

SIXTEENTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1995-96)

(TENTH LOK SABHA)

MINISTRY OF CHEMICALS & FERTILIZERS
(DEPTT. OF FERTILIZERS)

*(Action taken by Government on the recommendations contained in the
7th Report of the Standing Committee on Petroleum & Chemicals)*



सत्यमेव जयते

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CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I Report	1
CHAPTER II Recommendations which have been accepted by Government	6
CHAPTER III Recommendations which the Committee do not desire to pursue in view of Government's replies.....	14
CHAPTER IV Recommendation in respect of which reply of the Government has not been accepted by the Committee	15
CHAPTER V Recommendation in respect of which final reply of Government is still awaited	21
APPENDICES	
I. Minutes of the 3rd Sitting of the Committee held on 17 April, 1995.....	23
II. Analysis of action taken by Government on the recommendations contained in the Seventh Report of the Standing Committee on Petroleum & Chemicals (Tenth Lok Sabha)	25

COMPOSITION OF THE STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
1995-96

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2. **Shri Roli Srivastava** — *Joint Secretary*
3. **Shri G.R. Juneja** — *Deputy Secretary*
4. **Shri Brahm Dutt** — *Under Secretary*

INTRODUCTION

1. the Chairman, Standing Committee on Petroleum & Chemicals (1995-96) having been authorised by the Committee to submit the Report on their behalf, present this Sixteenth Report on Action Taken by Government on the recommendations contained in the 7th Report of the Standing Committee on Petroleum and Chemicals (1994-95) (Tenth Lok Sabha) relating to Demands for Grants of the Ministry of Chemicals & Fertilisers (Deptt. of Fertilisers for the year 1994-95).

2. The Seventh Report of the Committee was presented to Lok Sabha on 22nd April, 1994. Replies of Government to all the recommendations contained in the Report were received on 24 Oct., 1994.

3. The Committee (1995-96) considered and adopted the report at their sitting held on 17 April, 1995.

4. An analysis of action taken by Government on the recommendations contained in the Seventh Report (1994-95) of the Committee is given in Appendix II.

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

NEW DELHI;
19 April, 1995

Chaitra 29 , 1917 (Saka)

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

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by the Government on the recommendations contained in the Seventh Report (Tenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (1994-95) on Demands for Grants of Ministry of Chemicals and Fertilisers, Deptt. of Fertilisers for the year 1994-95 which was presented to Lok Sabha on 22nd April, 1994.

2. Action Taken notes have been received from the Government in respect of all the 13 recommendations contained in the Report. These have been categorised as follows:—

- (i) Recommendations/observations that have been accepted by the Government:
Sl. No. 1, 2, 4, 6, 7, 9, 10, 11 and 13.
- (ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies:
Sl. No. Nil
- (iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:
Sl. No. 3, 5 and 12.
- (iv) Recommendations/observations in respect of which the final reply of the Government is still awaited:
Sl. No. 8

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been given by the Government, should be furnished to the Committee expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations.

A. Building up Production Capacities

Recommendation (Sl. No. 1, Para No. 14)

5. The Committee had regretted to note that the plan expenditure on fertiliser sector had not been encouraging a plan outlays during the 7th plan period and subsequent annual plan outlay since 1991-92 had not been fully utilized. Significantly, these plan outlays amounts were very meagre as compared to non-Plan subsidy given for fertilisers, the Committee had therefore strongly recommended the enhancement plan allocations for creating adequate production capacity through expansion/modernisation of existing plants and setting up of new plants to meet the growing need of fertilisers and to ensure that allocated funds were fully utilized.

6. In their reply the Government have stated that in the last few years, the emphasis had been on the PSUs/Cooperatives to generate internal resources for planned activities, coupled with borrowings from the financial institutions and that the Department had been regularly reviewing the position of generation of internal resources and only those projects were cleared which involve very little or no budgetary support from the Government. Doubling of capacities of NFL's and IFFCO's urea ammonia plants at Vijaipur and Aonla of over Rs. 900 crores each and FACT's replacement project of over Rs. 600 crores have been some of the major projects sanctioned during the 8th Plan period without any budgetary support.

7. The Committee are happy to find that the Department of Fertilizers have laid emphasis on generation of internal resources by PSUs/Cooperatives for the planned activities and have therefore, apparently not utilised the plan outlays provided for the same during Seventh Plan and first three years of the current five year Plan. The Committee however expect that the Ministry should have not approached the Ministry of Finance for provision of funds which they could not or do not intend to utilise. The Committee need not stress the creation/expansion of the production capacity and modernisation of existing plants to meet the growing demand of fertilizers in the country and would, therefore, desire that a time bound strategy may be chalked out to achieve the targets for production set by them.

B. Delay in Finalisation of Production Targets

Recommendation (Sl. No. 3, Para No. 16)

8. The Committee had found that even though Annual plan outlay/budgets have been finalised for the year 1994-95, the production targets of fertilizer units for the year were not finalised by then. The Committee had wondered as to how in the absence of proper quantified targets, the fertilizer units would maintain their production targets from April 1993 onwards. The Committee had therefore, urged 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.

9. The Committee had also found from the newspapers reports that decision regarding import of urea had been taken for the year 1994-95. Since the Committee had been scrutinising the Demand for Grants of the Deptt., the Committee felt that the DOF should have apprised the Committee about the details of such an important decision about the imports which was item of major expenditure in the Demand of the Deptt.

10. In their reply the Govt. have stated that the production targets for 1994-95 had been discussed with all the manufacturing units before the close of the financial year 1993-94. During these discussions the individual companies had given their production plans and based thereon and also

taking into account the availability of major inputs, as also their planned shut-down schedules for annual repairs/maintenance, the production targets were indicated to the individual companies during the discussion itself. However, the formal approvals in this regard were communicated to the companies on 2.5.1994. The newspaper reports about import of fertilizers which came out at the time when the Committee was scrutinizing the Demands for Grants, were based on a decision which had been taken earlier in the month of February, 1994 and this decision had been incorporated in the Demand for Grants.

11. The Committee note that the production target for 1994-95 were discussed with all the manufacturing units and the formal approval in this regard were communicated to the Companies on 2.5.94. The Committee regret the casual approach of the Ministry towards preparation/finalisation of the production targets and are concerned whether the concerted efforts would be made to achieve these targets which were formerly conveyed more than a month after the commencement of the financial year. The Committee therefore reiterate that the Ministry should streamline their system for preparation/finalisation of production targets which should be synchronised with annual plans and ensure that the targets are available to the units well before the commencement of the financial year.

12. The Committee are not satisfied with the reasons advanced by the Ministry for not keeping the Committee informed about an important decision for import of urea for the year 1994-95. The Committee regret that they got this information from the newspaper though the decision was taken much earlier. The Committee expect the Ministry to ensure that such cases are not allowed to recur in the future.

C. Variations between Budget and Revised Estimates on imports

Recommendations (Sl. No. 5, Para No. 40)

13. The Committee had noted that the provisions for import of fertilisers had come down considerably from the level of 1992-93 to 1994-95, due to decontrol of phosphatic and potash fertilizers as no subsidy had been given for these fertilisers. The Committee also found that during the last 3 years there had been wide fluctuations in the Budget estimates and these were revised upwardly from Rs. 500 to Rs. 800 crores. The Committee noted that even for 1994-95 realistic targets had not been fixed. As against of Rs. 3113 crores given during 1993-94 for nitrogenous fertiliser provided in the revised estimates for 1994-95 were kept at Rs. 2800 crores only. The Committee had therefore, recommended that while preparing initial estimates adequate provisions should be made so that the Government policy is reflected properly and subsequently so that the Ministry of Finance was not approached for substantial funds amounting to Rs. 500 crores or even more.

14. In their reply the Government have stated that reasons for divergence between the Budget estimates and the Revised estimates on

subsidy of imported fertiliser were raised in exchange rate prevailing in September, 1991 and thereafter and increase in maximum issue prices of controlled fertilizers by 30% from 13th August, 1991 resulting in collection of more receipts than anticipated. Whereas for 1992-93 the reasons for variation between budget and revised estimates were anticipated higher import of P, K and N fertilizers, than the actual import due to decontrol of phosphatic and potassic fertilizers from August, 1992. DOF has further informed that while preparing budget estimates for 1992-93 this decision was not anticipated, as it was taken in pursuance of the recommendations of JPC on Fertilizer Pricing. While the quantum of import came down, the collection of receipts remained equal to the budget estimates because of the revaluation of the closing stock of the decontrolled fertilizers held in stock by the handling agents. Thus, the Department collected difference between the full landed cost and the controlled price at which the recoveries were being effected prior to 25th August, 1992.

15. As regards reasons for variation between Budget and Revised Estimates for 1993-94 the Government have stated that the Budget Estimates was based on the projected import requirements of 22 lakh metric tonnes of Urea; but the actual import was 27.4 lakh metric tonnes alongwith a carried forward of liability for payment of 1.55 lakh metric tonnes of MOP which arrived during 1993-94 against the contracts entered into by the MMTC prior to the decontrol of K fertilizers. Besides the BE was based on the official rate of exchange of Rs. 26 per dollar and with the introduction of partial convertibility of the Rupee from 1st March, 1993 imports during 1993-94 were to be paid at the daily prevailing exchange rate which ruled around Rs. 31.75 per dollar.

16. Against the contracts entered into by the MMTC some imported P and K fertilizers of the order of Rs. 290 crores continued to arrive even after their decontrol which were also to be provided in Revised Estimates 1993-94.

17. About usual variation between anticipated imports at Budget Estimates stage and that of Revised Estimates the Government in their reply have informed that imports were arranged to fill up the gap between the demand and the indigenous production. The actual demand *inter alia* upon the climate conditions prevalent during the two crop seasons and the price equations among different nutrients on the one hand and inputs and output on the other hand which could not be ascertained well in advance. Similarly the indigenous production depend on availability of raw materials like Naphtha, Natural Gas, technical health of the production units and the financial situation of the companies as well.

18. Regarding variation on Subsidy on Indigenous Fertilisers they have informed that the budget estimates for the following year are projected during September/October of the previous year on the basis of the estimated production and the latest notified retention prices including

anticipated escalations. However, the final shortfall between the budget requirements and the final allocation for the previous year could not be anticipated at that stage since the gap between the budget estimates and the revised estimates for the same year is the final shortfall in the budgetary allocation of the previous year, which had to be carried over to the next year.

19. The Committee note the reasons advanced by the Ministry for variation in Budget Estimates and Revised Estimates during the last 3 years. The Committee broadly agree with the same but feel that the Ministry could have acted with little more anticipation and made more realistic if not accurate assessments.

20. The Committee reiterate that such wide fluctuations are not in the interest of the economy and a whole Government Plan may be go hay wire if such situations are allowed to recur. The Committee desire that the Ministry should take all possible steps in consultation with the Ministry of Agriculture and other agencies for near realistic assessments of the requirements so that the same may be properly reflected in the Budget Estimates.

D. Failure of Haldia Project

Recommendation (Sl. No. 12, Para 68)

21. The Committee regret to note that inspite of their specific recommendation made in their 3rd, 7th and 8th Reports for holding an independent enquiry for failure of the Haldia Project (inspite of investment of over Rs. 782 crores). The Govt. have not appointed an enquiry to go into the issue. They have repeated their earlier arguments that it was a learning stage and that the officers dealing with project had retired. The Committee once again reiterate that for making the officials responsible for faulty planning the Govt. should appoint enquiry Committee for the purpose. The Committee would await Govt. action in this regard.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1, Para 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.

Reply of Government

In the last few years, the emphasis has been on the PSUs/Co-operatives to generate internal resources for planned activities, coupled with borrowings from the financial institutions. The Department regularly reviews the position of generation of internal resources and only those projects are cleared which involve very little or no budgetary support from the Government. Some of the major projects sanctioned during the 8th Plan period without any budgetary support and the estimated cost of these projects are as under:—

(Rs. in crores)

Sl. No.	Name of the Project	Estimated Cost
1	2	3
1.	Doubling the capacity of Urca-Ammonia Plant at Vijaipur of National Fertilisers Ltd. (NFL)	987.30

1	2	3
2.	Doubling the capacity of Urca-Ammonia Plant at Aonla unit of IFFCO.	960.00
3.	Ammonia plant replacement project of FACT	618.43

[Ministry of Chemicals & Fertilisers, Department of Fertilizers, O.M. No. 1(7)/94/Finance I dated 24 Oct. 1994]

Comments of the Committee

Please see para 5 of Chapter I of the report.

Recommendation (Sl. No. 2, Para 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 reason 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.

Reply of Government

Production performance of the fertilizer units is regularly monitored by the Department of fertilizers and to the extent possible corrective steps are taken in matters like supply of inputs and utilities etc. besides, regular appraisal of on-going schemes.

[Ministry of Chemicals & Fertilisers, Department of Fertilizers, O.M. No. 1(7)/94 Finance I dated 24 Oct., 1994]

Recommendation (Sl. No. 4, Para 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.

Reply of Government

The Department of Fertilizers has taken adequate steps to enforce economy in expenditure on items like Office Expenses, O.T.A., Travelling Expenses, Consumption of Petrol/Fuel etc. within the Department. Despite heavy escalation in prices of stationery, furnitures, telephone charges, postage, petrol and other consumables, every attempt is made to effect economy and meet the expenses within the budgeted allocation of the Department. Also there was an increase in positioned strength of staff and officers due to filling up of a large number of vacant posts during 1993-94. A new office had to be set up for Minister of Chemicals & Fertilizers in February/March, 1994. In spite of the increased expenditure on account of these factors, the Department has managed to control the expenditure within its budget allocation without asking for any supplementary grants on this account.

The public undertakings under the administrative control of this Department have also taken adequate steps to effect economy in expenditure. Necessary guidelines are issued by the Department from time-to-time and follow up action is taken to monitor the reduction in the overhead expenses and operational costs of the undertakings.

[Ministry of Chemicals & Fertilisers, Department of Fertilizers, O.M. No. 1(7)/94 Finance I dated 24 Oct. 1994]

Recommendation (Sl. No. 6, Para No. 41)

The Committee find that even though Ministry of Agriculture had been providing Rs. 1000 per tonne ad-hoc subsidy for P&K fertilizers 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.

Reply of Government

The scheme of giving special subsidy of Rs. 1000 PMT on P&K fertilizers is run by the Ministry of agriculture through the State/UT Governments. This scheme has been approved for continuance during

1994-95 w.c.f. 10.6.94. A sum of Rs. 517.34 crores was released during the year 1993-94 to the States/UTs, against a provision of Rs. 632.14 crores. This year, the scheme will be on last year's pattern and it has been decided to make payments directly to the manufacturers/importers (for MOP) on the basis of reports of sales received from the States/UTs.

Since the continuation of the scheme was not anticipated earlier, no provision could be made in the Budget for 1994-95. A requirement of Rs. 550 crores has been projected for 1994-95. Accordingly, a proposal has been sent to the Ministry of Finance for making necessary provision through supplementary Grant.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers, O.M. No. (7)/94 Finance I dated 24 Oct, 1994]

Recommendation (Sl. No. 7, Para No. 42)

The Committee has been informed that in some of the States farmers have started using mix fertilizers i.e. mixture of NPK fertilizers. DOF has stated that programmes relating to education of farmers and publicity of balanced fertilizers 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 broadcast on radio for educating the farming community. Such programmes should include proper education on use of bio-fertilizers.

Reply of Government

The State Government through Department of Agriculture regularly undertake programmes for educating farmers on balanced use of fertilizers for optimum yields. The State Governments also employ audio-visual aids for effective dissemination of the know-how on proper and balanced use of fertilizers. The Central Government supports the State Governments in this regard. Presently, the Central Sector Scheme "Balanced and Integrated use of Fertilizers" is being implemented by the Ministry of Agriculture. The scheme envisages balanced use in conjunction with other sources of nutrients such as organics, bio-fertilizers, green manuring, etc. The Ministry of Agriculture has initiated steps to make use of electronic media for educating farming community.

With a view to encouraging enhanced use of bio-fertilizers, the Ministry of Agriculture carries out bio-fertilizer production as well as education of farmers on bio-fertilizers through National Project on Development of Bio-fertilizers.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers, O.M. No. 1(7)/94 Finance I dated 24 Oct, 1994]

Recommendation (Sl. No. 9, Para No. 51)

The Committee note that as against 1055 persons in PPCL, HFC, 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.

Reply of Government

The Department has impressed upon the chief executives of the four PSUs namely HFC, FCI, PDIL and PPCL to make efforts to mobilise persons out of the identified surplus manpower to opt for VRS. In accordance with the directions given by Department of Industrial Development, Employees Resource Centre (ERCs) have been established in these PSUs to speed up the rehabilitation of workers retiring under VRs.

In respect of PSUs declared sick by the BIFR namely HFC, FCI and PDIL, the Operating Agency (ICICI) is working out a revival package for submission to the BIFR by October 1994. Since it is likely to contain the proposals of manpower restructuring, any final decision on the revival is likely to elicit a better response under VRS during 1994-95.

[Ministry of Chemicals & Fertilizers Department of Fertilizers O.M. No. 1(7)/94 Finance I dated 24 Oct, 1994]

Recommendation (Sl. No. 10, Para No. 53)

The Committee regret to note that inspite of funds made available for small S&T programmes, no scheme has 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.

Reply of Government

Under sub-head C.1 (2) (4), there are two schemes. Of the two schemes, one relates to Grant to Projects & Development India Ltd. for Research & Development (Provision of Rs. 4 crores) and the other is for S&T Programme of the Department (Provision of Rs. 50 lakhs).

The process for production of nitrogenous fertilizers is a highly integrated system with high degree of automation, and only a few reputed process licensors have developed their proprietary processes through various stages of evaluation/improvement. In view of the present state-of-

the-art technology with high degree of energy efficiency being offered today, there is very little scope through indigenous R&D efforts to achieve improvement over the various processes being offered by the licensors in the core area of fertilizer technology.

Apart from the core area, there are many other areas which are equally important, like improving the use efficiency of fertilizers, energy conservation measures, affluent treatment and pollution control, utilisation of wastes and by-products, etc. However, various fertilizer companies have established in-house R&D facilities for the above non-core areas. In spite of this, a token provision of Rs. 50 lakhs has been made for S&T programmes as a matter of abundant caution, so that if any undertaking comes up with a viable proposal for financial assistance for carrying out scientific studies in non-core areas, the Government could provide assistance out of the above budget provision. Recently, it has been decided that apart from manufacturing chemical fertilizers, some fertilizer undertakings may also initiate programmes for development and commercial production of bio-fertilizers. Efforts would be made to see whether any of the fertilizer undertaking would be requiring financial support for carrying out this new activity, so that S&T funds could be gainfully utilised.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers, O.M. No. 1(7)/94 Finance I dated 24 Oct, 1994]

Recommendation (Sl. No. 11, Para No. 67)

The Committee find that as against the provision of Rs. 73 crores during 1993-94, the provisions for investment in PSUs has come down to Rs. 57 crores in 1994-95. The fall has been mainly in three 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 package should be finalised within three months time.

Reply of Government

Fertilizer Corporation of India Ltd. (FCI), Hindustan Fertilizer Corporation Ltd. (HFC) and Projects and Development India Ltd. (PDIL) are the three PSUs under the control of the Department of fertilizer, which have been declared sick by the BIFR.

The break-up of the budgetary support (Plan & Non-Plan) for these sick companies during the three years has been as under:—

(Rs. in crores)

	Plan Equity	Plan Loan	Non-Plan	Total
1992-93	24.00	15.00	77.74	116.74
1993-94	23.74	38.00	85.00	146.74
1994-95 (Provision)	18.00	23.50	103.25	144.75

Since these companies stand referred to BIFR as sick companies, no major capital investment decision could be taken pending finalisation of the revival package by the BIFR, which is a quasi judicial authority. However, funds for investment on essential renewals and replacements have been provided by the Government to continue the production activities in the units of these companies. There has also been an increase in the non-plan support to these companies to enable them to meet their working capital requirements for procurement of inputs, to the extent possible.

In the last hearing before the BIFR, on 14/15 July, 1994 in respect of FCI/HFC the Operating Agency has been directed by the BIFR to independently evaluate all the alternatives for rehabilitation of the units of these companies from the angles of technical, economic and commercial viability. Similar directions have been issued in respect of PDIL on 11.8.94. The Operating Agency is expected to furnish their proposals to BIFR by October, 1994. All necessary help is being made available by the Government as well as these companies to the Operating Agency to enable it to accomplish this task so that the proposals for rehabilitation are crystallised at the earliest.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers, O.M.
No. 1(7)/94 Finance I dated 24 oct., 1994]

Recommendation (Sl. No. 13, Para No. 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 package of these PSU's. Needless to emphasise that necessary steps would be taken for uninterrupted production of fertilizers by these units.

Reply of Government

HFC and FCI are the only two fertilizer producing PSUs declared sick by BIFR. A budgetary provision of Rs. 23 crores for plan and Rs. 101.75 crores for non-plan loans has been made for the year 1994-95 to meet the fund requirement of these companies, to the extent possible, to enable them to continue their operations. A provision of Rs. 10 crores for FCI and Rs. 7 crores for HFC has also been made for the year 1994-95 in the form of capital expenditure pending a final decision of BIFR in this regard.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers, O.M.
No. 1(7)/94 Finance I dated 24 Oct, 1994]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT REPLIES

—NIL—

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 3 Para 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 targets 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 newspapers 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 as important decision about the imports which is a item of major expenditure in the Demand of the Deptt. Specially when this subject was prominently figured during the course of evidence of representatives of DOF.

Reply of Government

The production targets for 1994-95 had been discussed with all the manufacturing units before the close of the financial year 1993-94. During these discussions the individual companies had given their production plans and based thereon and also taking into account the availability of major inputs, as also their planned shut-down schedules for annual repairs/maintenance, the production targets were indicated to the individual companies during the discussion itself. However, the formal approvals in this regard were communicated to the companies on 2.5.1994.

The newspaper reports about import of fertilizers which came out at the time when the committee was scrutinizing the Demands for grants, were

based on a decision which had been taken earlier in the month of February, 1994, and this decision had been incorporated in the Demand for grants.

[Ministry of Chemicals & Fertilizers Department of Fertilizers O.M.
No. I, (7)/94 Finance I Dated 24 Oct. 1994]

Comments of the Committee

Please see para of Chapter I.

Recommendation (Sl. No. 5, Para No. 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 estimate 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 adhoc 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.

Reply of Government

(i) *Subsidy of Imported fertilizers*

The divergence between the Budget Estimates and the Revised Estimates during the last three years arose mainly on account of the following factors :

Financial year 1991-92

(a) The BE was based on exchange rate of 1 US \$=Rs. 18 prevailing in September, 1990. Subsequently, the official rate of exchange of Rs. 26 per dollar came into force.

(b) Maximum issue prices of controlled fertilizers were raised by 30% with effect from 13th August, 1991, resulting in collection of more receipts than anticipated.

Financial year 1992-93

As against the anticipated import of 69.50 lakh tonnes of potassic, phosphatic and nitrogenous fertilizers, the actual import was only 56.25 lakh metric tonnes. This was due to decontrol of phosphatic and potassic fertilizers from 25th August, 1992. At the time the budget estimates were prepared for 1992-93, this decision could not have been anticipated, which was taken in pursuance of the recommendations of Joint Parliamentary Committee on Fertilizer Pricing. While the quantum of import came down, the collection of receipts remained equal to the budget estimates because of the revaluation of the closing stock of the decontrolled fertilizers held in stock by the handling agents. Thus, the Department collected difference between the full landed cost and the controlled price at which the recoveries were being effected prior to 25th August, 1992.

Financial year 1993-94

(a) The Budget Estimate was based on the projected import requirement of 22 lakh metric tonnes of Urea; but the actual import was 27.44 lakh metric tonnes. In addition, there was a carry forward of liability for payment of 1.55 lakh metric tonnes of MOP which actually arrived during 1993-94 against the contracts entered into by the MMTC prior to the decontrol of potassic fertilisers on 25th August, 1992.

(b) The BE was based on the official rate of exchange of Rs. 26 per dollar. With the introduction of partial convertibility of the Rupee from 1st March, 1993, imports during 1993-94 were to be paid at the daily prevailing exchange rate which ruled around Rs. 31.75 per dollar.

(c) Against the contracts entered into by the MMTC, some phosphatic and potassic fertilizers continued to arrive even after their decontrol on 25th August, 1992. The bills for such imports amounting to Rs. 290 crores were also to be provided and paid out of the RE 1993-94.

VARIATION BETWEEN ANTICIPATED IMPORTS AT THE BE STAGE AND THE RE STAGE

Imports are arranged to fill up the gap between the demand and the indigenous production. The actual demand depends *inter alia* upon the climate conditions prevalent during the two crop seasons and the price equations among different nutrients on the one hand and inputs & output on the other hand. These factors cannot be accurately estimated well in advance. Likewise, the indigenous production depends on availability of raw materials like Naphtha, Natural Gas, technical health of the production units and the financial situation of the companies, some of which are facing severe liquidity problems.

Thus, the actual requirement of import is required to be constantly

reviewed and so very often, the need arises to revise the quantity of import anticipated at the time the budget estimates are prepared for the following financial year.

(ii) Subsidy on Indigenous Fertilizer

The budget estimates for the following year are projected during September/October of the previous year. These are prepared on the basis of the estimated production for the year and the latest notified retention prices. The budget estimates also include anticipated escalations which are likely to be due during the year. However, the final shortfall between the budget requirement and the final allocation for the previous year can not be anticipated at the stage. One of the reasons for the gap between the budget estimates and the revised estimates for the same year is the final shortfall in the budgetary allocation of the previous year, which has to be carried over to the next year.

[Ministry of Chemicals & Fertilizers Department of Fertilizers
O.M.No. 1(7)/94 Finance I, Dated 24th Oct. 1994]

Comments of the Committee

Please see Chapter I of the Report.

Recommendation (Sl. No. 12, Para 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.

Reply of Government

Haldia Project of HFC, which was approved in 1971, was completed in November, 1979 but it could not be made operational due to repeated equipment breakdowns during its commissioning. The commissioning of Haldia Project had to be finally suspended in October, 1988. By that time, an expenditure of Rs. 478 crores had already been incurred on the project.

2. The Government has been incurring standing charges on this project @ Rs. 1.25 crores per month since October, 1986. This has subsequently increased to Rs. 1.52 crores per month w.e.f. 1.4.1989.

3. As regards the project's failure to achieve commercial production, there is no doubt that despite heavy investment on the project, it could not be commissioned. However, it is mentioned that the Government had tried its best to make the plant operative and for this purpose, even an end-to-end survey of the project was conducted through reputed consultants namely, M/s. Toyo Engineering Corporation, Japan (for ammonia, urea and methanol plants) and M/s. UHDE, Germany (for nitric acid, sulphuric acid, phosphoric acid and nitro-phosphate plants and off site facilities). These consultants had recommended in 1988 that it was possible to revamp the project at an estimated cost of Rs. 500 crores. However, with this level of investment, the project was found totally unviable. In view of the economic unviability and also due to resource constraints, no decision could be taken on this proposal. The alternative proposal to revamp only nitrophosphate group of plants also could not take shape due to high cost, economical unviability and also continuing heavy subsidy burden on the Government.

4. Due to acute shortage of free foreign exchange, a number of credits were availed of for procurement of equipment from various countries. This led to procurement of various components of the same equipment from diverse sources, resulting in their mismatch. This was one of the main cause of repeated breakdown of the equipment leading to failure of the project. Delay in project execution made it difficult to penalise the suppliers due to lapse of warranty period. The limited expertise available indigenously in the design, engineering and procurement of fertiliser plants at that point of time resulted in overlooking the importance of ensuring the performance worthiness of the equipment from a single source as all the plants earlier had been implemented on turnkey basis before Haldia Project was taken up. The country was in the learning phase in the late sixties and early seventies for design, engineering and erection of fertilizer plants. The failure of Haldia project has given us very useful lessons on the implementation of such projects and in avoiding the pitfalls in execution thus helping in the successful implementation of the subsequent projects.

5. Haldia project which was approved in 1971 was being implemented by FCI in which a large number of persons were drawn from FCI, and subsequently from PDIL and HFC after the reorganisation of FCI, were involved in the planning, designing, procurement, construction and commissioning of the project stretching over a decade. Key personnel connected with the implementation of this project are no longer in service, having retired nearly a decade back. While it may be difficult to fix the responsibility on any individual or group of individuals at this stage, based on the records available, this Department is making an examination to ascertain the circumstances in which various important decisions in project implementation such as procurement of equipment etc. were taken. Such

an exercise will be useful in arriving at a *prima facie* conclusion as to whether a formal enquiry would be required for fixing the responsibility on any individual or group of individuals.

[Ministry of Chemicals & Fertilizers Department of Fertilizers O.M. No.I
(7)/94 Finance I, Dated 24 Oct. 1994]

The Comments of the Committee

Please see para 21 of Chapter I of the Report.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLY OF GOVERNMENT IS STILL AWAITED

Recommendation (Sl. No. 8, Para No. 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 reoccur in future.

Reply of Government

(a) The budget provision for R&D work has come down from Rs. 20.90 crores in 1993-94 to Rs. 11.90 crores because the Indo-British Fertilizer Education Project (IBFEP) has come to an end. Even in 1993-94, the Overseas Development Administration of the U.K. Government had agreed to provide funds only for the Monitoring & Evaluation activities of the IBFEP, which came to close on 31.3.93.

(b) The provision for externally aided projects depend on the expected inflow of funds from the donor agencies. As on date, this Department has posed new fertilizer education and extension projects for funding by ODA and FEC. Their decision is awaited.

(c) The Committee's observation that due to non compliance and unsatisfactory work pertaining to R&D of HFC, ODA has stopped the grant to the tune of over Rs. 9 crores is to be seen in the context that the Rainfed Farming Project (RFP) in Eastern India will continue to be implemented with ODA funds. RFP in Eastern India is being implemented by Fertilizer Promotion and Agriculture Research Division of HFC. HFC being a sick company, has been referred to BIFR, a quasi-judicial body.

In view of HFC's uncertain future, ODA was of the opinion that Krishak Bharati Cooperative Limited (KRIBHCO) would be in a better position to effectively implement the same project in the same three States. Hence the decision that instead of HFC, KRIBHCO will implement this project.

(d) Apart from the R&D activities carried out by the fertilizer companies with the externally aided funds, Research & Development work is being carried out by a number of companies out of their own funds. The objectives of these efforts is improvement in energy efficiency in the plants, treatment of various plant effluents, utilisation of wastes and by-products, development of slow release fertilizers, promoting the use of bio-fertilizers, development of new catalysts and process technology. The notable results achieved through indigenous R&D efforts have been the development of practically the entire range of catalysts required in the production of nitrogenous fertilizers, NOX abatement in nitric acid plant, hydrolyser stripper system for treatment of effluents from urea plant and recovery of ammonia therefrom, incorporation of micronutrients like Zinc and Boron in fertilizer materials like zincated urea, boronated single superphosphate, etc.

[Ministry of Chemicals & Fertilizers Department of Fertilizers O.M. No. I (7)/1994 Finance I, Dated 24 Oct. 1994]

NEW DELHI;
19 April, 1995

Chaitra 29, 1917 (Saka).

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

APPENDIX I

MINUTES

STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (1995-96)

3rd-Sitting
(17.4.95)

The Committee sat from 1100 hrs. to 1130 hrs.

PRESENT

Shri Sriballav Panigrahi—*Chairman*

MEMBERS

Lok Sabha

2. Dr. Ravi Mallu
3. Shri Sant Ram Singla
4. Shri C.P. Mudalagiriappa
5. Shri V.S. Vijayaraghavan
6. Dr. Laxminarain Pandey
7. Shri Janardan Prasad Misra
8. Shri Rameshwar Patidar
9. Shri Surya Narayan Singh

Rajya Sabha

10. Shri E. Balanandan
11. Shri Mohd. Masud Khan
12. Shri Pasumpon Tha. Kiruttinan
13. Shri G.Y. Krishnan
14. Shri Suresh Pachouri
15. Shri Jagdish Prasad Mathur
16. Shri V. Narayanasamy
17. Shri Chimanbhai Haribhai Shukla
18. Shri Balbir Singh
19. Shri S.S. Surjewala
20. Shri Dineshbhai Trivedi

SECRETARIAT

Shri Brahm Dutt—*Under Secretary*

The Committee considered the draft report on action taken by the Government on the recommendations contained in the 7th Report of the Committee on Demands for Grants 1994-95 relating to the Ministry of

Chemicals & Fertilisers, Deptt. of Fertilisers. After some discussion the Committee adopted the Report.

2. The Committee also authorised the Chairman to finalise the Report after factual verification by the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers, and present the same to Parliament.

The Committee then adjourned.

APPENDIX II

(Vide Para 4 of the Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the 7th Report of the Standing Committee on Petroleum and Chemicals 1994-95 (Tenth Lok Sabha) on 'Demands for Grants 1994-95' relating to Ministry of Chemicals and Fertilisers, Deptt. of Fertilisers.

I	Total number of recommendations	13
II	Recommendations that have been accepted by the Government (Vide Recommendation at Sl. Nos. 1,2,4,6,7,9,10,11, and 13)	9
	Percentage to total	69.99
III	Recommendation which the Committee do not desire to pursue in view of Government's reply	NIL
IV	Recommendation in respect of which reply of Government has not been accepted by the Committee (Vide Recommendation at Sl.Nos. 3,5, and 12)	3
	Percentage to total	23.07
V	Recommendations in respect of which final replies of Government are still awaited (Vide Recommendation at Sl. No. 8)	1
	Percentage to total	6.94