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**STANDING COMMITTEE ON  
PETROLEUM & CHEMICALS  
(1996-97)**

**ELEVENTH LOK SABHA**

**MINISTRY OF CHEMICALS & FERTILISERS  
(DEPARTMENT OF FERTILISERS)**

**DEMANDS FOR GRANTS (1997-98)**

**ELEVENTH REPORT**



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NEW DELHI

April, 1997/Chaitra, 1919 (Saka)

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(DEPARTMENT OF FERTILISERS)

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*Presented to Lok Sabha on* ..... 30 APR 1997  
*Laid in Rajya Sabha on* .....



LOK SABHA SECRETARIAT  
NEW DELHI

*April, 1997/Chaitra, 1919 (Saka)*

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COMPOSITION OF THE STANDING COMMITTEE  
ON PETROLEUM AND CHEMICALS  
(1996-97)

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SECRETARIAT

- |                    |   |                             |
|--------------------|---|-----------------------------|
| Dr. A. K. Pandey   | — | <i>Additional Secretary</i> |
| Shri J. P. Ratnesh | — | <i>Joint Secretary</i>      |
| Shri G. R. Juneja  | — | <i>Deputy Secretary</i>     |
| Shri Brahm Dutt    | — | <i>Under Secretary</i>      |

## INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (1996-97) having been authorised to submit the Report on their behalf, present this Eleventh Report on Demands for Grants of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for the year 1997-98.

2. The Committee examined /scrutinised the Demands for Grants pertaining to the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for the year 1997-98 which were laid on the Table of the House on 19th March, 1997.

3. The Committee took evidence of the representatives of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers at their sitting held on 8th April, 1997.

4. The Committee considered and adopted the Report at their sitting held on 18th April, 1997.

5. The Committee 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 1997-98 and for giving evidence before the Committee.

6. The Committee would like to place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;  
*April 18, 1997*  

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*Chaitra 28, 1919 (Saka)*

A.R. ANTULAY,  
*Chairman,*  
*Standing Committee on*  
*Petroleum & Chemicals.*

## REPORT

### A. 8th Five Year Plan & 9th Plan Projections

The Department of Fertilisers (DOF) in the Ministry of Chemicals and Fertilisers is entrusted with the responsibility of sectoral planning, promotion and development of fertiliser industry, planning and monitoring of production, import and distribution of fertilisers, management of subsidy for indigenous and imported fertilisers and administrative responsibility for public sector undertakings and cooperative sector units engaged in production of fertilisers. Besides public sector and cooperative sector units, there are several units in private sector also.

#### (i) Plan Outplay

2. The following statement shows approved outlay and actual expenditure for 8th Plan (1992-97) and projected outlay for 9th plan (1997-2002) as also the approved plan outlay of the first year (1997-98) of the 9th plan alongwith Budgetary support :-

Five Year Plan	Outlay	Actual Exp.	(Rs. in crores) Budgetary support
8th Plan (1992-97)	5484.00 (approved)	4963.01	979.47
9th Plan (1997-2002)	14779.39 (projected)	-	
1st year of 9th Plan (1997-98)	1714.10 (approved)	-	225.50

3. During the course of examination, the Committee pointed out that the 8th Plan funds could not be utilised fully and the unutilised money was to the extent of Rs. 520.99 crores. Attention of the Deptt. was also drawn to the Committee's recommendations made in their 18th Report (presented to the House on 2nd May, 1995) on 'Demands for Grants of DOF for 1995-96' that for 9th plan period (1997-2002), the DOF should start planning right from the beginning for uniform utilisation of plan outlays on year-to-year basis. The Committee further pointed out that as against the projected 9th plan outlay of Rs. 14,779.39 crores, the Plan outlay for 1997-98 has been placed at Rs. 1714.00 crores which is much less than 1/5 of the 9th Plan projections. Asked whether this small outlay in the first



year of the 9th plan period, would not be too less for planned growth of an important sector like fertilisers in the country, the DOF in a written note informed :-

“The outlay projected by Deptt. of Fertilisers for the 9th plan 1997–2002 is Rs. 14,779.39 crores with budgetary support of Rs. 2407.49 crores. For the year 1997-98, the Department had proposed an outlay of Rs. 2071.49 crores, with budgetary support of Rs. 297.53 crores. Planning Commission, however, approved an outlay of Rs. 1728.38 crores, with budgetary support of Rs. 239.78 crores. The Planning Commission is yet to finalise the outlay and budgetary support for Ninth Plan.”

4. In reply to another question whether the Plan outlay for 1997-98 should be raised substantially, the DOF in a written note informed :-

“We would have been happier with the approval of Plan outlays proposed by us which, however, could not be granted to us due to overall financial constraints. We hope that the outlay would be stepped up in subsequent years of the Ninth Plan.”

5. The Committee regret to note that out of projected 9th Plan (1997–2002) outlay of Rs. 14,779.39 crores, the Planning Commission has approved the plan outlay for the first year of 9th Plan at Rs. 1714 crores as against the projections of the Deptt. of Fertilisers of Rs. 2071.49 crores. By not allocating about one fifth of plan outlay funds for 1997-98, the Committee feel that the actual expenditure for 9th Plan may remain under utilised as was the case during 8th Five Year Plan where over Rs. 500 crores remained unutilised. The Committee therefore strongly recommend that for a better and balanced growth of fertiliser sector plan funds should be released/spent uniformly during the whole plan period.

(Recommendation Sl. No. 1)

(ii) **Production targets**

6. The following statement shows year-wise target *vis-a-vis* actual production of fertilisers during 8th Plan (1992–97) and projected outlay for first year (1997-98) of the 9th Plan (1997–2002) : –

(Lakh tonnes)

Year	Nitrogen		Phosphate	
	Target	Production	Target	Production
<b>A. 8th Plan (1992-97)</b>				
1992-93 (1st Year of 8th plan)	77.00	74.30	27.50	23.06
1993-94	78.00	72.31	22.00	18.16
1994-95	81.15	79.50	23.31	24.80
1995-96	86.33	87.77	26.67	25.58
1996-97 (Ant)	98.00 (Revised to 90.23)	86.00 (Prov)	30.00 (Revised to 26.80)	25.56 (Prov)
<b>B. 9th Plan yet to be finalised</b> (1997-2002)			<b>yet to be finalised</b>	
1997-98 (1st year of 9th Plan)	96.1 (Fixed by DOF)	—	28.6 (Fixed by DOF)	—

7. During the course of examination the Committee pointed out that except for Phosphates for the year 1994-95 and 1996-97 the production targets were not achieved in any years of the 8th Plan period and the targets for 1996-97 were lowered. Asked about the reasons for the shortfall in production, the DOF in a written note stated :-

“The production is estimated at 85.81 lakh tonnes of nitrogen and 25.64 lakh tonnes of phosphate for 1996-97 as against the target of 90.23 lakh tonnes of nitrogen and 26.8 lakh tonnes of phosphate.

The production performance of some of the public sector fertiliser plants during the current year has been affected due to recurrent constraints in the availability of raw materials and utilities, equipment related problems, movement bottlenecks and financial stringency.

The units producing phosphatic fertilisers had to cut back production during kharif, 1996 due to demand stagnation, fund constraints and uncertainty prevailing during the period of peak demand over availability /level of the special concession on decontrolled fertilisers. The production of phosphatic fertilisers picked up after the announcement of increased special concessions on 6.7.1996.”

8. As regards production targets for the current year (1997-98) and for 9th Plan (1997-2002) the DOF in a written note stated :-

“The sectoral production targets for the 9th Five Year Plan are yet to be finalised. The Department of Fertilisers has fixed the target of fertiliser production for 1997-98 at 96.1 lakh tones of nitrogen and 28.6 lakh tonnes of phosphate nutrients.

The growth in the fertiliser industry is dependent on an appropriate policy framework and investment in capacity addition and modernisation/rehabilitation of the existing production units and infrastructure development. Adequate availability of indigenous and imported feed stocks and raw material is also a pre-requisite for sustained growth in the fertiliser sector. These issues have been highlighted in the report of Working Group on Fertilisers for the Ninth Plan, which has been submitted by the Department of Fertilisers to the Planning Commission.”

9. The Committee note that even though there has been addition to the total production of Nitrogenous and phosphatic fertilisers during the 8th Plan period, but the production targets have not been achieved fully. For instance, during 1996-97 the original targets for production of Nitrogenous fertilisers were 98 lakh tonnes which were revised to 90 lakh tonnes and the actual production was 85.81 lakh tonnes only. Similarly for phosphatic fertilisers the original targets of 30 lakh tonnes were revised to 26.8 lakh tonnes and the actual production was 25.56 lakh tonnes. The DOF has attributed the non-fulfilment of targets due to recurrent constraints in availability of materials and utilities etc. The Committee feel that since these reasons were known to the Deptt. earlier, realistic targets should be fixed and thereafter all out efforts be made to achieve them.

(Recommendation Sl. No. 2)

10. The Committee are also dismayed to learn that 9th Plan production targets are yet to be finalised by the Government, when the plan period has already started. The Committee therefore urge upon the Govt. to finalise investment to be made, capacities to be created and production targets for fertiliser sector for planned growth and functioning of the sector.

(Recommendation Sl. No. 3)

**B. Analysis of Demands for Grants of DOF for 1997-98.**

11. Detailed Demands for Grants of the Deptt. of Fertilisers (Demand No. 6) were laid on the Table of Lok Sabha on 19th March, 1997 makes provision of Rs. 7856.75 crores. Details are set out in the Appendix I.

The main items are as under :

	(Rs. in crores)
(i) Fertilisers Subsidy	
(a) Subsidy on indigenous nitrogenous fertilisers	5240
(b) Subsidy on imported nitrogenous fertilisers	1950
Total	7190
(ii) Funds for Hindustan Fertiliser Corp.	143
(iii) Funds for Fertiliser Corp. of India	277

**The Committee approve the Demands of the Department subject to their recommendations/observations enumerated in succeeding paragraphs.**

**Major Head 2852**

**I. Fertiliser Subsidy**

12. Under the present policy, the fertiliser subsidy managed by DOF is meant for urea only. *Adhoc*-subsidy for phosphatic and pottasic fertilisers is provided by Ministry of Agriculture & Cooperation.
13. The following statement shows budgetted and revised estimates of nitrogenous fertiliser subsidy both for indigenous and imported fertilisers for the last 3 years :-

(Rs. in crores)

	Budgetted (B.E.)	Revised (R.E.)
1995-96	5400	6235
1996-97	6148	6093
1997-98	7190	-

**Fertiliser Subsidy-Payment under Fertiliser Retention Price Scheme/  
Freight Subsidy.**

14. The quantum of subsidy during the year 1995-96 and 1996-97 has been Rs. 4300 crores and Rs. 4500 crores respectively. The proposed amount for the same has been fixed at Rs. 5240 crores for the year 1997-98. The Fertiliser-wise break up is as under :-

(Rs. in crores)

Year	N	P	SSP	Total	Payment under freight subsidy	Others	Total
1995-96 (Actuals)	3601	11	1	3613	643	30	4300
1996-97 (B.E.)	3865	25	5	3895	560	45	4500
1996-97 (R.E.)	4058	22	2	4048	625	34	4743
1997-98 (B.E.)	4447	55	2	4504	700	36	5240

15. It may be seen from the above there has been an increase of over Rs. 940 crores from the level of B.E. in 1995-96 to B.E. in 1997-98. During the course of examination the Deptt. informed the Committee that this increase is on account of price rise of inputs, freight charges and payment relating to extended period of 6th pricing Policy (1.4.94 to 31.3.97). Explaining it further, DOF in a note stated :-

“The provision of Rs. 3895 crore in the B.E. 1996-97 was for retention price subsidy only and the total provision for subsidy on indigenous fertilisers in B.E. 1996-97 was Rs. 4500 crore which was revised to Rs. 4743 crore in R.E. 1996-97.

A provision of Rs. 5240 crore has been made in the B.E. 1997-98 as against the provision of Rs. 4743 crore in R.E. 1996-97 representing an increase of only 10%.

The above increase was necessitated on account of increase in input costs, mainly the price of petroleum products, and the coming into production of new projects with a higher retention price. A provision has also been made for payments which could not be made during 1996-97 and had to be carried over to 1997-98."

16. In reply to a question about the mode of distribution of subsidy, the Secretary, Fertilisers informed the Committee during evidence that the subsidy for Retention Price Scheme / Freight subsidy was being given to the industry and not to the farmers directly. However, he added that farmers were getting the urea at a fixed subsidised price of Rs. 3660 per tonne all over the country.

17. On being asked what about the subsidy element per tonne after increasing the urea price in February, 1997 from Rs. 3320 to Rs. 3660 per tonne, the DOF in a written note informed :-

"The weighted average retention price of urea as on 31.3.97 is Rs. 5450/- per MT. After the revision in the farm gate price of urea w.e.f. 21.2.97, the weighted average subsidy per tonne of indigenously manufactured urea works out to Rs.1920/-. The average subsidy on indigenously manufactured urea before the increase in farm gate price was Rs. 2260/- per MT."

18. On being asked the comparative sale price of urea in India after price hike in Feb. 1997 *vis-a-vis* compare with that of other developed countries like China, the DOF in a written note informed that except in the case of Iran, the maximum retail urea price of Rs. 3660 PMT in India (which is the equivalent of US \$ 1 = Rs. 36) was the lowest when compared to neighbouring countries, including China and other developing countries in Asia.

19. The Committee further pointed out that some of units like Namrup were getting lower retention price as compared to new units. To this Secretary, Fertilisers stated during evidence :-

"The way the retention price scheme is working it is working slightly loaded against the old plants. I would like to apprise the Committee that the industry has been feeling that they are not getting a proper retention price. Somehow, the general feeling is that too much subsidy

has been paid. Government has set up a high power Committee with Prof. Hanumantha Rao to look into those issues. We expect the Committee to give the report within six months and the Government would consider the recommendations of the Committee and a new RPS regime or whatever decision taken would be made effective with effect from 1st July, 1997."

20. The DOF has informed that the terms of reference of the Committee are as follows :-

- (i) To review the working of the Retention Price Scheme (RPS) for fertilisers and to make suggestions for correcting the deficiencies of the system, keeping in view the broad objectives of economic reform. The Committee may also suggest an alternative methodology which should be broad based, scientific and transparent.
- (ii) To review the adequacy or otherwise of incentives to the industry. Issues relating to reasonableness of return on networth, norms of capacity utilization depreciation etc.
- (iii) To suggest appropriate capital norms and debt equity ratio in respect of new fertilizer projects.
- (iv) To review the input pricing policy and its impact on the RPS.
- (v) To review the system of equated freight and recommend measures to rationalize it, including minimization of cross country movement of reduce leads.
- (vi) To suggest measures to improve the cohesiveness of the policies in respect of the controlled and decontrolled segments of the fertilizer industry, especially the policies impinging on the availability of fertilizers and the relative pricing of controlled and decontrolled fertilisers with a view to achieving an agronomically desirable NPK consumption ratio, while keeping the fertilizer subsidy at a reasonable level.
- (vii) Any other item that may be considered appropriate.

21. The Committee further wanted to know whether the Hanumantha Rao Committee had started working, the DOF in a written note informed that the High Powered Fertilisers Pricing Policy Review Committee under the Chairmanship of Prof. C. H. Hanumantha Rao held its first informal

meeting on 14.2.97. The first formal meeting was held on 28.2.97. The Committee has been provided office accommodation at Nehru Place, New Delhi. It has also been sanctioned the necessary supporting staff.

22. The Committee further pointed out that while increasing the urea price by 10% in February, 1997 ad-hoc subsidy (regulated by Ministry of Agriculture) was also enhanced substantially. Asked whether the increase in urea price and enhanced subsidy on P & K fertilisers will encourage the farmers to use balanced ratio of various types of fertilisers, the DOF in a written note informed :-

“It may not be possible to exactly quantify the impact of increase in the price of urea and rates of concessions on decontrolled phosphatic and potassic fertilisers on the N-P-K ratio. However, these measures are expected to provide impetus to P & K consumption by improving the price parity between different nutrients. Immediately prior to decontrol in August, 1992 the price parity between urea, DAP and MOP was 1:1.5:0.5. Consequent upon decontrol this ratio had progressively deteriorated to 1:3:1.4 by 1995-96. During the same period, the imbalance in nutrient consumption also grew from 5.9:2.4:1 in 1991-92 to 8.5:2.5:1 in 1995-96.”

At the revised statutory price of Rs. 3660 PMT for urea and the farm gate price notified for DAP (Rs. 8300 PMT) and MOP (Rs. 3700 PMT) under the Special Concession Scheme for Kharif 1997, the price ratio of Urea : DAP:MOP will be 1:2.3:1. The general optimism is that reduction in prices of phosphatic and potassic fertilizers, through increased subsidy, coupled with streamlining of the administration of the Special Concession Scheme, will spur their consumption by improving availability and bring these fertilisers within the affordable reach of the farmers. This, in turn, should help in achieving balanced nutrient application.”

**23. The Committee note that out of total subsidy of Rs. 7190 crores on nitrogenous fertilisers regulated by DOF for 1997-98, the subsidy for indigenous fertilisers (for urea) has been projected at Rs. 5240 crores as against Rs. 4300 crores spent during 1995-96 and Rs. 4743 crores during 1996-97. The Committee were informed that the increase of about 10% was on account of increase in input cost resulting in enhanced retention price. It also came out during evidence that the old fertilisers plants get lower retention price as compared to the new plants. The Government has also appointed a High Powered Fertilisers Pricing Review Committee in January, 1997 under the Chairmanship of Prof. C. M. Hanumantha**



Rao (former Member, Planning Commission) to review the existing system of subsidisation of urea, and suggest a rational, broadbased, scientific methodology. The Report of this expert Committee is likely to be received within six months.

24. The Committee desire that expert Committee be requested to expedite their study so that their Report is available to the Govt. within stipulated period of 6 months without seeking further time. Needless to emphasise the Govt. will examine and take prompt decision on the expert Committee Report in best interests of the small and marginal farmers as also the growth of the fertiliser industry to make the country self reliant in availability of fertilisers.

(Recommendation Sl. No. 4, Paras 23 and 24)

24A. The Committee observe that bio-fertiliser are being used in a wide-spread manner in developed and developing countries. They indeed increase crop yield and are cost effective. They give results even in cultivated areas which are not irrigated or not rained. The Committee would like to know the action if any, i.e. being taken by the Ministry of Chemicals & Fertilisers (Department of Fertilisers) for promoting the use of bio-fertiliser in order to give a boost to agricultural production in the country.

(Recommendation Sl. No. 5)

Major Head : 2401

## II. Subsidy on Imported Fertilisers

25. The following table shows the amount earmarked subsidy for import of fertilisers (Urea) and recoveries made on this account for the years 1995-96, 1996-97 and proposed for 1997-98 :-

Year	Amount for Import	Recoveries (Rs. in Crores)	Net Subsidy on imported fertilisers	Import of urea (in lakh tonnes)
1995-96 (Actuals)	3047	1112	1935	37.83
1996-97 (B.E.)	2466	818	1648	
1996-97 (R.E.)	2184	834	1350	23.28
1997-98 (B.E.)	2862	912	1950	-

26. During the course of examination of the Ministry the Committee pointed out that 1997-98 would be about Rs. 500 crores more than the subsidy given in 1996-97. It also came out during the course of examination that during 1996-97 since import requirement went down, a saving of Rs. 298 crores was made on net subsidy on imported urea. On being asked about the actual quantum of imports during 1996-97 estimates for the current year 1997-98, the DOF in a written note stated :-

“The total quantum of urea imported during 1996-97 was 23.28 LMT. The requirement of urea imports for bridging the gap between demand and indigenous availability in 1997-98 will be assessed in periodical reviews during the year taking into account the indigenous production and evolution of demand. For the present, imports of 11 LMT of urea have been firmed up. Additional requirements would be assessed subsequently and arrangements for importing them for meeting the overall assessed demand would be made.”

27. On being asked whether the low imports during 1996-97 were deliberate or there was less demand, the DOF in a written note stated :-

“Urea imports during 1996-97 were lower compared to 1995-96 on account of the reduced gap between demand and indigenous availability. This was despite the fact that urea consumption during 1996-97 was estimated to be 9.6% higher than 1995-96.”

28. When asked whether during 1997-98 the import requirement would also be less as was in 1996-97 because indigenous production would be 175 lakh tonnes as against 155.5 lakh tonnes during the previous year due to two expansions of IFFCO and NFL coming to production this year the DOF in a written note stated :

“As compared to the estimated consumption of 196.29 LMT of urea during 1996-97, urea consumption during 1997-98 is estimated to be 211 LMT. On the supply side, Kharif '97 may open with a lower stock of urea compared to Kharif '96. In this scenario and in the absence of growth in indigenous production, urea imports during 1997-98 would be assessed.”

29. In regard of import of urea DOF informed that during 1995-96 urea imports were canalised through five agencies namely MMTC, STC, PPCL, NFL and IPL. In Kharif 1996, NFL was not given any authorisation in view of its unfortunate deal with M/s Karsan Ltd. of Turkey. From Rabi 1996-97, the number of canalising agencies has been reduced to 3 namely MMTC, STC, and IPL. Asked whether these agencies were performing the

task assigned efficiently to the satisfaction of the Government, DOF replied in a note :-

“During 1996-97, no difficulties were encountered in the procurement of requisite quantities of imported urea. The canalizing agencies, viz. MMTC, STC, and IPL were able to deliver timely and as per requirements. The agencies were able to procure urea at lower and comparatively stable prices than 1994-95 and 1995-96. Besides better inter-agency coordination, the improvements during 1996-97 have been possible also due to streamlining of import procedures which has resulted in weeding out of “grey market” operators.”

30. However, some of importing PSUs submitted before the Committee that at times the authorisation of imports by Govt. was given in piecemeal manner at a very short notice.

31. The Committee find that for the year 1997-98 apart from subsidy provisions of Rs. 5240 crores under Fertiliser Retention Price/Freight subsidy schemes, a provision of Rs. 1950 crores has been earmarked for subsidy on imported urea. The expenditure under the head during 1995-96 and 1996-97 were Rs. 2035 crores and Rs. 1350 crores respectively. In view of the huge amount given for the purpose, the Committee would like the Govt. to ensure that this amount is spent for the sole purpose for ensuring availability of urea and making it available to farmers at a reasonable price.

(Recommendation Sl. No. 6)

32. The Committee also desire that the importing agencies should be earmarked specific quantity for imports well in advance so that they can procure the urea at most competitive prices with a view to reduce the foreign exchange outgo on this account.

(Recommendation Sl. No. 7)

**Major Head : 4855/6855**

### **III. Investment in and Loans to PSUs**

33. As against the investment of Rs. 61.81 crores in 1996-97 the proposed investment amount for various PSUs under DOF is Rs. 87.50 crores for the current year viz. 1997-98. The major beneficiaries will be FCI Rs. 27 crores, HFC Rs. 20 crores and PPL Rs. 36.50 crores.

34. Apart from investment, the Government has been giving plan and non-plan loans to PSUs like HFC, FCI etc. Quantum of such loans has been as under :

(Rs. in crores)			
Year	Plan	Non-Plan	Total
1995-96 (Actuals)	286.50	282.00	568.00
1996-97 (B.E.)	320.00	440.34	760.34
(Revised)	231.59	440.34	671.93
1997-98	138.00	420.34	558.34

35. Out of the above loans the proposed loans for FCI/HFC units for the year 1997-98 are as under :-

(Rs. in crores)			
	Non-Plan	Plan	Total
FCI	277.00	28.00	305.00
HFC	143.34	21.00	164.34

36. During the course of examination the Committee pointed out even though the FCI and HFC were declared sick units as back as 1992, the Government was yet to finalise the revival plans of these units. Parliamentary Departmentally relating Standing Committee systems (DRSCs) came into being in 1993 and since then the Committee have been emphasising the need of early finalisation of revival packages of Hindustan Fertiliser Corporation Ltd. (HFC) and Fertilisers Corporation of India (FCI). The following statement brings out this facts clearly :-

Report No.	Presentation of Reports in Parliament	Recommendation (in brief)
(10th L.S.)		
3rd	December, 1993	Early revival of HFC/FCI Units recommended.
7th	April, 1994	Government asked to finalise revival packages of HFC/FCI Units within 3 months.

Report No.	Presentation of Reports in Parliament	Recommendation (in brief)
8th	December, 1994	Revival package of HFC/FCI units not finalised. Government again asked to finalise within 3 months.
18th	May, 1995	Delay in finalisation of revival packages of HFC/FCI units criticised. Government again urged to expedite the finalisation of revival packages.
23rd	Dcember, 1995	Early implementation of revival packages of HFC/FCI units emphasised.
(11th L.S.)		
2nd	September, 1996	On assurance of DOF, Government asked to finalise revival packages of HFC/FCI units by December, 1996.
8th	March, 1997	The Committee once again urged upon the Government to implement revival packages within a time bound manner.

37. Asked about the reasons for delay in finalisation of revival packages inspite of repeated recommendations of the Committee, the DOF in a written note stated :-

“The revival packages for HFC and FCI approved in principle by the Government on 20.4.1995 could not be implemented for want of funding arrangement for the fresh investment of Rs. 2201.13 crore (Rs. 464.93 crore for HFC and Rs. 1736.20 crore for FCI at 1994 price level).

During interaction with the Financial Institutions (FIs) to mobilise funds for revamp of HFC and FCI, certain reservations were expressed by ICICI on the technical viability of the packages. On review of the matter, the competent authority decided in January, 1996 that the revival packages should be reformulated from the standpoint of funding by the FIs. An expert Group led by ICICI was constituted with IDBI, HFC and FCI as its members. FI members of this Group insisted on a fresh technical appraisal of the package, including a study of the health of the plants by an independent agency. The Group appointed FACT Engineering and Design Organisation (FEDO) as Consultant to undertake this study. After carrying out a unit-wise study, the Consultant submitted its report to ICICI on 5.11.1996. This Report was then deliberated upon the Group to workout a financial package. The report of the Group was received on 25.2.1997.

As per ICICI's revised estimates, the revamp would entail a fresh capital investment of about Rs. 3507 crore (Rs. 869 crore for HFC and Rs. 2638 crore for FCI). The matter is now under submission with a view to obtaining the approval of the competent authority for the revival packages including the tie up of the funding arrangements, so that the firmed up revival package could be submitted to the BIFR."

38. During the course of evidence of Deptt. of Fertilisers, the Secretary, Fertilisers also stated : -

"The reasons or the history of action, we have submitted in our written replies. It would be kindly observed by yourself and the Committee that the matter had gone to the Group of Ministers in April, 1995 and the Government approved that revival has to be undertaken but the financial arrangements could not be finalised. These have been the reasons as we elaborated here and as you yourself had mentioned that based on the ICICI Report, it was expected that the package would be finalised by December 1996. I am sorry to say that it has not been possible."

39. When asked about the reasons for not fulfilling the assurances of finalising the revival packages by December, 1996, the witness stated: -

"You would kindly appreciate that the process of final decision making involves so many factors in which the Department has a responsibility to pursue the matter. In this particular case, ICICI was to prepare a package report."

40. The Committee also wanted to know what action DOF had taken after receipt of the Report of the Expert Group in February, 1997 the witness stated : -

"As you have observed, the report of the group has been received in the last week of February. Thereafter, the report suggests that there can be a method of funding all these programmes."

41. At this the Committee wanted to know that without getting the clearance from the Government or from the Ministry of Finance to that extent, there will be further delay, the Secretary, Fertilisers informed:-

"What we are proposing is that - we understand your anxiety as to how to operationalise the decision making early - in this context, the Figure indicates that this expenditure will be required during the next two years. We are exploring, in parallel, several sources."

42. The Committee also wanted to know that why DOF did not finalise the revival packages earlier since the Units were before BIFR since 1992, the witness stated :-

“We have received this Report only at the end of February. This is high on our agenda. This is continuing. This is in our agenda at the moment. Now that the report has come, we have already initiated steps.”

43. It also came out during the course of examination that the revival packages as finalised by Government for HFC and FCI envisaged a total investment to the tune of Rs. 2201 crore (Rs. 464.93 crore for HFC and Rs. 1736.20 crore for FCI) whereas entire outlay during 9th Plan period (1997-2002 has been placed at Rs. 1579.39 crore for FCI and Rs. 381.00 crore for HFC.

44. In this context the Committee wanted to know whether amount projected by Planning Commission itself indicated that Government was not sincere for implementation of these revival packages, the DOF in a written note informed :-

“It has been clarified in the course of the discussion in the Planning Commission on the Annual Plan Outlay for this Ministry, that the provision for fresh investment on revamp of HFC and FCI would be made after the approval of the packages by the competent authority in the Government. The provision made for the present takes into account the essential requirements for renewals and replacements only with a view to maintaining the continuity of production in the functional units of these sick PSUs.”

45. When asked by the Committee about what would be funding pattern for implementation of these packages, the DOF in a written note stated :-

“The total project cost and funding arrangements envisaged in the reformulated revival packages for HFC and FCI are as under:-

	(Rs. in crores)	
	HFC	FCI
Total Project Cost	868.80	2638.00
Funding Pattern		
Share Capital	314.17	880.00
Term loan	304.83	857.00
Plan loan	9.36	-
Non-Plan loan	240.44	901.00
Total	868.80	2638

The term loan component, as indicated above, is proposed to be negotiated with the Financial Institutions for funding tie-up. The balance investment, i.e., share capital, plan loan and non plan loan will have to be provided through budgetary support. The implementation of the revamp is expected to take two years for HFC and three years for FCI.”

46. The Committee further pointed out that as per the provisions of OADB Act, 1974, OADB could give loans/grants to projects relating to petroleum, chemicals and petro-chemicals and fertilisers. Asked whether DOF/PSUs have approached OADB for loans etc., the Secretary Fertilisers stated during evidence :-

“I would like to submit that we were grateful to the hon. Committee for indicating a possible source of funding. We have taken full details of this like to what extent it could be done, what is the coverage and what is the quantum of funds, what is the size of funding and if OADB decides to agree what will be possible, etc. We could not make a formal application because we did not know the requirement of packages. It has since been finalised and now we know what is the requirement of funding because it is not only the total loan that is required.”

47. It also came out during the course of examination that Gorakhpur Unit of FCI (which is lying closed since 1990 after a fire accident) and Haldia Unit of HFC which has not produced even a single grain of fertiliser since its commissioning in 1976) could not be revived and only option could be to install new plants at these sites with a reported Capital cost of Rs. 1300 crores each. For Gorakhpur Unit, KRIBHCO was studying to set up a plant there and efforts were on to find a party to take over Haldia unit of HFC.

48. Asked about the latest position in regard Haldia Plant of HFC and Gorakhpur plant of FCI, the DOF informed in a note .

“The revamp of Gorakhpur Unit of FCI and Haldia Project of HFC was not found to be techno economically feasible. The only viable alternative for their rehabilitation was the setting up of a new ammonia/urea units using the existing infrastructure at these locations at a fresh investment of about Rs. 1300 crore each at current price level. In view of the budgetary resource limitation, a decision was taken to attract private capital for rehabilitation of these units.

Of late, KRIBHCO has evinced an interest in setting up a new standard sized fertiliser unit at Gorakhpur using FCI’s infrastructure. Based



on a preliminary feasibility study, KRIBHCO has initiated the steps for obtaining approval for the investment decision.

The action has also been initiated to invite offers for takeover of Haldia project through an open bidding process."

49. The Committee note that for making investment in PSUs and for providing plan and non-plan loans to PSUs a provision of Rs. 646 crores has been made in Demands for the year 1997-98. This includes Rs. 87.50 crores for investment in PSUs under DOF (Rs. 27 crores for FCI, Rs. 20 crores for HFC and Rs. 36.50 crores for PPL). Out of total plan and non-plan loans of Rs. 558.34 crores Rs. 305 crores and Rs. 164.34 crores have been earmarked for FCI and HFC units respectively. In view of the huge funds being given out of the exchequer, the Committee would like the Government to ensure that funds are spent for achieving best results out of the schemes for which the funds have been earmarked.

(Recommendation Sl. No. 8)

50. The Committee are deeply anguished over the fact that even though the HFC and FCI were declared sick units as far back as 1992, their revival plans are yet to be finalised. Since December 1993, the Committee in their as many as 7 Reports presented to Parliament have emphasised / urged upon the Govt. to expedite the finalisation of revival packages of these two PSUs. The revival packages were repeatedly referred to Expert Group and various Govt. decision making authorities. The Group of Ministers had also approved the revival packages in principle in April, 1995. The delay in finalisation of revival packages has now pushed the cost estimates from Rs. 2200 crores to over Rs. 3500 crores. The Committee have now been informed that Report of the Expert Group which examined the revival packages was received only in February, 1997 and efforts are being made to expedite the approval of the revival packages. Since there has been enormous delay in finalising in revival plans of HFC / FCI units, resulting in increase in cost from Rs. 2200 to Rs. 3500 crores, the Committee strongly recommend that it should be finalised/approved without any further loss of time. The Committee would like to be apprised of the action taken in this regard within 2 months of presentation of the Report in Parliament.

The Committee also reiterate their earlier recommendation made in their 2nd Report that revival of Namrup units of HFC should be given top priority as these are located in an industrially backward region and politically explosive.

(Recommendation Sl. No. 9)

51. The Committee find from the Expert Report that out of total proposed outlay of revival package of about Rs. 3500 crores, the financial institutions are expected to contribute only Rs. 1162 crore only. The Committee expect that the Government will, without any further delay, sanction the rehabilitation package of HFC & FCI and in order to underline its commitment to the revival of these units, mobilise the required budgetary resources in accordance with the phased programme of fund flow.

(Recommendation Sl. No. 10)

52. The Committee also desire that the Government should give a firm direction to the financial institutions, which have a substantial Government participation in their policy making organs, fully to participate in the rehabilitation of HFC & FCI. In Committee's view there should be no subsisting reservations in regard to the technical and financial viability of the revival packages, as two of the leading financial institutions, viz. ICICI & IDBI have taken an active part in the reformulation of these packages.

(Recommendation Sl. No. 11)

53. The Committee feel that the extension of Government guarantee to the term loans to be mobilised from financial institutions would be conducive to their participation in the revival packages. It is understood that as per the current policy, Government guarantees are being provided for Power projects as well as multilaterally funded projects. The Committee strongly recommend that the rehabilitation of sick fertiliser PSUs, which have a strategic role in the economic development of various regions particularly the North-Eastern and Eastern region, may be treated at par with Power projects and multilaterally funded projects. The availability of Government guarantees may also attract funding from multinational financial institutions.

(Recommendation Sl. No. 12)

54. The Committee note that Haldia Plant of HFC which has not produced even a single grain of fertilisers since its installation in 1980 and Gorakhpur plant of FCI which is lying closed since 1990 after a fire accident are to be hived off. In the context of Gorakhpur Unit the Committee were informed in August, 1996 that KRIBHCO was showing interest in taking over the Gorakhpur Plant for setting up a new plant there. The Committee find that much progress has not been made during

the last 7-8 months in this regard. They (Committee) accordingly recommend that decision in regard to future of Gorakhpur and Haldia Units should be expedited.

(Recommendation Sl. No. 13)

55. It came out during course of examination that the DOF has initiated for taking OI DB loans for its PSUs etc. only after pointed out by the Committee. The Committee feel sorry for a Govt. Deptt. which was not aware of a good source of funding which was available for the last 22 years for petroleum, chemicals and fertilisers sector. Interestingly the OI DB in the past had advanced loans to PSUs like National Building Construction Corporation (NBCC) and Bridge & Roof Co. which are not even from the Petroleum/Chemicals/Fertilisers sectors. The Committee expect atleast now the Deptt. will pursue with OI DB vigorously for getting requisite funds for its PSUs etc.

(Recommendation Sl. No. 14)

#### Operating costs of HFC & FCI

56. The Committee noticed from the documents submitted by the Ministry that the capacity utilisation in HFC has been was about 20-30% only. Similarly in FCI the capacity utilisation was about 28% only. However, there has been quantum increase in the cost of production (operating cost) of these PSUs as shown below :-

HFC	(Rs. in crores)				
	1994-95 Actuals	1995-96 Actuals	1996-97 B.E.	1996-97 R.E.	1997-98 B.E.
Operating Cost					
a. Salaries & Wages	59.18	77.24	65.21	80.79	84.40
B. Maintenance	35.61	51.35	54.47	50.64	50.64
C. Other costs	316.93	375.57	419.22	476.34	488.01
<b>Total</b>	<b>411.72</b>	<b>504.16</b>	<b>538.90</b>	<b>607.77</b>	<b>623.05</b>

FCI	(Rs. in crores)				
	1994-95 Actuals	1995-96 Actuals	1996-97 B.E.	1996-97 R.E.	1997-98 B.E.
<b>Operating Cost</b>					
a. Salaries & Wages	59.72	60.76	61.25	85.06	87.41
b. Maintenance Cost	18.21	21.33	22.00	24.00	24.00
c. Other Costs	156.46	243.81	210.69	270.88	276.30
<b>Total</b>	<b>233.39</b>	<b>325.90</b>	<b>293.94</b>	<b>379.94</b>	<b>387.71</b>

57. The Committee regret to note that even though the capacity utilisation of HFC and FCI has been below 30%, the operating costs of these PSUs have been increasing rapidly. The Committee are anguished to find that the 'other costs' in HFC increased from Rs. 316 crores in 1994-95 to Rs. 476 crores in 1996-97. Similarly in FCI the 'other costs' increased from Rs. 156 crores in 1994-95 to Rs. 270 crores in 1996-97. The Committee would like to emphasise the need for adopting economy measures particularly when these PSUs are chronically sick and are short of funds. The Committee would await necessary clarification as to what the 'other costs' constitute.

(Recommendation Sl. No. 15)

## Major Head '2852'

### Management Information System

58. Against expenditure of Rs. 38 lakh in 1995-96 and Rs. 27 lakh in 1996-97, a provision of Rs. 37 lakh has been made for 1997-98 for making studies in the field of management information system. Asked about the studies got conducted and result achieved thereof, the DOF informed in a note :-

"The expenditure shown in the years 1995-96 and 1996-97 against the head "Grant of studies in the field of Management Information System" and the provision made in the 1997-98 Budget related to the implementation of the recommendations of a requirement study carried out in 1993-94 by M/s Tata Consultancy Services (TCS) for development of Management Information System in the Department of Fertilisers. TCS was paid Rs. 8 lakh for this study.

Phase-II of this project, which is under execution, comprises actual design and implementation of the information and other operational systems based on the recommendations of above mentioned study. The execution of the project has been entrusted to National Informatics Centre.

No fresh studies are proposed to be undertaken in 1997-98. The budget provision made under this head is to be utilised for further strengthening the Management Information System in the Department of Fertilisers."

**59. The Committee are not convinced with the reasons advanced for incurring annually an expenditure of Rs. 25-35 lakhs in the name of strengthening 'Management Information Systems'. Accordingly, the Committee would like to be informed of specific areas in which the amount of Rs. 37 lakhs will be spent during 1997-98 and to what extent Management Information Systems has improved during the last 2-3 years.**

(Recommendation Sl. No. 16)

NEW DELHI;  
April 18, 1997  
Chaitra 28, 1919 (Saka)

A.R. ANTULAY,  
Chairman,  
Standing Committee on  
Petroleum & Chemicals.

## APPENDIX I

### Itemwise details of Demands of Deptt. of Fertilisers (Vide Para 11 of the Report)

(Rs. in crores)

Major Heads	Sl. No.	Items of Expenditure	1995-96 (Actuals)	1996-97 (BE)	1996-97 (RE)	1997-98 (BE)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		I. Non-Plan Provisions				
		A. Revenue Section				
3457	1.	Sectt. Proper	2.98	3.27	4.96	3.70
2852	2.	FICC Sectt. Expenses	0.49	0.45	0.59	0.55
2852	3.	Subsidy on indigenous	4300.00	4500.00	4743.00	5240.00
2852	4.	Subsidy on imported Fertilisers				
	(i)	Gross	3047.00	2466.00	2184.00	2862.00
	(ii)	Recoveries	-1112.00	-818.00	-834.00	-912.00
	(iii)	Net	1935.00	1648.00	1350.00	1950.00
2852	5.	Grant for MIS Studies	0.39	0.27	0.27	0.37
2852	6.	Payment towards Deemed Export Benefits	-	2.00	0.17	2.00
2852	7.	Productivity Award	0.007	0.01	0.01	0.01
		<b>Total Subsidy (3+4)</b>	<b>6235.00</b>	<b>6148.00</b>	<b>6093.00</b>	<b>7190.00</b>
		<b>Total Revenue Section</b>	<b>6238.86</b>	<b>6154.00</b>	<b>6099.00</b>	<b>7196.63</b>
		B. Capital Section				
6855	1.	Non-Plan Loan to PSUs :-				
	a.	FCI	192.00	277.00	277.00	277.00
	b.	HFC	90.00	143.34	143.34	143.34
	c.	MFL	-	20.00	20.00	-
		<b>Total (5)</b>	<b>282.00</b>	<b>440.34</b>	<b>440.34</b>	<b>420.34</b>
		<b>Total Non-Plan</b>	<b>6520.86</b>	<b>6594.34</b>	<b>6539.34</b>	<b>7616.97</b>

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	II. Plan					
	A. Revenue Section					
2852	1. Grant to KRIBHCO/ HFC in ODA, UK assisted Rainfed Farming Project.		2.01	3.25	5.01	9.78
2852	2. Grant to PDIL for R & D		4.00	4.00	4.00	4.00
2852	3. S & T Programme of the Deptt.		0.50	0.50	0.50	0.50
2852	4. Grants under Voluntary Retirement Schemes (VRS):					
	I. FCI		3.00	3.00	3.00	3.00
	II. HFC		2.00	3.00	3.00	3.00
	III. PDIL		-	1.00	1.00	1.00
	IV. PPCL		1.00	1.00	1.00	-
	Total Grant under (VRS)		6.00	8.00	8.00	7.00
	Deduct Amount met from NRF		6.00	8.00	8.00	7.00
	Net		0.00	0.00	0.00	0.00
	Total Revenue Net		6.51	7.75	9.51	14.28
	Capital Section					
4855 & 6855	1. Investment in PSU's					
	FCI		10.35	19.00	19.00	27.00
	HFC		8.35	4.00	4.00	20.00
	PDIL		0.50	0.50	0.50	1.00
	PPCL		5.06	2.00	2.00	3.00
	PPL		31.24	17.00	36.31	36.50
	Total		55.50	42.50	61.81	87.50
	2. Loans to PSU's					
	FCI		15.25	20.00	20.00	28.00

(1)	(2)	(3)	(4)	(5)	(6)	(7)
		HFC	10.25	5.00	5.00	21.00
		PDIL	-	0.60	0.60	1.00
		PPCL	2.00	2.00	2.00	3.00
		PPL	16.00	16.00	-	13.00
		MFL	24.00	37.30	37.30	-
		FACT	219.00	240.00	166.69	72.00
		Total	286.50	320.90	231.59	138.00
4401	3.	National project for strengthen of Fertilisers Handling and Transportation	-	0.10	0.10	-
		Total Capital	342.00	364.00	293.50	225.50
		Total Plan	348.51	371.25	303.01	239.78
		Grand Total	6869.37	6965.59	6842.35	7856.75



## APPENDIX - II

Minutes of the sitting of the Committee held on 8.4.1997  
The Committee sat from 1100 hrs. to 1330 hrs.

### PRESENT

Shri A.R. Antulay – *Chairman*

### MEMBERS *Lok Sabha*

2. Dr. L. N. Pandey
3. Shri Dwaraka Nath Das
4. Dr. G. L. Kanaujia
5. Shri Ashok Argal
6. Shri Bhanu Pratap Singh Verma
7. Shri Anadi Charan Sahu
8. Shri Paban Singh Ghatowar
9. Dr. Girija Vyas
10. Shri Shantilal P. Patel
11. Shri Girdhari Yadav
12. Shri Surendra Yadav
13. Shri Uddab Barman
14. Dr. Asim Bala
15. Shri P. Shanmugam
16. Shri Satyanarayana Kaikala
17. Shri Mohan Rawale

### *Rajya Sabha*

18. Shri Karnendu Bhattacharjee
19. Mohd. Masud Khan

20. Shri Parmeshwar Kumar Agarwalla
21. Shri Naresh Yadav
22. Shri Ram Gopal Yadav
23. Shri Parag Chaliha

## SECRETARIAT

1. Shri Brahm Dutt – *Under Secretary*

REPRESENTATIONS OF MINISTRY OF CHEMICALS & FERTILISERS,  
DEPTT. OF FERTILISERS

1. Shri Anil Kumar Secretary (Fertilisers)
2. Shri K. K. Jaswal Jt. Secretary (Fertilisers)
3. Shri S. Kabilan Jt. Secretary & Financial
4. Shri D. K. Sikri Jt. Secy. Adviser (Admn. & Movement)
5. Shri Pradeep Singh Ex-Director, FICC
6. Dr. G. B. Purohit Adviser (Fertilisers)
7. Shri Rakesh Kapoor Director
8. Shri Saurabh Chandra Director
9. Shri S. K. Dash Director
10. Shri S. K. Ray Director

PUBLIC SECTOR UNDERTAKINGS (PSUs)

11. Shri Dinesh Singh C.M.D., NFL
12. Shri O. P. Kaviraj A.G.M., NFL
13. Shri A. K. Dhingra Manager (Marketing), NFL
14. Shri O.P. Rastogi A. M. (Finance & Accounts), NFL
15. Shri Abraham Thomas C.M.D., FACT

At the outset, the Committee took up the oral evidence of the representative of Ministry of Chemicals & Fertilisers in connection with the examination of the Demands for Grants of Deptt. of Fertilisers for the year 1997-98.

2. The main issues that came up for discussions were subsidy provided for indigenous and imported fertilisers, funds for HFC/FCI and efforts for early finalisation of revival packages for these Units with special mention of Namrup.

A verbatim record of the proceedings has been kept.

3. The Committee also decided to constitute a Sub-Committee under the convenorship of Shri Parmeshwar Kumar Agarwalla, M.P. (and a Member of the Committee) to go into the sickness of HFC/FCI (including Namrup).

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*The Committee then adjourned.*

## APPENDIX - III

Minutes of the sitting of the Committee held on 18.4.1997  
The Committee sat from 1630 hrs. to 1700 hrs.

### PRESENT

Shri A.R. Antulay – *Chairman*

### MEMBERS

*Lok Sabha*

2. Shri Tejvir Singh
3. Shri Dwarka Nath Das
4. Dr. G. L. Kanaujia
5. Shri Ashok Argal
6. Shri Bhanu Pratap Singh Verma
7. Shri Oscar Fernandes
8. Dr. Girija Vyas
9. Shri Shantibhai P. Patel
10. Shri K. Kandasamy
11. Shri Mohan Rawle
12. Shri Bir Singh Mahato

*Rajya Sabha*

13. Shri H. Hanumanthappa
14. Shri Gundappa Korwar
15. Shri Narain Prasad Gupta
16. Shri R. K. Kumar
17. Dr. Y. Lakshmi Prasad
18. Shri Parag Chaliha

### SECRETARIAT

1. Shri J. P. Ratnesh – *Joint Secretary*
2. Shri G. R. Juneja – *Deputy Secretary*
3. Shri Brahm Dutt – *Under Secretary*
4. Shri S. N. Dargan – *Under Secretary*

The Committee considered the Draft Reports on Demands for Grants for 1997-98 relating to the following Ministries/Departments :-

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(ii) 11th Report relating to the Ministry of Chemicals & Fertilisers, Deptt., of Fertilisers.

2. After some discussions, the Committee adopted the above Draft Reports with some verbal changes.

4. The Committee, thereafter, authorised the Chairman to finalise the 10th and 11th reports after factual verification by the concerned Ministries/Departments and present them to Parliament.

*The Committee then adjourned.*