaking a number of their own renovation and repairing works.”

12. As regards the shortfall in phosphate production, the witness stated that it was mainly due to decontrol of phosphate and potash and fertilizers in August, 1992 and availability of cheaper imported DAP that resulted in price rise. As a result this led to less consumption of fertilizer and many plants topped production. As they have re-started the position was expected to improve considerably.

13. It also came out during examination that at present about 84% of the total demand of nitrogen and about 70% of phosphatic fertilizers is met from indigenous production. The balance requirement of these fertilizers along with entire requirement of potash is met through imports. The import bill on this account has been over Rs. 2000 crores during the last 2-3 years. The demand of fertilizers as per the Govt. estimates is likely to grow appreciably during the 8th and 9th Plans. Based on the recommendations of Working Group on Fertilizers for the 8th Five Year Plan, the Planning Commission has prepared the Plan document where in likely demand of Nitrogen, Phosphate and Potash would be around 115.0 lakh tonnes, 50 lakh tonnes and 18 lakh tonnes, respectively, during the terminal year of the plan (1996-97). The demand of Nitrogen in the country by the end of 9th Plan (2001-2002) would be in the range of 134.5-137.3 lakh tonnes, an increase of 19.5-22.3 lakh tonnes compared to the projected demand for the terminal year of the 8th Plan.

14. The Committee regret to note that the plan expenditure on fertilizer sector has not been encouraging. The actual plan expenditure during the 7th Five Year Plan was Rs. 3186 crores. The Committee are dismayed to note that even the low plan outlay have not been fully utilized since 1991-92. For instance as against the approved plan outlay of Rs. 410 crores for the year 1991-92, the actual expenditure was Rs. 278 crores only. Similarly for the year 1992-93 as against the approved plan outlay of Rs. 1234 crores, the actual expenditure was Rs. 225 crores only. Even during the year 1993-94, the budget estimates were slashed down from Rs. 935 crores to Rs. 755 crores. Significantly, these amounts are very meagre as compared to non-plan subsidy given for fertilizers. The Committee therefore strongly recommend that to keep the industry in right perspective necessary steps should be taken to enhance the plan allocations for creating adequate production capacity through expansion/modernisation of existing plants and by setting up of new plants to meet the growing need of fertilizers. The Ministry should also ensure that allocated funds are fully utilized.

15. The Committee regret to note that the production targets of all varieties of fertilizers which were less than the installed capacity were not being achieved. The production of N fertilizer has been about 73 lakh tonnes during the last 2-3 years. Besides there has been huge shortfall in production of P fertilizer mainly on account of its decontrol in August, 1992. The main reasons for fall in production of N fertilizer have been attributed to restricted gas supply, shutdown of some private sector plants like Jagdishpur plant of Indo-Gulf fertilizer as also suspension of production in HFC units due to working capital constraints. The Committee would like the Ministry to take appropriate steps to remove the production constraints with a view to improve overall production performance. This becomes all the more necessary in the context of growing demand of fertilizers with a view to reduce the gap of 40-50 lakh tonnes between demand and indigenous production by the end of 9th plan i.e. 2001-2002.

16. During course of examination the Committee noticed that even though Annual plan outlay/budgets have been finalised for the year 1994-95, the production targets of fertilizer units for the year have not yet been finalised so far. The Committee wonder as to how in the absence of proper quantified targets, the fertilizer units would maintain their production target from April 1993 onwards. The Committee, therefore, would urge upon the Government to streamline their system for preparation/finalisation of production targets so that these are linked and synchronised with Annual Plan/Budget etc. and targets are made available to units well in advance.

The Committee have also found from the news-papers reports that some decision has been taken in regard to import of urea for the year 1994-95. Since the Committee were in process of scrutinising the Demands for Grants of the Deptt. for which the Parliament Session was in recess, the Committee feel that the DOF should have apprised the Committee about the details of such an important decision about the imports which is a item of major

expenditure in the Demand of the Deptt. Sepecially when this subject was prominently figured during the course of evidence of representatives of DOF.

#### B. ANALYSIS OF DEMANDS FOR GRANTS FOR THE YEAR 1994-95

17. The Demands for Grants of the Deptt. of Fertilizers for the year 1994-95 (Demand No.6) have provided for the following gross provisions:—

(Rs. in Crores)			
	Plan	Non-Plan	Total
Revenue Section	91.90	5364.48	5456.30
Capital Section	172.10	103.25	275.35
	264.00	5467.73	5731.73

(The above entire amount is voted)

18. The net budgetary provision for 1994-95 after adjusting recoveries on account of import of fertilizers (Rs. 1200 crores) and provisions for Voluntary Retirement Scheme (Rs. 80 crores) reimbursable from National Renewal Fund is as under:-

(Rs. in Crores)			
	Plan	Non-Plan	Total
Revenue Section	11.90	4164.48	4176.38
Capital Section	172.10	103.25	275.35
	184.00	4267.73	4451.73

19. The details of the actuals of gross revenue and capital expenditure for the year 1992-93, Budget and Revised Estimates for 1993-94 and Budget Estimates for 1994-95 of the Deptt. of fertilizers are as under:—

(Rs. in Crores)						
Sl. No.	Major Head	Item of Expenditure	Actuals 1992-93	B.E. 1993-94	R.E. 1993-94	B.E. 1994-95
1	2	3	4	5	6	7
<b>I. Non-plan provisions:</b>						
<b>A. Revenue Section:</b>						
1.	3451	Secretariat Proper	1.83	2.00	2.20	2.27
2.	2852	Office of FICC	0.32	0.39	0.39	0.41
3.	2852	Subsidy on Indigenous Fertilizers	4800.00	3000.00	3800.00	3500.00
4.	2852	Subsidy on Imported Fertilizers				

1	2	3	4	5	6	7
		GROSS	2803.00	1200.00	1650.00	1700.00
		RECOVERY	1806.89	700.00	1050.00	1200.00
		NET	996.11	500.00	600.00	500.00
5.	2852	C 1(3)(2) Grants for MIS Students	0.016	0.05	0.05	0.91
6.	2852	C 1(3)(3) Productivity Award in the field of Fertilizer production	0.0075	0.01	0.01	0.01
7.	2852	C 1(3)(8) Payment under DEB	-	10.00	5.00	10.00
8.	3475	D 1(1) Reimbursement of exchange loss to RCF in respect of loan from Kuwait	-	-	-	150.88
		TOTAL REVENUE	5798.28	3512.45	4407.65	4164.48

*B. Capital Section*

6855 Non-plan loans to PSUs

1.	CCI (2)-HFC	27.50	27.50	46.00	64.25
2.	CCI (4)-FCI	(i) 37.50 (ii) 11.24	37.50	37.50	37.50
3.	CCI (3)-PDIL	1.50	1.50	1.50	1.50

TOTAL CAPITAL	77.74	66.50	85.00	103.25
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TOTAL NON PLAN	5876.02	3578.95	4492.65	4267.73
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**II. Plan**

*A. Revenue Section*

		1. Grant under Indo-EEC Programme	1.45	2.00	2.00	2.00
		2. Grant to HFC for IBFEP	9.00	9.50	9.50	-
Subhead CI(2)(2)(2)		3. Grant to HFC for Rainfed Farming project	1.05	1.40	1.40	1.70
		4. Grant to KRBBHCO for rainfed farming project	-	2.32	2.32	3.30
CI(2)(1)(4)		5. Grant to PPCL for German assisted fodder development programme	-	0.68	0.68	0.40
CI(2)(4)(1)		6. Grant to PDIL for R&D	4.00	4.00	4.00	4.00
CI(2)(4)(1)		7. S&T Programme of Deptt.	-	1.00	1.00	0.50

1	2	3	4	5	6	7
		8. Grants under voluntary retirement schemes				
CI(3)(6)	i.	FCI	25.00	25.00	20.00	34.00
CI(3)(5)	ii.	HFC	22.00	15.00	15.00	34.00
CI(3)(7)	iii.	PDIL	15.00	18.00	14.50	11.00
CI(3)(4)	iv.	PPCL	0.50	0.50	0.50	1.00
		TOTAL Grants under voluntary retirement schemes	62.50	58.50	50.00	80.00
		Deduct amount met from N.R.F.	(-)62.50	(-)58.50	(-)50.00	(-)80.00
		NET	00.00	00.00	00.00	00.00
		TOTAL REVENUE (NET)	15.50	20.90	20.90	11.90

### B. Capital Section

		Investments in and loans to PSUs/Cooperatives:				
BB1(1)	1.	FCI	7.00	30.00	30.00	23.00
BB1(6)	2.	FACT	-	40.00	40.00	68.50
BB1(3)	3.	HFC	31.00	35.00	35.00	17.00
BB1(4)	4.	PDIL	1.00	4.00	4.00	1.50
BB1(7)	5.	PPL	-	20.00	28.00	34.00
BB1(5)	6.	MFL	23.14	10.00	10.00	24.00
BB1(2)	7.	PPCL	-	-	-	4.00
BB1(1)	8.	IFFCO	10.25	-	-	-
		TOTAL PSUs	72.39	139.00	147.00	172.00
4401 AAI(1)	9.	National project for strengthening of fertilizer handling and transportation:	0.07	.10	.10	.10
		TOTAL Capital section	72.46	139.10	147.10	172.10
		TOTAL plan	87.96	160.00	168.00	184.00
		TOTAL Deptt. of Fertilizers	5963.98	3738.95	4660.65	4451.73

20. It may be seen from the above that the main items of expenditure in the Revenue Section are fertilizer subsidy which constitutes nearly 90% of the total revenue expenditure. Remaining 10% funds are shared on General Economic Services, other expenditure covering voluntary retirement scheme, R&D, and Secretariat. Out of the total gross revenue expenditure of Rs. 5456.38 crores, fertilizer subsidy (through Retention Price Scheme) constitutes nearly 64% i.e. Rs. 3500 crores, outlay for import of fertilizers constitutes nearly 31% i.e. Rs. 1700 crores. Other General Economic Service constitutes about 2% i.e. Rs. 150.88 crores, expenditure on VRS constitutes nearly 1.46% i.e. Rs. 80 crores, R&D constitutes nearly 0.20% i.e. 11.90 crores and finally Secretariat constitutes Rs. 2.27 crores.

21. Out of the total capital expenditure of Rs. 275.35 crores, investment in Public Sector Undertakings constitutes nearly about 60% i.e. Rs. 172 crores and loans to Public Sector Enterprises constitutes 38% i.e. 103.25 crores.

The important heads of the Demands for Grants are discussed in the succeeding paragraphs:—

### Revenue Section

#### *Major Head "3451" —Secretariat Economic Services*

22. As against the actual expenditure of Rs. 1.83 crores during 1992-93 and budget estimates of Rs. 2 crores during 1993-94 (subsequently revised to Rs. 2.20 crores), a provision of Rs. 2.27 crores has been made under this head for the year 1994-95. Out of Rs. 2.27 crores, provision for Ministry's staff salaries is Rs. 1.69 crores and the rest is for O.T.A., travelling office expenses, publications etc.

23. During the course of evidence the Committee wanted to know about the economy measures taken by Deptt. The Secretary, DOF stated that Ministry of Finance had issued directions to take economy measures. However, as far as this Deptt. was concerned the major component was subsidy and the other provisions were meagre.

24. The Committee would like the Ministry to take effective economy measures to restrict its expenses on items like office expenses, O.T.A., travelling expenses, consumption of petrol/fuel etc., so that there is no need to ask for additional or supplementary funds from Ministry of Finance. Similar instructions should be issued to various Public Sector Undertakings and other organisations under the administrative control of DOF. The Committee also desire that the follow up of these instructions should be closely monitored by the ministry with a view to achieve desired results. This will help them to reduce their overhead expenses/operational costs.

#### *Major Head "2401"*

##### *Sub-Head B1—Imports of fertilizers*

25. The following table shows the amount earmarked for import of fertilizers and recoveries made on this account for the year 1992-93, 1993-94 and proposed for 1994-95:—

(Rs. in crores)			
Year	Imports	Recoveries	Net Subsidy
1992-93	2803 (Actuals)	1807	996
1993-94	1200 (B.E.)	700	500
	1650 (R.E.)	1050	600
1994-95	1700 (B.E.)	1200	500



26. Explaining the provisions made under the Head DOF in a note stated that presently the cost of import of urea (Rs. 5200 per MT) was higher than the current consumer price of urea (Rs. 2760 per MT) fixed by the Govt. Since the net realisation to Government was Rs. 2630 per MT after deducting 'dealers' margin of Rs. 130 per MT, the difference between the cost of import and the realisation was borne by Govt. as subsidy.

27. Asked about the reasons for reduction in the provisions *i.e.* from Rs. 2803 crores in 1992-93 to Rs. 1700 crores in 1994-95, the Secretary DOF stated during evidence:—

“In all the previous years, upto the end of 1991-92, everything was controlled. Also in 1992-93, till 25th August, 1992 everything was controlled. Then, phosphatic and potash were decontrolled. So, we can say that half of that year was controlled and the other half of the year was decontrolled. Therefore, subsidy was available for urea alone and for no other fertilisers. So, a provision was made in the Budget for nitrogenous fertilizers urea imports and for no other imports. In earlier years, provisions for the import of other fertilizers also were made in the Budget. Now, these are done through private agencies.”

28. On being pointed out by the Committee that the Budget Estimates for the year 1993-94 were revised from Rs. 1200 crores to Rs. 1650 crores *i.e.* about 37% increase from Budget Estimates to revised estimates, DOF stated in a written reply that the original estimate for 1993-94 was made on the assumption of availability of 140 lakh tonnes of Urea from indigenous production and the resultant import was of the order of only 20 lakh tonnes of Urea. However, expected indigenous production would only be around 135 lakh tonnes of Urea. Due to shortfall in production, the quantum of imports was estimated to be higher than originally anticipated. The revised estimated requirement of imported urea is 27.44 lakh tonnes as against 20 lakh tonnes originally anticipated.

29. The Committee further pointed out that whether the budget estimates of Rs. 1700 crores for 1994-95 would be sufficient for the purpose, DOF in a reply informed the Committee that the provision of Rs. 1700 crores for import of Urea has been made keeping in view the estimated indigenous production of 140 lakh tonnes as against the estimated consumption of 172 lakh tonnes. This assessment of production for 1994-95 had been made assuming normal availability of gas and taking into account the full production from Chambal Fertilizers Ltd. (Rajasthan) and also Tata Chemicals Limited which would commence commercial production during the later part of the year at their plant in Babrala (UP).

### *Major Head “2852”*

#### *Sub-head 1(1) Fertilizer Subsidy—Payment under Fertilizer Retention Price Scheme*

30. The quantum of subsidy during the year 1992-93 and 1993-94 has been Rs. 4800 crores and 3800 crores respectively. The proposed amount for the same

has been fixed at Rs. 3500 crores for the year 1994-95. The fertilizer-wise break-up is as under:—

Year	N	P	SSP	Total	Payment under Freight Subsidy	Others	Total Subsidy
1992-93 (Actuals)	2428	1765	191	4384	416	—	4800
1993-94 (B.E.)	2045	530	50	2625	355	20	3000
Revised Estimates	3113	85	117	3315	452	33	3800
1994-95	2800	240	15	3055	400	45	3500

31. Asked about the reasons for lower amount proposed for 1993-94 and 1994-95 as compared to actuals of 1992-93, DOF stated in a written reply that prior to 25.8.92, all varieties of fertilizers were under price control and as such eligible for payment of subsidy. With effect from 25-8-92, all phosphatic and potassic fertilizers were decontrolled and as such no subsidy was payable on these fertilizers.

32. When further asked as to how there was difference of Rs. 800 crores between original estimates and revised estimates during 1993-94, DOF replied that during the year 1993-94, the provision of Rs. 3000 crores had to be revised to Rs. 3800 crores mainly due to increase in the cost of inputs and revision of retention price for Nagarjuna Fertilizers & Chemicals Ltd. Besides these, there was a spill-over payment of about Rs. 300 crores pertaining to the year 1992-93.

33. The Committee further pointed out that even for nitrogenous fertilizer for which subsidy was payable through retention price scheme, the budget allocations of Rs. 2800 crores for 1994-95 were less than the revised estimates of Rs. 3113 crores during 1993-94. Enquired as to whether the estimates for 1994-95 were realistic one, DOF stated in a note that normally, the Budget Estimates for a year were framed with reference to the retention prices prevailing at the time of formulating the budget proposals and production projections. Subsequent changes, if any, are incorporated in the Revised Estimates. Additional requirement for the year 1994-95 if any, would have been considered at the Revised Estimates stage.

34. During the course of examination, the Committee pointed that in their 3rd Report (presented to Parliament in December, 1993) they had highlighted that as against the ideal ratio of 4:2:1 for NPK fertilizers, the actual usage ratio of 15:4:1 was only due to decontrol of phosphatic and potash fertilizers, which in turn reduced the demand of these fertilizers. Asked whether the budgetary provisions under DOF would help in achieving the ideal ratio of use of NPK fertilizers, a representative of DOF stated that the subsidy provision for 1994-95 was only meant for nitrogenous fertilizers only as the phosphatic and potassic fertilizers had been decontrolled since 25th August, 1992.

35. He further added:—

“Whether the special concession of Rs. 1000 per tonne which was extended in 1992-93 and 1993-94 would be going to be extended in the coming years, it is for the Ministry of Agriculture to decide. People are not using phosphatic fertilizer to a great extent. The cultivators feel that they can make good the nitrogen requirement by using cheaper urea. At the same time, the food production is to go up, which means more and more fertilizer is required and more and more urea is also required. The correct strategy is not to reduce the consumption of urea. We try to tone down the demand of the Ministry of Agriculture for urea. By our experience, taking into account our normal rate of growth is, we try to eliminate the substitution which is taking place, which may be 3 to 4 per cent.”

36. In reply to another question, the witness stated:—

“If you have to promote a balanced fertilizer use then there should be greater use of phosphate and potash. A long range mechanism would be through extension and education but in the short range that can be achieved through only price mechanism. Although any increase in the price of fertilizer is taken care of by the Commission of Agricultural Costs and Prices in fixing the procurement prices which are announced before the start of any crop season, but it helps only the major cultivators. If you really want to help the small and marginal farmers to use more and more of this P&K, the better proposition would be to have this kind of price concession. But that I must say is indeed a subject matter of Fertilizer Pricing and Promotion of the balanced use of extension fertilisers both which are more of a subject of Ministry of Agriculture than the Department of Fertilizers.

37. The Committee also wanted to know the steps taken for educating the farmers to use the fertilizer in a balanced ratio. A representative of Department of Fertilizer stated:—

“So far educating the farmers is concerned this essentially is more in the domain of the Ministry of Agriculture. We on our part have extension programmes of the manufacturing companies which is nothing as compared to what the Ministry of Agriculture is having. They go to the villages and do tell the cultivators the benefits of a balanced use of fertilizer.

Publicising the impact of any unbalanced use of fertilizers is done more by our sister Ministry of Agriculture directly. We also do it through our extension outfits. Now Madras Fertilizers, Fertilizers and Chemicals, Travancore, IFFCO and many people who manufacture phosphatic fertilizer do it.”

38. On being asked about the other steps taken to increase the use of phosphate and potash fertilizers, the Secretary, Department of Fertilizers stated:—

“We have got NPK complexes. They are manufactured by various companies. We have got FACT, Factum Phos 20:20 etc. These are available in many forms. In many parts of the country, in the Southern States and also in the Eastern region like Bengal, they especially use these complexes. Though Kerala, Karnataka, Andhra Pradesh and Tamil Nadu farmers use urea but they use mostly NPK mixtures so that there is balanced application. But when you come to Madhya Pradesh or Punjab, there they use urea separately and DAP separately. In Maharashtra, for instance, a lot of NPK is used so that there is balanced fertilizer application. There is a great deal of debate how to use fertilisers, whether separately or together. The use of NPK complexes or NP complexes is on the increase for two reasons. These have got very specific crop application. Secondly, the cost of one tonne of NPK is less than that of half tonne of urea and half tonne of DAP separately. Therefore, cultivators are finding this more cost-effective.”

39. The Committee also enquired from the Ministry of Agriculture about the provisions made in their Budget for 1994-95, for giving *ad hoc* subsidy on P&K fertilizers. Ministry of Agriculture replied in a note that a scheme for sale of decontrolled phosphatic and potassic fertilizers with concession to the farmers (Rs. 1000 per tonne on MUP and DAP) initiated in Rabi 1992-93 was being continued in 1993-94. The original Budget provision of Rs. 756 crores for this scheme during 1993-94 was reduced to Rs. 632.14 crores in order to meet the requirements for the scheme for small and marginal farmers. As against the revised provision of Rs. 632.14 crores, funds amounting to Rs. 473.77 crores had so far been released to States during 1993-94. No provision has been made for this scheme for 1994-95.

40. The Committee note that the provision for import of fertilizers has come down from Rs. 2803 crores in 1992-93 to Rs. 1700 crores in 1994-95. Similarly, the provisions for subsidy under retention price has come down from Rs. 4800 crores in 1992-93 to Rs. 3500 crores in 1994-95. The steep reduction is mainly due to decontrol of phosphatic and potash fertilizers as no subsidy was being given for these fertilizers. The Committee also find that during the last 3 years there have been wide fluctuations in the budget estimates and these were upwardly revised from Rs. 500 to Rs. 800 crores. Even for the year 1994-95 realistic targets have not been fixed. For instance as against the revised estimates of Rs. 3113 crores for 1993-94 for nitrogenous fertilizer which is covered under the subsidy scheme a provision of only Rs. 2800 crores has been made for the year. In this connection DOF informed the Committee that if required, they could go for supplementary grants. The Committee do not approve such *ad hoc* approach of the Department. The Committee feel that if all the Government Departments behave in such a fashion Government plan may go hay wire. The Committee, therefore, recommend that adequate provisions should be made at the time of preparation of initial estimates so that Government policy is reflected properly and subsequently the Ministry of Finance is not approached for substantial funds amounting to Rs. 500 crores or even more.

41. The Committee find that even though Ministry of Agriculture had been providing Rs. 1000 per tonne adhoc subsidy for P&K fertilisers after decontrol of these fertilizers since 25th August, 1992, but no provision has been made either in Demands of DOF or the Ministry of Agriculture for the year 1994-95. Against a budgetary provision of Rs. 756 crores during 1993-94 the Ministry of Agriculture spent around Rs. 500 crores on this scheme. The Committee wonder as to how in the absence of change in policy, the Ministry of Agriculture could ignore this important matter particularly when there was already a great degree of imbalance in use of various types of fertilizers. Due to abnormal rise in the prices of P&K fertilizers, particularly the small and marginal farmers are adversely affected as they use more urea which affects the fertility of soil. The Committee, therefore, strongly recommend that necessary provision should be made for P&K subsidy either in the Demands for Grants of the Ministry of Agriculture or Department of Fertilizers at least at the level of 1993-94 allocations for the purpose.

42. The Committee have been informed that in some of the States farmers have started using mix fertilisers i.e. mixture of NPK fertilizers. DOF has stated that programmes relating to education of farmers and publicity of balanced fertilisers or proper mix use etc. was the responsibility of the Ministry of Agriculture. The Committee would like the Department of Fertilizer to work in close coordination with the Ministry of Agriculture. A time bound programme should be chalked out to educate the farmers in a planned and scientific manner. The Committee also strongly feel that electronic media has not been properly utilised for this purpose. They accordingly desire that adequate programmes/advertisements should be telecast on TV and broadcasted on radio for educating the farming community. Such programmes should include proper education on use of bio-fertilisers.

*Sub-head C1(2)—Research & Development*

43. The outlay under the head has been brought down from Rs. 20.90 crores in 1993-94 to merely Rs. 11.90 crores in 1994-95.

During the course of examination the Committee wanted to know the reasons for drastic cut in grant for R&D activities which was crucial for fertilizer industry in the country. Department of Fertilizer stated in a written reply that the R&D provision under this sub-head was only Rs. 5 crores in 1993-94 and Rs. 4.5 crores for 1994-95; the balance provision of Rs. 15.90 crores in 1993-94 and Rs. 7.50 crores in 1994-95 was for foreign aided fertilizer Education Programmes funded by the Overseas Development Administration of UK (ODA) and Indo-EEC grants. The shortfall in the provision under foreign aided programme was due to discontinuation of the Indo-British Fertilizer Education Project which was being implemented by HFC and funded under ODA grant. The Government of UK had

not agreed to nay extension of this programme and as such the provision of Rs. 9.50 crores which was made in BE 1993-94 had not been made in BE 1994-95.

44. On being pointed out by the Committee that the budget allocations under the Demands for R&D were too low for a big and important sector like fertilizer, a representative of DoF stated during evidence:

“The companies which are pursuing R&D work, are in all the three sectors—public sector, private sector and joint sector. A few of them are : RCF in Bombay, MFL in Madras, GSFC in Gujarat and National Fertilizer in the North. These are big companies. They are pursuing the R&D work and their results of R&D have been quite significant. For example, NFL have produced liquid fertilizer which has been found to be very effective for localised consumption and which is cheap also. RCF have produced a polyphosphate fertilizer. They are now thinking in terms of commercial production of this fertiliser. MFL have done work on bio-fertilisers. They have set up a plant with a capacity to produce one hundred tonnes bio-fertiliser per year. So, everybody is doing some R&D work or the other.”

45. When further pointed out by the Committee that main R&D fertiliser units viz. PDIL itself was a sick unit, the Secretary, DoF stated:

“On the R&D side, more than 200 people are working in PDIL and they are very qualified people. Their Engineering and Consultancy wing is also having enough business today. In fact, the new plants which are coming up and also some of the plants which we intend to put up abroad, will get detailed engineering work done by PDIL. So, PDIL is actually not being neglected; we are encouraging it.”

46. When asked the reasons for stopping the aid by UK (ODA), the Secretary, DoF stated that ODA was not happy with the way the project was handled by HFC.

47. The Committee are distressed to note that only a meagre amount of Rs. 11.90 crores has been proposed for R&D work for 1994-95 out of the total voted expenditure of Rs. 5731.73 crores proposed during the year. On account of discontinuation of foreign aided schemes the provision of R&D has come down from Rs. 20.90 crores in 1993-94 to 11.90 crores in 1994-95. The Committee have been informed that some of the fertilizer units both in private and public sector were doing R&D work on their own. Taking note of the importance of the R&D activities for fertilizer industry, the Committee recommend that the provisions for R&D should be enhanced considerably in order to be competitive in the economic order. The Committee regret to note that due to non-compliance and unsatisfactory work pertaining to R&D by HFC, ODA has stopped the grant to the tune of over Rs. 9 crores. The Committee desire that Ministry should look into the matter with a view to find out as to how concerned PSU failed to carry out the work so that such things do not re-occur in future.

*Sub-head C1(3)4-7--Grants for Voluntary Retirement Schemes*

48. The following provisions have been made during the years 1992-93 to 1994-95 for Voluntary Retirement Schemes for four PSUs viz., PPCL, HFC, FCI and PDIL:

(Rs. in crores)					
Year	PPCL	HFC	FCI	PDIL	Total
1992-93	0.50	22.00	25.00	15	62.50
1993-94 (B.E.)	0.50	15.00	25.00	18	58.50
1993-94 (R.E.)	0.50	15.00	20.00	14.50	50.00
1994-95 (B.E.)	1.00	34.00	34.00	11	80.00

49. The Committee pointed out that as against the 1055 persons who opted for VRS in 1992-93, the number of such persons was only 413 in 1993-94 in above PSUs. Asked about the reasons for poor response, DoF stated in a note that in the year 1993-94 a number of statements appearing in the press such as introduction of a pension scheme for the employees of PSUs; announcement of wage revision effective from 1.1.1992; expected revision in IDA rates; expectation of benefits such as encashment of medical leave and better VRS packages attracted the employees to delay their option for VRS. However, there had been no procedural problem in implementation of the scheme.

50. As regards the prospects for 1994-95, DoF replied in a note that it was expected that the number of persons option for VRS during 1994-95 would be higher keeping in view the likely finalisation of the revival package by the BIFR in respect of the sick PSUs namely, FCI, HFC and PDIL.

**51. The Committee note that as against 1055 persons in PPCL, HFC, FCI and PDIL who opted for VRS during 1992-93, the number of such persons was 413 only in 1993-94. To reduce the recurring overhead expenditure of sick PSUs more efforts should be made to encourage workers to opt for VRS.**

*Sub-head C1(2)(3)—German Assisted Fodder Development Programme C1 (2) (4)(2)—S&T Programme*

52. Under the above heads, provisions have been made of Rs 40 lakhs and 50 lakhs respectively during 1994-95 for the above projects as against the provisions of Rs. 6.8 lakhs and Rs. 1 crore during the year 1993-94. When asked about the achievements made under these schemes, DoF replied in a note that the German assisted Fodder Development Programme was yet to be finalised and as such no expenditure had so far been incurred on the project. The Department had also not so far drawn up any specific S&T programme.

**53. The Committee regret to note that inspite of funds made available for small S&T programmes, no schemes have been finalised by the Government**

so far. The Committee urge upon the Government to finalise and implement the schemes for which provisions are being made repeatedly in the Demands.

*Major Head "3475"*

*Sub-head DI(1)—Reimbursement of exchange loss to RCF in respect of loan from Kuwait*

54. This major head has been introduced as an item of expenditure for 1994-95 for a sum of Rs. 150.88 crores. When asked by the Committee about the projects/schemes for which the aforesaid loan was taken and whether the loan amount was utilised for the given projects, the DoF in a written reply informed the Committee that a loan of 30 million Kuwaiti Dinar was taken by RCF in 1981 for part financing of the gas based Thal Fertilizer Project. This loan was due for payment in 1988. As the company had sufficient internal resources, they were in a position to repay the loan on the due date. However, keeping in view the BOP position, the company was asked to roll over this loan. Consequently, RCF obtained a fresh loan of 30 million Kuwaiti Dinar in 1988 under directions of the Government which was repayable in December 1993. The loan was redeemed in December, 1993 and the company incurred a net loss of Rs. 150.88 crores due to exchange rate variation in respect of the principal amount and the interest thereon from December, 1988 to December, 1993. As this loan was taken at the instance of the Government, it was decided to reimburse RCF the losses on this account. Accordingly, a provision of Rs. 150.88 crores has been made in the Budget for 1994-95 for payment to RCF. This would be a one time payment.

**Capital Section**

*Major Head "4855"*

*Sub-head BBI--Investments in Public Sector and other Undertakings*

55. The following table brings out the investment trends in various PSUs by the Government:

Year	(Rs. in crores)							
	FCI	PPCL	HFC	PDIL	MFL	FACT	PPL	Total
1992-93 (Actuals)	7.00	-	16.00	1.00	23.14	-	-	47.14
1993-94 (B.E.)	18.00	-	11.00	2.00	10.00	4.00	20.00	65.00
(Revised)	18.00	-	11.00	2.00	10.00	4.00	28.00	73.00
(1994-95 (B.E.))	10.00	3.00	7.00	1.00	-	8.00	28.00	57.00



56. Asked about the reasons for declining investment trend in sick PSUs viz. FCI, HFC and PDIL particularly when these had been referred to BIFR, DoF in a reply informed that since these PSUs were under reference to BIFR, further equity releases were being regulated only to keep the plants running. These releases were not based on any revival plans which were yet to be finalised.

57. During the course of examination Committee wanted to know the present position regarding the proposed revival package in respect of HFC, FCI and PDIL which was to be submitted by 31st December, 1993 to BIFR. The Committee in a written note were informed by DoF that in the hearings held on 30th/31st December, 1993 in respect of HFC/FCI, the BIFR had directed the Department of Fertilizers to hold unit-wise consultations with the workers' unions, officers associations, State Governments, banks/financial institutions to explore the possibility of an agreed revival package. Accordingly, discussions have been held in an effort to arrive at a concensus. In the meantime, BIFR has appointed ICICI as the Operating Agency for HFC, FCI as well as for PDIL. The revival package(s) would now be required to be submitted to ICICI in accordance with the directions of BIFR.

58. When asked by the Committee about any deadline been fixed for the purpose, the Committee were informed that three months time had been given to operating Agency. The Department has been directed by BIFR to submit revival packages to the Operating Agency by 31st March, 1994.

59. It also came out during the course of examination that on account of an accident in Gorakhpur plant of FCI, the plant had been lying closed since June 1990. The recurring expenditure on the plant is Rs. 16 crores per annum.

60. From details given in the Demands, it has been noticed that as against the approved project cost of Rs. 281.96 crores for Haldia Project of Hindustan Fertilizer Corporation an expenditure of Rs. 782.48 crores has been incurred upto 1993-94. The project has not become operational. The recurring expenditure on the project is about Rs. 18 crores per annum.

61. Asked about the future of Haldia project, the Secretary, DoF stated:

“As things stand, this plant just cannot be re-started because there has been a total mismatch of the various pieces of plant and machinery and equipment. For various reasons, because finance came from various sources, equipment was procured from various sources. Therefore, if at all any fertilizer has to be produced at Haldia, it can be done only through a new plant, that is we have to scrap the existing plant and we can make use of the infrastructure that is there. Our estimate is that it would cost Rs. 860 crores. Recently, a long discussion took place with the workers' union and the officers' union following the directives of the BIFR. Generally the attitude of the workers and officers was that with a very minor injection of capital, the whole thing can be re-started. Today because of the budgetary constraint, the Government is not in a position to make any investment. So far as Government is concerned, there seems to be a very little option left.

We cannot go on incurring expenditure. There is no justification of doing that. From 1994-95, you will see that even the standing charges which we have been paying at Haldia, will not be the part of plan expenditure because the Planning Commission has refused to do it. Instead, it has to be met from the non-plan side. Therefore, the view of the Government is rather clear that the plant cannot be restarted. Since the company is with the BIFR we cannot dispose off the assets of the company without the approval of BIFR."

62. In reply to further question, the witness stated that of late West Bengal Government had shown interest in Haldia Project through West Bengal Industrial Development Corporation.

63. In the context of failure of Haldia Project, the Committee in their Third Report presented to Parliament in December, 1993, had recommended for appointing an independent Committee to go into the failure of Haldia Project. Asked whether any such Committee had been appointed by the Govt., DoF stated in a note that a large number of staff drawn mainly from three organizations namely, FCI, PDIL, and later HFC were involved in the planning, implementation and commissioning of the project stretching over a period of more than 10 years. All the key officials of these organizations who were involved in the decision making and implementation of the project have retired quite sometime back from these organizations. In these circumstances, it would indeed be difficult to fix responsibility on any individual or group of individuals at this stage by setting up an independent Committee.

64. In this connection the Secretary, DoF also stated during evidence:-

"There have been reasons as to why this Haldia plant could not go into production. They are due to the fact that the credit came from various sources, machinery was purchased from various sources and also due to improper specifications and total mismatch, all these things happened. It is a thing of the past; everybody who was connected with the setting up of this plant are not there anymore. We know the reasons as to why the plant is not functioning. Now it would be very difficult for us to go back and hold any particular person responsible because they have all retired from the Government service. Whatever has happened is something which, personally, I would say is quite reprehensible. But today we cannot hold them responsible. However, we have learnt a lesson from the failure of Haldia Project in the matter of investment decisions, pre-fixing the credit sources inspection of equipment etc."

65. A representative of DoF further explained that since the project came up in late 60 and 70 they were in process of learning.

66. In reply to a further question, Secretary DoF stated that they had learnt lessons from the mistakes done in Haldia.

67. The Committee find that as against the provision of Rs. 73 crores during 1993-94, the provisions for investment in PSU's has come down to

Rs. 57 crores in 1994-95. The fall has been mainly in 3 sick PSU's viz. FCI, HFC and PDIL which have been referred to BIFR. BIFR has appointed ICICI as the operating agency for these PSU's to finalise revival packages. The Committee would like the Ministry to ensure that constructive revival packages should be finalised within 3 months time.

68. The Committee are distressed to note that as against the sanctioned outlay of Rs. 281.96 crores for Haldia Project, an amount of Rs. 782.48 crores has been spent on the project upto 1993-94. The Project could not become operational and there was recurring expenditure of the order of Rs. 18 crores per annum. The Committee in their 3rd Report presented to Parliament in December, 1993 had recommended for appointing an independent enquiry to look into the failure of Haldia Project. The Committee however, are not satisfied with DoF explanation that since officers who were associated with the planning of the project had since been retired and no useful purpose would be served by holding an enquiry. The Committee once again reiterate their earlier recommendation that an independent Committee should be appointed to look into the failure of Haldia project and responsibility be fixed at the earliest.

*Major Head "6855"*

*Sub-Head CCI-Loans to Public sector and other Undertakings*

69. Apart from investment, the Govt. has been providing plan and non-plan loans to PSU's like HFC, PDIL, FCI, MFL etc. Quantum of such loans has been as under:—

(Rs. in crores)			
Year	Plan	Non-Plan	Total
1992-93 (Actuals)	25.25	77.74	102.99
1993-94 (B.E.)	74.00	66.50	140.50
1993-94 (Revised)	74.00	85.00	159.00
1994-95 (B.E.)	115.00	103.25	218.25

70. Asked as to what extent these loans have helped the PSUs in improving their production and financial performances, the Committee were informed in a written reply that while the plan loans have been utilized by the PSUs for revamping, renewals and replacements of their equipment, non-plan loans have helped the sick PSUs to maintain the operations in their plants thus avoiding their closure.

71. The Committee further pointed out that some of the PSUs like HFC and FCI had earlier submitted before the Committee that they were facing the problem of shortage of funds even for raw materials etc.

72. Asked whether the funds were being made available to needy PSU's particularly the sick one's, the Secretary DoF stated during evidence:-

''So far as these three sick units, *i.e.*, HFC, FCI and PDIL are concerned, we are giving them non-plan loan assistance so that they continue with their operation and do not close down. In the year 1994-95 whatever demands have been made those have been considered''.

73. The Committee note that for the year 1994-95 provision of Rs. 115 crores for plan loan and Rs. 103 crores for non-plan loan has been made for fertilizer PSU's. Since the revival packages in respect of HFC, FCI and PDIL are expected to be finalised during the year, some arrangement should be made with the Ministry of Finance to release additional funds at short notice to implement the revival packages of these PSU's. Needless to emphasise that necessary steps would be taken for uninterrupted production of fertilizers by these units.

NEW DELHI:  
April 8, 1994  
*Chaitra 18, 1916 (Saka)*

SRIBALLAV PANIGRAHI,  
*Chairman,*  
*Standing Committee on*  
*Petroleum & Chemicals.*