TWENTY-FOURTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2001)

(THIRTEENTH LOK SABHA)

MINISTRY OF CHEMICALS & FERTILISERS
(DEPARTMENT OF FERTILISERS)

INDIAN FARMERS' FERTILISERS COOPERATIVE LTD.
(IFFCO)

Presented to Speaker Lok Sabha on ***28.12.2001***
Presented to Lok Sabha ***26.02.2002***
Laid in Rajya Sabha on ***08.03.2002***

LOK SABHA SECRETARIAT
NEW DELHI

December, 2001/Agrahayana, 1923 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE
ON PETROLEUM & CHEMICALS
(2001)

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Shri Ashok Argal
3. Shri Ramchander Bainda
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Dr. (Smt.) C. Suguna Kumari
7. Shri Padam Sen Choudhary
8. Shri T.T.V. Dhinakaran
9. Shri Dilipkumar Mansukhlal Gandhi
10. Shrimati Sheela Gautam
11. Shri Pawan Singh Ghatowar
12. Shri Bijoy Krishna Handique
13. Shri Shriprakash Jaiswal
14. Shrimati Nivedita Mane
15. Shri Punnulal Mohale
16. Shri P. Mohan
*17. Dr.Debendra Pradhan
18. Shri Mohan Rawale
19. Dr. Bikram Sarkar
20. Shri Shyama Charan Shukla
21. Shrimati Kanti Singh
22. Shri Prabhunath Singh
23. Shri D.C. Srikantappa
24. Dr. Ramesh Chandra Tomar
25. Shri Tarlochan Singh Tur
26. Shri Shankersinh Vaghela
27. Shri Ratilal Kalidas Varma
28. Shri B. Venkateshwarlu
29. Shri Rajesh Verma
30. Dr. Girija Vyas

Rajya Sabha

31. Shri Anil Kumar
32. Shri Gaya Singh
33. Shri Ram Nath Kovind
**34. Shri Daya Nand Sahay
35. Shri Moolchand Meena
36. Shri Dipankar Mukherjee
37. Shri Suresh Pachouri
38. Shri Ahmed Patel

39. Shri Mukesh R. Patel
*** 40. Vacant
41. Shri K. Kalavenkata Rao
42. Shrimati Basanti Sarma
43. Shri Rajiv Ranjan Singh 'Lalan'
44. Shri P. Soundararajan
45. Prof. Ram Gopal Yadav

Secretariat

1. Shri P.D.T. Achary - *Additional Secretary*
2. Shri K.V. Rao - *Joint Secretary*
3. Shri Brahm Dutt - *Deputy Secretary*
4. Shri J.N. Oberoi - *Under Secretary*
5. Shri A.K. Shah - *Sr. Executive Assistant*

**** Nominated on 13.10.2001 on casual vacancy caused consequent upon appointment of Sh. Ashok Pradhan, M.P.(LS) as Minister w.e.f. 02.09.2001***

***** Nominated on 28.9.2001 as casual vacancy caused consequent upon the retirement of Dr. (Smt.) Joyashree Goswami Mahanta, MP (RS) from the membership of Rajya Sabha w.e.f. 14.06.2001.***

****** vacancy caused consequent upon appointment of Sh. Ravi Shankar Prasad, M.P.(RS) as Minister w.e.f. 01.09.2001.***

COMPOSITION OF SUB-COMMITTEE ON FERTILISERS
A SUB-COMMITTEE OF THE STANDING COMMITTEE
ON
PETROLEUM & CHEMICALS
(2001)

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Shri Dipankar Mukherjee - Convenor

3. Shri Ramchander Bainda
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Shri Padam Sen Choudhary
7. Shri Dilipkumar Mansukhlal Gandhi
8. Shri Rajiv Ranjan Singh 'Lalan'
9. Shri Punnulal Mohale
10. Shri Suresh Pachouri
*11.Dr.Debendra Pradhan
12. Shri K. Kalavenkata Rao
13. Shri P. Soundararajan
14. Shri D.C. Srikantappa
15. Dr. Bikram Sarkar
16. Shri Rajesh Verma

** Nominated consequent upon appointment of Shri Ravi Shanker Prasad, M.P. (RS) as Minister w.e.f. 1.9.2001*

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (2001) having been authorised by the Committee to submit the Report on their behalf present this Twenty- Fourth Report on `Indian Farmers' Fertilisers Cooperative Limited (IFFCO)'.

2. This subject was selected for examination by Standing Committee on Petroleum and Chemicals (1999-2000) and the preliminary material was obtained from the Ministry of Chemicals & Fertilisers, Department of Fertilisers. The Standing Committee on Petroleum and Chemicals (2001) decided to continue with the subject and decided to refer it to their Sub-Committee for detailed examination. The Sub-Committee on Fertilisers took the evidence of the representatives of Indian Farmers' Fertilisers Cooperative Limited (IFFCO) on 9th November, 2001 and that of representatives of Ministry of Chemicals and Fertilisers, Department of Fertilisers on 11th December, 2001.

3. The Committee wish to express their thanks to officers of Ministry of Chemicals and Fertilisers, Department of Fertilisers and representatives of Indian Farmers' Fertilisers Cooperative Ltd. (IFFC0) for placing their views before them and for furnishing the information desired in connection with examination of the subject.

4. The Sub-Committee on Fertilisers considered and adopted this Report at their sitting held on 19th December, 2001.

5. The Standing Committee on Petroleum and Chemicals (2001) considered and adopted this Report at their sitting held on 20th December, 2001. The Committee place on record their appreciation of the work done by the Sub-Committee on Fertilisers.

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

NEW DELHI **MULAYAM SINGH YADAV**
<u>December 20, 2001</u> ***Chairman***
Agrahayana 29, 1923 (Saka) ***Standing Committee on Petroleum & Chemicals.***

CHAPTER – I

OBJECTIVES OF IFFCO

A. INTRODUCTORY

Indian Farmers' Fertilisers Cooperative Ltd. (IFFCO) was registered as Cooperative Society in November, 1967 under the Multi-State Cooperative Societies Act, 1942. On encactment of Multi-State Cooperative Societies (MSCS), Act, 1984 as a comprehensive Central Legislation to consolidate various laws relating to Cooperatives, the Society was deemed to be registered as a Multi-State Cooperative Society. IFFCO set up its first Ammonia-Urea Plant at Kalol and DAP Plant at Kandla in 1974. Subsequently, in 1981 and 1988 it set up Ammonia Urea Plants of Phulpur and Aonla respectively. In 1997, IFFCO expanded its Kalol and Phulpur Plants. In 1999 IFFCO also doubled its DAP-NPK plant of Kandla. The following is the yearwise and plant-wise Urea DAP:N:P:K capacity of IFFCO plants.

(In lakh tonnes per annum)

Sl. No.	Year of Commissioning	Plant	Installed Capacity of Urea
1.	1974	Kalol	3.96
2.	1981	Phulpur	5.12
3.	1988	Aonla	8.53
4.	1996	Aonla Expansion	8.53
5.	1997	Kalol Expansion	1.50
6.	1997	Phulpur Expansion	8.53
		Total	**36.17**

(in lakh tonnes per annum)

			Installed capacity of DAP:NPK
1	1975	Kandla	
2	1981	Kandla Expansion	9.00
3	1999	Kandla	7.00
		Total	**16.00**

B. OBJECTIVES

1.2 The main objectives of IFFCO as enshrined in its Bye-Laws are as detailed below:

"The objects of IFFCO shall be to promote the economic interest of its members by undertaking manufacture/production/development of chemical fertilisers, bio-fertilisers, petrochemicals, industrial chemicals, their inputs and technologies, and allied products/by-products and conversion, storage, transportation and marketing; undertake manufacture/processing/conversion of farm products including sugarcane, derived products and bye-products, pesticides, seeds, farm produces, bio-technology, pisciculture and acqua-farming, agriculture machinery and implements and other agricultural inputs and their conversion, storage, transportation and marketing and undertake trading, shipping, transportation, communication and telecommunication, power generation and distribution from conventional or non-conventional energy sources, housing, real estate, construction, to provide for banking and insurance and undertake such other activities which are conducive and incidental thereto."

1.3 During the examination the Committee wanted to know as to what extent IFFCO has achieved their objectives, IFFCO informed in a note:-

> "IFFCO has successfully realised many of its objectives like manufacturing/transportation/storage and marketing of chemical fertilisers; production/marketing of industrial byproducts namely, ammonia, dry ice; production/distribution of seeds and distribution of pesticides through its Farmers' Service Centres; setting up and running of training institutes for providing training to the employees of Cooperative Societies/Farmers community to promote and develop cooperatives; development and strengthening of cooperative channels; encouraging and providing the use of balanced application of fertilisers; incremental income of the farming community; promoting a national Farm Forestry Development Cooperative; organising Special Projects to promote Bio-technology etc. IFFCO is the largest producer of fertilisers in the country. Through expansion schemes and joint venture strategies, IFFCO is emerging not only as a major fertiliser producer in the world but also as an important player in the international cooperative movement."

1.4 The Committee pointed out that IFFCO had worked on a few activities which were part of objectives and desired to know the justification in retaining these objectives/Bye-laws, if these cannot be achieved/planned in next five years, IFFCO in a written note informed:-

> "The objectives of the Bye-Laws were included to provide commercial options to the Society to venture into new areas of business depending on the available opportunities of growth. As the Bye-Laws are not revised frequently, it is prudent to retain the options in order to enable the Society to respond to fast changing economic environment as and when needed."

1.5 The Committee further wanted to know whether IFFCO has reviewed its objectives like developing pesticides, trading, shipping, transportation, communication and telecommunication, housing real estate, power generation, construction, to provide for banking etc. IFFCO in a written note stated:-

"IFFCO had earlier explored the feasibility of diversification into pesticides, veterinary drugs, food processing, shipping, chemicals & petrochemicals but preferred not to pursue these projects due to various techno-economical and commercial considerations at that time. However, in a changed economic scenario these options may be reviewed, if the situation warrants."

1.6 On being further asked whether IFFCO's "Vision 2000", "Mission 2005" documents envisaged any role for the above objectives including accomplishment of objectives in a time bound manner, IFFCO in a written note submitted:-

"Under the aegis of VISION - 2000, IFFCO has under taken expansion of all the 4 existing fertiliser plants thereby almost doubling its production activities. It has helped IFFCO to emerge as the largest manufacturer and marketer of chemical fertilisers in India and a leading player in international arena.

MISSION-2005 aims at exploitation of Global Resources by forming Joint Ventures abroad for sourcing raw material from overseas at economic rates either for production of complex fertilisers in India and / or for production of Ammonia / Urea in the overseas country and then importing the end product to India to meet domestic requirement of fertilisers. Joint venture in the field of insurance and information technology are also constituent of Mission - 2005."

1.7 During the course of examination of the Department of Fertilisers the Committee pointed out that apart from production and marketing of fertilisers, IFFCO through Joint Ventures were going into insurance and information technology areas. Asked as to whether for an organisation like IFFCO it would not have better to take activities like processing of food/agriculture products, agricultural storage and similar other activities etc., the Secretary Fertilisers stated during evidence:-

" You are absolutely right. I do not think IFFCO should take a rigid stand that they are stuck with only fertilizer or insurance and nothing else. When multinationals can come into food processing industry, are they so big that they cannot even start thinking about them. They should keep flexible mind on the subject and they should have options. If this hon. Committee deems it appropriate to recommend, we can certainly take up the matter with the Board of Directors of IFFCO. Their aims and objectives specifically state that items like food processing etc., are well within their parameters of operation. We support the hon. Committee in asking them to consider this matter and get back."

1.8 In this connection Department of Fertilisers in a written note has informed:-

"The Bye-laws of society cover a wide spectrum of areas in which it can venture commensurate with its available resources."

1.9 IFFCO has informed that Society had earlier explored the diversification into areas including food processing but preferred not to pursue the same due to techno-economical and commercial considerations. However in a changed economic scenario these options may be reviewed, if situation warrants.

1.10 The Committee observe that objectives laid down in the bye-laws of the Society are wide ranging in nature varying from promoting the economic interest of its members by undertaking manufacture/ production development of chemicals fertilisers, bio-fertilisers their impact and technologies, storage, transportation, marketing processing of farm products, pesticides, trading, shipping, tele-communication, power generation, housing, real estate, banking and insurance etc. For achieving these objectives IFFCO has informed that it has successfully realised many of its objectives like production and marketing of fertilisers. For remaining objectives like processing farm products, pesticides, trading, shipping, and petro-chemicals, IFFCO has informed that IFFCO had explored the feasibility of diversification in these areas but preferred not to pursue due to various techno-economical and commercial considerations. However, these objectives may be reviewed in a changed economic scenario. About the need to retain relevant objectives in bye-laws of the Society, IFFCO has informed that these are not revised frequently and hence allowed to remain in bye-laws. The purpose of these objectives is to provide commercial options for venturing into new areas of business depending on the available opportunities of growth. The Deptt. of Fertilisers have also agreed with IFFCO. However, the Committee feel that the society should review all the objectives enshrined in the bye-laws and retain such of the objectives as are synergic in its character. The society should make plans for the next 10 years to 25 years to achieve their fulfilment. As agreed to by Fertilisers Secretary, IFFCO should explore the possibilities of taking food processing, storage activities on priority basis as these are rural/agriculture based where IFFCO has roots.

(Recommendation Sl. No.1)

CHAPTER II

CAPITAL STRUCTURE & MEMBERSHIP

A. CAPITAL STRUCTURE

2.1 As against the authorised share capital of Rs. 1000 crore of IFFCO, the paid-up capital at the end of March, 2001 was Rs. 417.72 crore.

2.2 The following statement shows share capital of IFFCO held by different partners in IFFCO during the last three years:-

Rs. in crores

Year	Name of Members			Total
	GOI	NCDC	Cooperatives	
1998-99	289.61	3.05	90.12	382.78
1999-2000	289.61	2.05	112.56	404.22
2000-2001	289.61	2.05	126.06	417.72

2.3 During the course of examination the Committee pointed out that share of Govt. of India remained unchanged in all the three years. Share of NCDC has lowered from Rs. 3.05 crore in 1998-99 to Rs. 2.05 crore during 1999-2000 and 2000-2001. Whereas share of cooperatives increased from Rs. 90.12 crore in 1998-99 to Rs. 112.56 crore in 1999-2000 and further to Rs. 126.06 crore in 2000-2001. The Committee drew the attention of IFFCO that the Standing Committee on Petroleum and Chemicals in their 13th and 21st Reports (10th Lok Sabha, presented in Parliament in March and December, 1995 respectively) had recommended that the Government should take action for transferring more share capital to cooperatives. The Committee pointed out from the figures furnished by IFFCO that Committee's recommendation regarding transferring more share capital has not fully been implemented since the equity held by Govt. has been left untouched during the last three years.

2.4 Enquired whether IFFCO has any specific plan to raise the share of small Cooperatives by diluting the share of Government in IFFCO, they informed in a written note as under:-

> "IFFCO has been encouraging small member Cooperative Societies to reinvest dividend in the equity of IFFCO. Besides, enamoured with the thumping success of IFFCO, a large number of Cooperative Societies are now coming forward either to increase their share capital or seek fresh membership in IFFCO. This is evident from the fact that the share of Cooperatives in the equity of IFFCO increased from 23.8 percent in 1998-99 to 30.2 percent in 2000-01. This increase in the share capital of cooperatives is considered to be significant in spite of the prevailing poor financial position of Cooperative Societies in the country."

Reduction of Government Equity in IFFCO

2.5 During the course of examination, the Committee found that with a view to free Cooperatives from Government control, the existing Multi-State Cooperative Act, 1984 was being replaced by Multi- State Cooperative Amendment Bill, 2000 and the Bill has already been introduced in Parliament.

2.6 DOF had informed that broad features of the Bill are:-

> "The thrust of the new Legislation is to ensure autonomous and democratic functioning of Cooperatives, *inter-alia*, proposing to reduce the Government equity. However, provisions already exist for redemption of shares held by the Government in accordance with the bye-laws of a multi-state cooperative society concerned or as may be agreed upon between the Society and the Government on the face value of the shares.
>
> Further, this Department has requested Department of Agriculture & Cooperation for issuing necessary instructions/ advice to apex banking institutions in rural sector and State Registrars of Cooperative Societies for participation of eligible marketing Cooperative Societies in the equity of KRIBHCO as well as extending loan facilities to the farmers for acquiring membership of the Society.

2.7 The 24th Report of Standing Committee on Agriculture (2001) presented to the House on 28th August, 2001 in this connection also states that Clause 35(1) of the Multi-State Cooperative Societies Bill, 2000 also stipulates that shares held in a Multi-State Cooperative Society shall be redeemable. In this context, the Standing Committee on Agriculture were informed that Society can return the Government equity, if it so desired. However, such an exercise is subject to consent of share holders. This preposition has not been favoured by the Standing Committee on Agriculture. The Committee have recommended such redeeming provision in the Act be made obligatory on the part of the Government.

2.8 On being further asked about views of IFFCO, when Government is holding 69% of the share capital of IFFCO, IFFCO in a written note stated:-

> "The Board of IFFCO among other issues debated on the issue and it has been proposed that at an appropriate time the matter will be taken up with the Government of India to repatriate their equity to the extent of the additional contribution made by the cooperatives. However, final view in this regard will be taken after the Bill is passed by the Parliament."

2.9 The Committee note that as against the authorised share capital of Rs. 1000 crore of IFFCO, the paid up capital of IFFCO was Rs. 417.72 crore as on 31st March, 2001. The Committee also note that majority share of IFFCO is held by the Government of India. Out of total paid up capital of Rs. 417.72 crore of IFFCO, Rs. 289.61 crore is held by Central Government. The Standing Committee on Petroleum & Chemicals (1994-95, 10th Lok Sabha) had also examined the matter and in their 13th Report on IFFCO and KRIBHCO, presented to the Parliament in March, 1995

had recommended in that Government should transfer more share capital to Cooperatives in a phased manner for making both the Cooperatives real Cooperatives in character. However, the Committee's examination has revealed that equity in IFFCO held by Government has been left untouched and whatever increase in equity held by Cooperatives in IFFCO has been done that is made by partly by increase in equity by Cooperatives themselves or by reducing the share of National Cooperative Development Corporation (NCDC) in IFFCO. The Committee find that share held by Cooperatives in 1998-99 of Rs. 90.12 crore was increased to Rs. 112.56 crore and Rs. 126.06 crore in 1999-2000 and 2001-2002 respectively. The Committee also find that share of equity of Rs. 289.61 crore held by Government has not been diluted during the last three years. The share of equity held by NCDC of Rs. 3.05 crore in 1998-99 has been reduced to Rs. 2.05 crore during 1999-2000 and 2000-2001. In this context the Committee note that with a view to free Cooperatives from Government control the Government have already introduced a Bill in the Parliament. The Committee note that the Bill *inter-alia* proposes to reduce Government equity. The Committee also find that Clause 35(1) of the Bill stipulates that shares held in a Multi-State Cooperative Society shall be redeemable. The Committee find that Standing Committee on Agriculture has even recommended that redeeming provisions in the Bill be made obligatory for all Cooperatives. IFFCO has informed that IFFCO's Board of Directors has already debated the issue and informed that at appropriate time they will take up the matter of repatriation of equity held by Government to the extent of additional contribution made by the Cooperatives. However, final view in this regard will be taken after the Bill is passed in Parliament. Department of Fertilisers has further informed (March, 2001) that for more and more participation of Cooperatives in equity of Cooperatives , DOF has requested Department of Agriculture & Cooperation for issuing necessary instructions to apex banking institutions in rural sector and State Registrar of Cooperatives to help the Cooperatives at root level financially. In the light of the foregoing development the Committee hope that IFFCO would take a definite stand on the issue of reduction of Government equity in Society and its substitution by equity by Cooperatives in a big way.

(Recommendation Sl. No. 2)

B. MEMBERSHIP

2.10 Cooperatives are main institutional agencies in the country distributing IFFCO's fertilisers in different States. During the course of examination IFFCO has furnished the following State-wise number of Societies who are Members of the Society during the last three years:-

S.No.	**State**	**Number of Members**		
		1998-99	**1999-2K**	**2000-2001**
1.	U.P./Uttranchal	5508	5520	5595
2.	Gujarat	4212	4260	4344
3	Madhya Pradesh/	4411	4120	4165

	Chattisgarh			
4	Rajasthan	3570	3584	3559
5	Punjab	3138	3173	3196
6	Jharkhand/Bihar	2646	2656	2766
7	Tamil nadu	2562	2595	2676
8	Haryana	2054	2056	2104
9	Karnataka	1895	1910	1967
10	Andhra Pradesh	1865	1879	1907
11	Maharashtra	1528	1538	1625
12	West bengal	1048	1053	1060
13	Kerala	295	305	343
14	Orissa	319	322	328
15	Himachal Pradesh	256	260	262
16	J&K	25	25	25
17	Assam	12	12	12
18	Delhi	18	18	18
19	Goa	9	9	9
20	Pondicherry	2	2	2
21	Tripura	1	1	1
22	Meghalaya	1	1	1
23	Chandigarh	1	1	1
24	Mizoram	0	0	1
25	Govt. of India	1	1	1
26	Arunahcal pradesh	1	1	1
	Total	35072	35302	35973

(i) ***<u>Need for more thrust in North-Eastern States</u>***

2.11 During the course of examination the Committee pointed out that in the States of J&K, Delhi, Assam it has been in double digit and in Meghalaya, Mizoram, Tripura, Arunachal Pradesh, Pondichery it has been in single digit only. Besides Membership of IFFCO has by and large been concentrated in five States of U.P., Gujarat, Rajasthan, Punjab, Bihar and Haryana. In this context the Committee wanted to know the reasons of membership not being equitably distributed through out the country and especially in North-Eastern states and whether IFFCO has plans to expand membership to cater to such areas where membership is negligible. IFFCO in a written note informed:-

> "Cooperative Movement in the country is not spread uniformly. The cooperative movement is weak particularly in the States of J & K, Delhi, Assam and other North-Eastern States. As a result, the membership of IFFCO in these States is not to the extent compared to the States of Uttar Pradesh, Gujarat, Rajasthan etc. However, IFFCO is also making efforts to reach the North-Eastern parts of the country in a phased manner. Since the cooperative movement in the North-Eastern States is gradually taking roots, the membership from these States is also showing an increase."

(ii) Strengthening of Cooperatives in other states

2.12 During the course of examination IFFCO has submitted some suggestions for increasing the numbers of cooperatives in fertiliser business. In this connection, IFFCO has informed that out of 89,000 villages Cooperative Societies, only 41,000 are currently doing fertiliser business. IFFCO has suggested that the remaining 48,000 Cooperative Societies be given financial and managerial support so that they also do fertiliser business. The Committee were also informed that after enactment of Swavlambi Sahyog Samiti Act in 1996, 400 new Societies have come up in Bihar and they were doing very well.

2.13 In this context, asked whether IFFCO has ever discussed with Department of Fertilisers/ Department of Agriculture and Cooperation the matter of giving financial and managerial support to old Cooperative Societies during the last three years, IFFCO in a written note informed:-

> "The problem of decreasing sales through cooperatives has been discussed at GOI level during Quarterly Review Meetings (QRMs). As the cooperatives are under the perview of State Govts., IFFCO has discussed with the State Govts. also. Some of the states have already enacted laws for formation of new Cooperative Societies which are free to do their business. These laws will help Cooperatives in the long run."

2.14 On being further pointed out by the Committee whether IFFCO has discussed with State Governments the success of Bihar Cooperative Societies and the need to adopt the same pattern in other States, IFFCO in a written note informed:-

> "IFFCO has been discussing the success of the Bihar Cooperative Societies with officials from other States and requesting them to register new societies on the pattern of Bihar State."

In addition:-

"IFFCO can take up the following with the State Governments :

1. Direct delivery system to be introduced in the states in order to cut down the avoidable expenses involved in the multi tier system of distribution of fertilisers.
2. Special incentives for PACS in far flung, remote, tribal, hilly and inaccessible areas.
3. Encouraging non credit cooperatives to take up fertiliser business.
4. Canalisation of short term credit through IFFCO & KRIBHCO by some of the banks and Kisan Credit Card of Government of India."

2.15 The Committee have been informed that Cooperatives have been the backbone of IFFCO for distribution of IFFCO's fertilisers among the farmers in different States. The Committee find that number of memberships in these Cooperatives throughout the country during the last three years has been 35 072,

35302 and 35973 during 1998-99, 1999-2000 and 2000-2001 respectively. The Committee find that Memberships of IFFCO has by and large been concentrated in twelve States viz. U.P/Uttranchal, Gujarat, Rajasthan, Punjab, Bihar, Tamil Nadu, Haryana, Karnataka, Andhra Pradesh, Maharashtra and West Bengal. Whereas in remaining States IFFCO has less membership particularly in North-Eastern States where it has not added even one membership during the last three years. Admittedly cooperative movement is not spread evenly and uniformly and reportedly it is weak in North-Eastern States. The Committee find that IFFCO now plans to reach North-Eastern States in a phased manner. The Committee hope that IFFCO spreads its memberships in the next 2 years in a manner that its presence is marked throughout the country.

(Recommendation Sl. No. 3)

2.16 As regards strengthening of Cooperatives, the Committee find that it can be done by bringing back around forty eight thousand Cooperative Societies to fertiliser business which are no longer in the business. This can be made possible by giving these Cooperatives financial and managerial support. The Committee strongly feel that IFFCO/DOF in cooperation with Department of Agriculture Cooperation should prepare feasible plan to bring these societies back. The Committee hope that the plan would be ready in the next three months.

(Recommendation Sl. No. 4)

2.17 The Committee were informed that in Bihar more than four hundred societies have come up after enactment of Swamlambi Sahyog Samiti Act in 1996 and reportedly these are doing very well. According to IFFCO there is a need for such a legislation in other States and IFFCO itself has been discussing the success of Cooperative Societies of Bihar with other States and requesting them to adopt the same pattern. The Committee recommend that DOF in consultation with DOAC will analysis the possibility of such a legislation in different States and the Government take up this matter at the highest level with State Governments.

(Recommendation Sl. No. 5)

2.18 Amongst other suggestions from IFFCO for Cooperatives include introduction of direct delivery of fertilisers to Primary Agricultural Cooperatives Societies (PACs) in States, special incentives for PACs working in remote, hilly and tribal areas, encouraging non-credit cooperatives to take up fertiliser business and consolidation of short term credit through cooperatives by Banks Kisan Credit Card of Central Government. The Committee recommend that DOF should examine and implement these suggestions in consultation with DOAC as early as possible.

(Recommendation Sl. No. 6)

CHAPTER III

DIVERSIFICATION ACTIVITIES

As part of diversification activities, IFFCO has informed that IFFCO has taken up schemes for diversification into areas other than fertilisers like Insurance, Information Technology through Joint Venture and its application in decision support systems with a focus on strengthening cooperative and cooperative infrastructure.

A. INSURANCE BUSINESS

3.2 IFFCO has informed that it has already started its operations since 4th December, 2000, under the name and style of `IFFCO – Tokio General Insurance Company' (ITGI)' a Company registered under Companies Registration Act, 1956 for marketing of 34 products in commercial personal and rural lines.

3.3 During the course of evidence of the representatives of IFFCO M.D. IFFCO explained about insurance business as under:-

> "We have started an insurance company wherein IFFCO, KRIBHCO and IPL have joined together with number fifth ranking insurance company in the world, Tokio Marine and Fire Insurance company, which is also the number one ranking insurance company in Japan. And this is the only company from Japan which had set up a joint venture in insurance in India . We were the first one to get the licence from IRDA. This Company has started a very unique insurance product for farmers under the name Sankat Haran Bima Yojana which was launched on 1st October, 2001. This is one of its very rare insurance policies which will provide insurance cover to the farmers. In the case of death disablement due to accident."

3.4 The Committee enquired as to how much investment IFFCO has made in ITGI and what are its future liabilities in the next five years, IFFCO in a written note informed:-

"The paid up capital of the Company is Rs. 100 Crore of which Rs. 74 crore have been contributed by IFFCO (Rs. 49 Crore) and its associates ("KRIBHCO Rs. 20 Crore and IPL Rs. 5 Crore) and the balance Rs. 26 Crore have been contributed by Tokio-Marine & Fire Insurance Co. Ltd. The Company has drawn its business plan for the next three years ending 31st March 2004. Since ITGI is separate company IFFCO's liability is limited to the amount contributed by it towards equity."

3.5 The Committee also wanted to know the present and likely future competitors in this Business in near future and whether IFFCO has taken their acumen in consideration while making business strategies, IFFCO in a written note informed:-

"As on date the competitors for ITGI in the market are the four nationalized companies viz New India Assurance Co. Ltd, Oriental Fire and General Insurance Company Ltd., United India General Insurance Co. Ltd., and National Insurance Co. Ltd. In addition the four new entrants in the market are Tata-AIG, Royal Sundaram Alliance, ICICI-Lombard and Bajaj Alliance.

During the past almost three decades the entire insurance market was captured by the four nationalized companies which were subsidiaries of GIC. With the opening of insurance sector four other private companies have entered general insurance business. ITGI as part of its business strategy would focus on garnering a share of the commercial and personal lines of business to establish its presence in the market. In addition, the company plans to enter the rural market with the assistance of its Indian promoters who have a large network spread through length and breadth of the country. The company plans to launch innovative products in all the three lines of business viz Commercial, Personnel and more particularly Rural."

3.6 IFFCO through Joint Venture has started 29 items in commercial, personal and rural insurance lines as detailed below:-

Sl No	**Commercial Insurance**	**Sl No**	**Personal Insurance**	**Sl No**	**Rural Insurance**
1	Standard Fire & Special Perils	1	i) Motor Private Car Comprehensive ii) Motor Cycle/Scooter 'B' Insurance Iii) Motor Commercial iv) Tractor Commercial Vehicle	1	Pashu Dhan (Cattle Insurance)
2	i) Marine Open Cover ii) Marine Certificate	2	Group Personal Accident	2	i) Sankat Haran Bima (PA Individual) ii) Sankat Haran Bima (PA Group) ii) Sakat Haran Bima Yojna "Bag Policy"
3	Machinery Breakdown	3	Money	3	i) Lok Swasthya Policy (Individual Health Insurance)

4	Burglary & Housebreaking Policy	4	Individual Personal Accident	4	ii) Lok Swasthya Policy (Group Health Insurance) Agriculture Pump Set
5	Bankers Indemnity Policy	5	All Risk		
6	Fidelity Guarantee	6	Group Medishield		
7	i) Public Liability, Act ii) Public Liability (Industrial) iii) Public Liability (Non-Industrial)	7	Critical Illness Insurance Policy		
8	Product Liability	8	Travel Protector Insurance Policy		
9	Professional Indemnity	9	Special Contingency (For Both)		
10	Workmen's Compensation				
11	Contractor's all Risk Policy				
12	Erection All Risk Policy				
13	Boiler & Pressure Plant				
14	Contractor's Plant & Machinery				
15	Electronic Equipment Insurance				
16	Industrial all Risk				

3.7 The Committee wanted to know whether the Company has some special scheme targetting the farmers. IFFCO replied that the Company has started Sankat Haran Bima Yojna and its broad features are as under:-

"SANKAT HARAN BIMA YOJNA

a) The scheme provides a free “SANKAT HARAN” Bima policy to any farmer for an amount of Rs.4,000/- with the purchase of each bag of IFFCO or KRIBHCO or IPL Fertilizer.

b) Maximum liability under the Policy for any one farmer, irrespective of number of bags purchased by him shall be limited to Rs.1,00,000/- (Rupees one lakh only)

c) IFFCO / KRIBHCO / IPL shall pay the premium and only the buyers of Fertilizer shall be entitled for any benefit payable under the policy.

d) Evidence of Insurance: The Cash Receipt or the Debit Note (when Fertilizer is purchased on Credit) issued by the Cooperative Society and Farmers Service Centre shall be the sole evidence of insurance. No other document or certificate is required to be issued by ITGI as far as evidence of insurance is concerned.

e) Applicability: The Scheme is applicable only if the Fertilizer is purchased from IFFCO / KRIBHCO / IPL and through any Cooperative channel &/or Farmers Service Centres (FSC) of IFFCO or KRIBHCO SEWA KENDRAS (KBSK)

f) Rate of premium: IFFCO / KRIBHCO / IPL shall pay premium at the rate of Re1/- per bag of Fertilizer on the actual sale of their respective Fertilizer products.

g) Period of Cover: Risk under “SANKAT HARAN” Bima Policy shall incept from the date of the Cash Receipt or Debit Note and shall remain in force for a period of 12 months from that date.

<u>THE COVER</u>

The “SANKAT HARAN”, a specially designed insurance policy that provides compensation in the event of Accidental Death or Disablement as under:

I. Accidental Death … … … … 100% of Capital Sum Insured
II. Loss of any two limbs … … … … 50% of Capital Sum Insured
III. Loss of sight of both eyes … … … … 50% of Capital Sum Insured
IV. Loss of any one Limb … … … … 25% of Capital Sum Insured
V. Loss of sight of any one eye … … … 25% of Capital Sum Insured
VI. Permanent Total Disablement … … … 50% of Capital Sum Insured

Loss of Limb: Shall mean 'Amputation at or above the wrist and that of the foot at or above the ankle respectively'.

Permanent Total Disablement: If such injury shall, as a direct consequence thereof immediately permanently totally and absolutely, disable the insured from engaging in any employment or occupation of any description whatsoever."

3.8 Asked about financial returning IFFCO shall get out of insurance business, IFFCO in a written note informed:-

"As per the Joint Venture agreement entered into between IFFCO and TOKIO-Marine & Fire Insurance Co. Ltd. Japan - the joint venture partner will provide technology and IFFCO will provide legwork which is IFFCO's strong point. IFFCO's technical manpower could also provide surveying facility at a very low cost while the Co-operative network would be a vehicle for selling the product at low cost. The Joint Venture partner has also agreed to provide products and Information Technology without any charge. Thus there is synergy in hardware support for performing low technology function while software high technology will come through Joint Venture Partners."

3.9 Asked about how much business IFFCO has done since 4th December, 2000 and what ware the targets for the current year and how these are proceeding, IFFCO in a written note informed:-

"The company commenced business on 4th December 2000. The business done till 31st October 2001 is as under:

Upto 31st March 2001	Rs. 5.83 Crore
April 2001 to October 2001 (provisional)	Rs. 26.85 Crore

The target fixed for the current year as per the business plan approved by the Board are Rs. 88 Crore. "

3.10 During the course of examination of DOF the Committee pointed out that out of 29 products/ schemes of insurance, only 4 products are in rural insurance as against 16 in commercial and 9 in personal insurance. The Committee wanted to know whether DOF has evaluated IFFCO's activities in Insurance business and advised the Company to go in for more rural business as the Society has more base in this sector. DOF in a written note informed:-

"IFFCO Tokio General Insurance Company (ITGI) is an independent joint venture company in which IFFCO's shareholding is 49%, and does not come under the administrative control of the Department of Fertilisers. However, Department has reviewed information on the above query of the Committee from IFFCO and ITGI which is summarised below :-

ITGI has started operation since 4th December 2000 and has been marketing 29 products as on date. As per IFFCO, apart from the conventional insurance products, ITGI will design and launch products for the rural community. The first of them was "Sankat Haran Bima Yojna" which was launched on 1st

October 2001 and has become quite popular amongst farmers. IFFCO has further informed that since the rural products needs market study and innovation, ITGI has to go carefully and step by step towards increasing more rural packages.

ITGI agrees that there is lot of scope for expansion for rural insurance business however there are problems such as low premium per policy, high claim ratio and high procurement cost. These problems are being analysed by ITGI. For this ITGI has made few rural models which will be expanded further based on the outcome.

Further, ITGI plans to use the network of cooperative societies for an in-depth penetration in the rural market. For this it is taking necessary steps on experimental basis."

3.11 The Committee find that IFFCO has recently diversified into the field of insurance business since 4th December, 2000 IFFCO with Tokio-Marine & Fire Company Ltd., a Japanese Company under a Joint Venture Company titled 'IFFCO-Tokio General Insurance (ITGI) for marketing 34 products in commercial, personal and rural lines. The Committee find that out of 34 items, only 29 items are operated at present. About business transacted by ITGI, the Committee find that against the target of Rs. 88 crore for current year ITGI, has achieved Rs. 5.83 crore upto 31st March, 2001 and upto October, 2001 Rs. 26.85 crore is expected to be achieved. On perusal of items covered under insurance the Committee find that as many as 16 items and 9 items are placed under commercial and personal insurance. Against this only 4 items have been placed for rural sector. The Committee have taken note of special scheme titled as 'Sankat Haran Yojana' which is claimed to be very attractive and sought after. The Committee would await the analytical findings of the scheme after the scheme has remained in operation for one year. The Committee are glad to note that ITGI has plans for extensive expansion in rural insurance as desired by the Committee. The Committee hope that more expansion in the rural insurance sector would be made by ITGI in the earliest possible time.

(Recommendation Sl. No. 7)

B. INFORMATION TECHNOLOGY

3.12 IFFCO informed that IFFCO plans to deliver the benefits of the information Technology at the doorstep of farmers. For this IFFCO with KRIBHCO, ICAR, IARI, ISRO plans to provide information on Agriculture and allied fields to farmers. Similarly for guiding the farmers about balanced use of fertiliser IFFCO in association with ISRO plans to give agro-climatic information to them.

3.13 Asked about agency responsible for executing this project if so, the IFFCO in a written note informed:-

"At present, IFFCO and ISRO are engaged in preparing the material for dissemination using GIS based remote sensing technology."

3.14 On being further asked whether the implementation of the project has since begun, IFFCO in a written note informed:-

"IFFCO has initiated efforts to create a consortium of like minded institutions / organisations to carry the benefits of information technology to rural India. The objective is to take e-revolution to farmers & cooperatives and others living in rural India. As part of the project, it is proposed to create information technology based services for farmers & cooperatives and also to set up information kiosks to facilitate easy access of such IT based services in rural areas.

As the initiator of the concept, IFFCO had approached KRIBHCO, ICAR/IARI, ISRO, IGNOU and Ministry of Non-conventional Energy Sources. Several prominent technology partners were also approached. The initial response received was positive. Several rounds of discussions were taken up along with presentation of road map of the proposed venture during the last one year. Concrete response from the prospective partners is awaited to finalise an action plan.

3.15 IFFCO in a written note further submitted:-

"The magnitude of the task involved is huge and evolving a common platform may require time. Parallel measures are initiated to develop content which can be subsequently used in the project. A GIS package based on remote sensing with ISRO and upgradation of existing website of IFFCO using in-house resources to cover substantial segments of information and services proposed for the project are part of the strategy. "

3.16 Elaborating further on this scheme, IFFCO apprised the Committee:-

" Till now information on natural resources pertaining to land like soil type - colour, texture, depth and slope; land use and land cover has been digitised. Module for making fertiliser demand based on crop cover and soil type has been developed and is ready for implementation. The implementation of this programme is likely to began in 2002 - 2003 in phases.

IFFCO's website contains substantial information on all aspects of IFFCO including plants, performance, joint ventures. Several other documents such as Annual Report of IFFCO and Activities of Agricultural Services. IFFCO's investments and Diversification activities, services to farmers, detailed information on various aspects of IFFCO's activities are included. Modules on Package of Practices for Punjab is provided and for all the states these are proposed to be covered in a phased manner. In addition, list of Mandies is also provided along with a module on Agricultural Statistics. Brief overview of the media coverage with respect to fertiliser sector, access to links of the websites of the ministries and institutions and organisations related to agriculture and fertiliser sector are available. Facilities to send questions to experts, participate in discussion forums and simple quizzes are added features of the site.

As part of IFFCO's website activity, few 'Cyber Kiosks' in selected FSCs of IFFCO are proposed to be set up shortly on experimental basis. Touch Screen Kiosks are proposed to be set up in selected locations to facilitate easy and intuitive access to less literate users of the kiosk. Modalities of providing the content in Indian languages are being worked out. All the activities related to IFFCO's website are taken up with in-house resources as part of IT and extension activities."

3.17 Asked about the total budget of this project and how it is going to be funded, IFFCO in a written note informed:-

"The estimated cost of the project for development of suitable content and electronic services for rural India along with substantial information kiosks for initial popularisation of the same was estimated to be Rs 25 crore (IFFCO's share) spread over 2-3 years."

3.18 As regard diversification in information and technology the Committee find that IFFCO in association with KRIBHCO, ICAR, IARI and ISRO plans to deliver the benefits of information technology at the doorstep of farmers for dissemination of information about balanced use of fertilisers. The Committee find that the estimated cost of the project is Rs. 25 crore (IFFCO's share) spread over 2-3 years. IFFCO has informed that the objective is to take e-revolution to farmers and Cooperatives and other in rural areas by setting up information kiosks. About progress on the project, the Committee have been informed that response to the project is positive and by 2002-2003 implementation of the project is likely to begin. The Committee feel in this age of information technology, diversification in the field of information technology is a welcome step for educating the farmers in all spheres related to agriculture. The Committee hope that this project would be expedited by IFFCO.

(Recommendation Sl. No. 8)

3.19 The Committee felt that IFFCO with its rural background should diversify into food processing industry, processing/ conversion of farm products including surgarcane etc. The Committee wanted to know Government's view about this suggestion and what role DOF can play in achieving this objective, DOF in a written note informed:-

"The main objective of IFFCO as enshrined in its Bye-laws is to promote the economic interest of its members by undertaking production/development of chemicals fertilizers, bio-fertilizers and allied products/by-products, etc."

3.20 On being further asked whether in the past such proposal has been examined in the Department, DOF in a written note informed:-

"So far, IFFCO has not submitted any proposal for diversification into food processing sector. In case the Cooperative Society considers a venture into food processing industry, the same will be examined by the Government. "

3.21 During the course of examination the Committee found that in the field of food processing IFFCO has not started its operations in a big way. In this connection, IFFCO has explained that due to various techno-economical and commercial considerations, this was not done. However, IFFCO has assured to review the same if situation so warranted. DOF has informed that so far no such proposal for diversification has been submitted by IFFCO. However, Department would certainly examine such proposal as and when the same was received. The Committee feel that even the multinational companies are venturing into food processing industry and indigenous companies/societies like IFFCO which has large rural net work can be successful in this sector. The Committee, therefore, recommend that IFFCO should examine this scheme de-novo.

(Recommendation Sl. No. 9)

CHAPTER IV

CORPORATE FUNCTIONING

A. ORGANISATIONAL SETUP

(i) Within IFFCO

IFFCO has four manufacturing units, i.e. Kalol, Kandla in Gujarat, and Phulpur, Aonla in Uttar Pradesh. The Marketing activities of the Society are spread over five zones comprising of 24 States and Union Territories. Board of Directors of IFFCO is headed by a part-time Chairman. The Corporate Office of IFFCO consists of the Managing Director who is assisted by Functional Directors/Executive Directors/General Managers. Organisational set up of IFFCO at Corporate level has been placed at **Appendix VI**. Manufacturing units at Kalol, Kandla, Aonla and Phulpur are headed by an Executive Director/Senior General Manager level officers.

(ii) Organisational Set-up of Administrative Ministry

4.2 IFFCO has informed that all matters relating to production plans of IFFCO, monitoring thereof, processing of cases relating to setting up of projects, assistance in the matter of implementation of these projects and various other matters (excepting administrative and establishment matters, labour relations and marketing problems) are looked after by the Joint Secretary incharge of the Fertiliser Division in the Department of Fertilisers. The administrative and establishment matters, labour relations and marketing problems are looked after by the Joint Secretary (Administration and Movement) in the Department of Fertilisers. Both these Joint secretary level officers function under the overall control and supervision of Secretary in the Department of Fertilisers. The EC allocations for distribution of fertiliser produced by IFFCO in various States and Union Territories are decided by the Department of Fertilisers in consultation with the Department of Agriculture and Cooperation. Matters relating to subsidy on controlled fertilisers i.e. Urea and Special Concession Scheme in respect of decontrolled fertilisers are handled by the office of the Fertiliser Industry Coordination Committee (FICC), which is an attached office of the Department of Fertilisers.

B. BOARD OF DIRECTORS

4.3 Presently IFFCO has 30 Directors on its Board as per details given below:-

S.No.	Field associated with	Number of Directors
1.	One nominee of each of Apex Cooperative Marketing Fertilisers in a State wherefrom all Cooperatives have paid not less than Rs one/two crore to share capital of IFFCO.	12
2.	Elected by General Body of IFFCO	8
3.	Government nominees	5

		(2 from DOF, 1 from DOAC, remaining 2 are non-officials Directors appointed by DOF)
4.	M.D., Director (Marketing), Director (Finance)	3
5.	M.D., NCDC	1
6.	Chairman of NCUI	1
	Total	**30**

4.4 During the course of evidence of the representative of IFFCO the Committee wanted to know whether the strength of 30 of IFFCO's Board of Directors was not too unwildly for Board to function. M.D. IFFCO, replied as under:-

> "As you know, IFFCO has been in existence for the past 34 years. In the first ten years we had around 10 nominated members from the Government and 10 to 11 other members on the Board. Later on, we had something like 28 to 32 members. I think the character of IFFCO is such that it requires the help from the Member-States for its functioning and for its stay sustainability hon. Member Shri Chautala has rightly said, who is also our hon. Member on the Board, when there are representatives of the State Governments' Federations on the Board, it helps us in the States. I think this number of 30 in our Board is Okay."

4.5 The Committee emphasised the need to have a small Board of Directors which should be business like and prompt to take decisions. The Committee opined would it not be desirable to restrict the composition of Board of Directors to 21 from present level of 30. Replying to the queries M.D., IFFCO informed:-

> "Sir, you have rightly said. The new Multi-State Cooperative Societies Bill, 2000 has already given a limit of 21. We have also supported that."

4.6 During the course of examination of DOF, the Committee asked whether DOF felt that composition of the Board needs to be downsized, DOF in a written note informed:-

> "As per Bye-Law 34 of Bye Laws of IFFCO the Board of Directors shall consist of :

(i) One nominee of each of the Apex Cooperative Marketing Federation in a State wherefrom all Cooperatives have paid not less than Rupees two crore to the share capital of IFFCO. Such nominees shall be in accordance with the provisions of the Multi-State Cooperative Societies Act/Rules;

(ii) Eight directors to be elected by the General Body;

(iii) Not more than five persons to be nominated by the Government of India;

(iv) Managing Director of the National Cooperative Development Corporation;

(v) The Managing Director, Finance Director and Marketing Director of IFFCO (all ex-officio);

(vi) The Financing agency or agencies; if any, providing long-term credit to IFFCO shall also be eligible to nominate one Director each;

(vii) Chairman/Chief Executive of National Cooperative Union of India.

The existing provisions of the MSCS Act, 1984 do not provide for any restriction on the strength of the Board of Directors of a multi-state cooperative society. A legislative proposal i.e., the Multi State Cooperative Societies Bill, 2000 has already been introduced in the Parliament by the Department of Agriculture & Cooperation. One of the amendments proposed in the Bill is to restrict the number of Directors on the Board of a Multi State Cooperative Society to 21. In the proposed legislation, the maximum number of Directors on the Board and also the Government nominees are being specified depending upon the share holding of Government of India in respective Societies. The proposed amendment once passed will be applied to IFFCO suitably."

4.7 As regards non-officials in IFFCO's Board of Directors, DOF has informed that against the total strength of 30, Govt. nominees are 5. Out of 5, two are non-officials . The Committee wanted to know the criteria of nominating non-official Directors and the institutional system adopted for their nomination, DOF in a written note informed:-

"The Bye-Laws of IFFCO [No.34(iii)] provides for nomination of 5 persons representing Government of India on its Board. Out of this, 2 are the officials generally of the level of Joint Secretary drawn from Department of Fertilizers and one from Department of Agriculture & Cooperation on ex-officio basis. The remaining two are non-official Directors nominated by this Department. No criteria, has been laid down for nominating non-official Directors representing Government of India. As per the established practice the non-official Directors are nominated, with the approval of Minister-in-charge and after approval by the Appointments Committee of the Cabinet from amongst experts or those having experience in the field of cooperation or other relevant areas. "

4.8 The Committee also drew the attention of the DOF to the guidelines laid down by the Department of Public Enterprise vide its OM No. 18/(6)-91-GM dated 16th March, 1992 with regard to corporate functioning which read as under:-

"The question of representatives of Government Directors on the Board of PSEs was examined by the Arjun Sengupta Committee and following its recommendations, the Bureau of Public Enterprises has issued guidelines in 1986 that the Administrative Ministry concerned should not have more than one nominee Director on the Board of PSE………"

4.9 Department of Fertilisers reacting to the above observation stated in a written note as under:-

> ”This matter is currently being implemented as per the provisions of MSCS Act, 1984 and the relevant rules, bye-laws etc. The guidelines of Department of Public Enterprises in this regard are not applied to Cooperative Societies like IFFCO. The Department will review this arrangement in the light of the provisions of the new legislation after it is brought into force. “

4.10 The Committee note that as per By-Laws of the Society, IFFCO's Board consists of 30 Directors. Five of these are nominated by the Government. Out of the remaining 25 Directors, 12 represent State level apex federations and 8 are elected, remaining 5 Directors three viz. MD, IFFCO, Director (Finance) and Director (Marketing) are ex-officio and the remaining two, one is from financing agency, if any and the other is Chairman, National Cooperative Union of India. The Committee find that MD, IFFCO and DOF have justified the present strength of Board but also stated that with the passage of new Bill, the strength shall go down. The Committee would await the revision of the strength after the new Bill is passed by Parliament.

(Recommendation Sl. No. 10)

4.11 As regard nomination of non-officials in Board of IFFCO, the Committee find that out of five Government nominees, two are non-officials. DOF has informed that there no criteria has been laid down for their nomination. As per established practice such nomination are done with the approval of the Minister and approval of Appointment Committee on Cabinet. The Committee find that proper guidelines be laid down and an institution be created for nomination of non-officials.

(Recommendation Sl. No. 11)

C. AUTONOMY IN CORPORATE FUNCTIONING

4.12 It came out during the examination that way back in 1990's Cooperatives demanded true autonomy in their functioning without undue Government intervention. Accordingly, the Planning Commission appointed Chaudhary Brahm Prakash Committee to look into this aspect. The Committee submitted its report in May, 1991. The Committee *inter-alia* recommended a Model Act with aim of giving a genuine character to Cooperative with deletion of restrictive provisions.

4.13 Subsequently in September 1996, the Department of Agriculture constituted an Advisory Committee, viz. the Mirdha Committee to advise the Government for ensuring autonomous working of Cooperatives.

4.14 In December 1996, the Committee submitted its Report recommending amendment/repeal of MSCS Act. Based on recommendations of Mirdha Committee

Report and Model Cooperative Act, the Government on 24th November, 2000 introduced in Lok Sabha the Multi-State Cooperative Societies Bill, 2000. The Bill was, however, referred to Departmentally Related Standing Committee on Agriculture for examination and report. The Committee on Agriculture has presented its Report to Parliament on 28th August, 2001.

4.15 It came out during the course of examination that Multi-State Cooperative Societies Bill, 2000 seeks to remove the restrictive provisions in the exiting Multi-State Cooperative Societies Act, 1984 in order to provide functional and democratic management of Multi-State Cooperative Societies.

4.16 The Committee pointed out that the Departmentally Related Standing Committee on Agriculture has *inter-alia* recommended that with a view to preserve autonomy and democratic character the power of Government to nominate the nominees be restricted to only one when the Government equity is more 50% and none if it is 50% or below. In this connection the Committee enquired the views of IFFCO with regard to the suggestion that Government's nominee on the Board of Directors should not exceed one. IFFCO in a written note informed:-

> "It may not provide enough leverage to the Government even to nominate representatives from those Deptts. which are connected with IFFCO."

4.17 On being further asked whether IFFCO was satisfied with Multi-State Cooperative Societies Bill, 2000 and whether the same addressed all the problems which were being faced by the Cooperative Societies, IFFCO in a written note informed that the Multi-State Cooperative Societies Bill, 2000 has addressed majority of problems presently being faced by Cooperatives.

4.18 The Committee are of strong opinion that Cooperatives should be really autonomous in taking their decisions and not to look towards Government for their administrative and even policy decisions. The Committee were informed that Multi-State Cooperative Societies Bill, 2000 has addressed the existing problems being faced by the Cooperatives. The Committee trust that after the enactment of the new legislation, Cooperatives like IFFCO would have more functional autonomy and fast decision making powers which is essential in the competitive atmosphere.

(Recommendation Sl. No. 12)

CHAPTER V

PROJECT PLANNING AND IMPLEMENTATION

5.1 Project planning is an important segment of any business organisation and IFFCO's record in this regard has been crucial. Since its inception, it has successfully implemented indigenous projects and also ventured into Joint Ventures abroad. IFFCO has furnished the following details about projects conceptualised and under implementation:-

Sl. No	Name of Project	Party/County	Project cost	Debt/ Equity Ratio	Year of conceiving	Likely date of Completion	Object	Project Status
1	Oman-India Fertiliser Project (Ammonia Urea Project)	IFFCO/ KRIBHCO with M/S Oman Oil Co. Oman	US $ 969 million	2:1	**(i)** On 30.7.94 MOU was signed between GOI/KRIBHCO/RCF and Govt. of Saltanate of Oman/Oman Oil Company. **(ii)** On April, 1997 Joint Venture Agreement for the project was signed.	35 months from zero date (likely by the end of 2001 or early 2002) yet to be determined.	Buy back arrangement 100% Urea produced shall be purchased by Govt. for 15 years and Ammonia produced shall be purchased by IFFCO for 10 years from date of commercial production.	(i) A consortium of Banks appointed to arrange Dept. component of US $ 650 million are carrying out due diligence study and loan documentation for the project. (ii) Financial closure is expected by the end of the year or early 2002. (iii) Commercial production will start by 2005.
2	Industries Chimique Du Senegal (ICS)	IFFCO/SPIC with ICS Senegal	**I)** IFFCO has contributed Rs. 7.80 crore equity. **(ii)** It has also invested Rs. 84.94 crore in ICS	-	In March , 1980 Govt. of India/IFFCO/SPIC enters into a long term agreement with ICS for purchase of Phospheric acid from	Commission-ing started in July, 2001	Supplying of phosphoric acid to Kandla plant of IFFCO	(i) ICS expansion started in January, 1999 (ii) Commissioning started in July, 2001. (iii) Commercial production is

			Expansion in January, 1999		Senegal.			yet to commence.
3	Phos-Acid Project	IFFCO/GFCL with Chimique Tunisien (GCT) and Compagnie des Phosphate de Gafsa (CPG) of Tunisia	US $ 260 million	7:3	-	The project is at planning stage	A phosphoric acid project is to be set up at Tunisia to manufacture 5.4 lakh tonne of P2O5 per annum.	MOU has been signed.
4	Mining Project in Arjentina	IPL/IFFCO with Potassio Rio Collorado, SA (PRC), Arjentina	US $ 130	Not given Financing pattern yet to be decided.	-	Not known	To explore feasibility of a Potash mining project.	The project is in pre-feasible stage.
5	Ammonia Urea Project	IFFCO/ KRIBHCO with Qeshm Free Area Authority (QFAA), Iran	US $ 262	To be financed by equity from partners and loans from banks.	MOU was signed on 6.3.94 between GOI/IFFCO/ KIRBHCO and Govt. of Qeshm Free Area Authority.	Not known	To set up ammonia plant of 1750 tonnes per day capacity	The project is in pre-feasibility stage.

A. <u>JOINT VENTURES ABROAD</u>

(i) Joint Venture Project in Oman

5.2 This Joint Venture Project was conceptualised in July, 1994. IFFCO has informed that in 30th July, 1994 an MOU was signed to initiate ammonia/urea complex in Oman between KRIBCHO/RCF and OOC (Oman Oil Companies) as co-sponsors. A Joint Venture Company was formed in February, 1998. However, Government, in September, 1998, advised IFFCO to consider becoming partner in the Joint Venture Company. IFFCO wanted the cost of the project to be slashed as a condition of joining it. The project was restructured by reducing the cost of the project and making it acceptable to lenders and project promoters.

5.3 About achieving financial closure IFFCO has informed that a consortium of Banks, appointed to arrange the debt component of US $ 650 million are carrying out due diligent study and loan documentation for the project. The financial closure of the project is expected by the end of 2001 or by early 2002. During the course of examination, the Committee wanted to know the composition of consortium of banks and the amount of debt to be financed by each of them, IFFCO in a written note clarified:-

> "BNP Paribas. Australia and New Zealand (ANZ) Banking Group Limited and Arab Banking Corporation (ABC) are the arranging banks for arranging the entire finance (US$ 650 million) with political insurance cover of 50% by Export Credit Agencies viz. Sezione Speciale per l'Assicurazione del Credito all'Esportazione (SACE) & Compagnie Française d'Assurance pour le Commerce Exterieur (COFACE). "

5.4 The Committee pointed out that there has been considerable delay in financial closure of the project and enquired about the reasons. IFFCO in a written note informed:-

> "There has been delay in negotiating the urea offtake agreement with GOI, for which the formal approval from GOI is still awaited. This has resulted in delay in financial closure for the project. Bankers have indicated the financial market is extremely cautious about providing underwriting commitments generally and particularly for Middle East transactions after September 11, 2001. Arranging Banks intend to launch syndication by end of November 2001, should market conditions sufficiently improve by that time."

5.5 During the course of evidence of the representatives of DOF, Secretary in the Department apprised the Committee of the latest status of the project as under:-

> "All the major project agreements have been firmed up and the same have been initialled on 5th December, 2001 by the concerned parties.
>
> Urea Offtake Agreement has been formally approved by the Govt. of India on 21st November, 2001 and the same has been initialled on 5th December, 2001. Now, the financial closure is expected to be finalised by the end of first quarter 2002."

5.6 Secretary (Fertilisers) further stated:-

> "Sir, you may recall that last time I had extended an assurance to this hon. Committee that Oman, God willing, is going to come very soon. As you know, we have gone and signed the agreements. I have got all the details. We have signed agreements even with the bankers. The modalities are now being worked out on

small little few things and we hope that the financial closure will take place by March, 2002."

5.7 The Committee are glad to note that finally DOF has been able to firm up all major project agreements and initialled these on 5.12.2001. The Committee especially note with great satisfaction that Urea off-take Agreement has finally been cleared. About achieving financial closure Secretary (Fertilisers) assured the Committee that by March, 2002, it would hopefully be achieved. The Committee hope that now there would be no difficulty in achieving much awaited financial closure for the project.

(Recommendation Sl. No. 13)

(ii) Joint Venture in Senegal

5.8 A Joint Venture projects at the projected cost US $ 260 million at Senegal is planned to produce phosphatic acid. Explaining the features of the Joint Venture, IFFCO informed the Committee:-

" Indian Consortium consisting of Government of India, IFFCO and SPIC entered into a long term agreement with ICS in March, 1980 for purchase of phosphroic acid. IFFCO has contributed Rs. 7.80 crore equity and it has invested an additional amount of Rs. 84.94 crore in the form of equity for the ICS Expansion Project in January, 1999. As a result, thereof IFFCO's share in the total paid-up equity of ICS has increased to Rs. 92.74 crore which works out to 14.32% of the equity of ICS."

5.9 It came out that during the year 2000-01, ICS supplied 1.97 lakh tonnes of P205 to Kandla Unit of IFFCO as against 2.65 lakh tonnes in the previous year. The Committee in this connection wanted to know the reasons for this decline in supply, IFFCO in a written note informed:-

"Supply of Phos. Acid from ICS Senegal Plant to IFFCO Kandla Plant was lower during 2000-01 compared to the previous year due to production loss at IFFCO Kandla Plant from end January, 2001 till May, 2001 on account of devastating earthquake in Kutch region on 26th January, 2001. The offtake of Phos. Acid during the said period from other suppliers also were affected."

5.10 In the context of ongoing expansions of Joint Venture project, the Committee enquired whether the expansion project has since been commissioned and what are the likely financial benefits which may accrue to the Society yearly, IFFCO in a written note informed:-

"Commissioning of the ICS Expansion Project started in July, 2001. However, due to certain teething problems, the production in the plants has not stabilised and commercial production is yet to start. In addition to enhanced quantity of Phos. Acid supply to IFFCO Kandla Plant, the Society will be getting financial benefits by way of quantity rebate as per the annual purchased quantity according to the following slabs:-

S.No.	Slabs	Percentage Rebate
1	Upto 3 lakh tonne	1% of FOB price
2	Between 3 lakh & 5 lakh tonne	1.5 % of FOB price
3	Above 5 lakh tonne	2% of FOB price"

5.11 The Committee find that IFFCO has been facing difficulty in its ICS project where commercial production has not started even though its expansion was commissioned in July, 2001. The Committee hope that IFFCO would take necessary steps for early commencement of commercial production.

(Recommendation Sl. No. 14)

(iii) Other Joint Ventures abroad

5.12 IFFCO has informed besides the above two joint venture projects IFFCO has the following three joint venture projects at various stages of planning:-

(i) Phosphoric Acid Project in Tunisia;
(ii) Mining Project in Arjentina; and
(iii) Ammonia Urea project in Iran

5.13 During the course of examination the Committee wanted to know when were these project conceptualised and whether their viability was being reviewed regularly. IFFCO in a written note informed:-

> "IFFCO had conceived joint ventures such as a Phos. Acid project in Tunisia, an Ammonia Urea Project in Iran and a Potash Project in Argentina. The viability of the Phos. Acid Project in Tunisia is being explored/reviewed from various angles. The Ammonia Urea Project in Iran is being reviewed for its economic viability due to depressed international prices of Urea and hardly any demand/supply gap in the country at present. The possibility of setting up of an Ammonia Project only is also being explored as an alternate option. The Potash Project in Argentina is dropped as the Argentinan Company, M/s PRC backed out."

5.14 During the course of examination of DOF the Committee wanted to know the reasons of delay in taking final decision either way in deciding viability of projects, the DOF in a written note informed:-

> "Iran Project - During the Joint Management Committee (JMC) Meeting held on 8-9th November 2001 at New Delhi, it was decided that Qesham Free Area Authority will look into the environment aspect for setting up an Ammonia Plant on stand alone basis. Once the environment aspect is ascertained and global scenario of ammonia including demand-supply gap and prices etc. are found favourable, the techno-economic feasibility of the project and financing of the project will be reviewed.

Tunisia Project - The project partners are currently exploring various techno-economic aspects of the project. The project proposal will be submitted only after the above issues are frozen and the project is found techno-economically feasible.

The role of DOF will come into picture only after the project proposal is finalised and submitted for approval."

5.15 About joint venture projects in Iran and Tunisia, DOF has informed that viability of these projects is reviewed depending upon resolution of environment aspect for Iran project and techno-economic feasibility for Tunisia Project. The Committee find that these projects are pending since long. The Committee recommend that their viability be reviewed and a decision eitherway be taken ending uncertainty.

(Recommendation Sl. No. 15)

B. NELLORE PROJECT

5.16 A grassroots fertiliser project with capacity of 7.62 lakh tonnes of urea per annum with an estimated cost of Rs. 1760 crores based on Naphtha was planned by IFFCO for setting up at Nellore and the same is awaiting final approval from Government. IFFCO has stated that it will take final decision on this project based on long Term Fertiliser Policy to be announced by the Government. The Committee wanted to know how much amount IFFCO has already spent on this project and how this expenditure has been secured, IFFCO in a written note submitted:-

"IFFCO has already spent a revenue expenditure of about Rs. 5 crore on this project during the last 5 years apart from the investment in land (Rs. 4.25 crore). This expenditure is secured from internal resources."

5.17 In this connection the Committee also wanted to know whether any part of the expenditure already spent has become wasteful bacause of abnormal delay in execution of the project, IFFCO in a written note informed:-

"Expenditure may become partly infructuous if the project does not materialise. The cost estimate of the project has now gone up to Rs. 1946 crore from Rs. 1738 crore making the project unviable under present conditions. The original project estimate was Rs. 1568 crore. The long term policy of GOI on fertilisers is still awaited and till this is cleared it will be difficult to make any investment decision."

5.18 During examination, DOF was asked to comment upon the status of the project, the Department replied as under:-

: "A proposal of Indian Farmers Fertilizer Cooperative Limited, (IFFCO), to set up a new ammonia-urea plant in Nellore District of Andhra Pradesh with an annual urea capacity of 7.68 lakh metric tonnes at an estimated capital cost of

Rs.1736 crore was approved 'in principle' by the Government in April, 1999, along with three other proposed urea projects in the public/cooperative sector, subject to their investment appraisal by the Public Investment Board (PIB). Investment appraisal of these projects was undertaken by the PIB in July, 1999. A proposal for taking final investment decision on all these projects was considered by the Government in June, 2000, and deferred. This proposal was formulated taking into account the observations of the PIB regarding the viability of the projects, desirability of encouraging use of liquefied natural gas as feedstock to reduce the incidence of subsidy and the need to stagger implementation of the proposed projects due to limited demand supply gap forecasts.

The matter was later reviewed by the Department of Fertilizers (DOF) with the promoters of the proposed projects and it was concluded that a final decision on the proposed Nellore project of IFFCO and the other urea projects would depend on the long term fertilizer pricing policy, impact on the domestic fertilizer industry on opening up of the sector under WTO commitments, updated demand-supply gap projections of fertilizers, feedstock policy for fertilizer production and viability of the proposed projects in the changed circumstances. The Board of Directors of IFFCO also subsequently resolved that a final decision on its Nellore project would be taken after knowing fertilizer policy, feedstock policy, impact on domestic fertilizer industry of opening up the fertilizer sector under WTO commitments demand-supply gap etc. ”

5.19 The Committee regret to note that IFFCO’s proposed Ammonia Urea Project of Nellore with a capacity of 7.68 lakh tonnes of Ammonia Urea per year has been deferred by Government in June, 2000 due to limited demand-supply forecasts. The Committee find that final decision on the project would be taken after final decision is taken on fertiliser policy. The Secretary (Fertilisers) has elsewhere informed the Committee that the fertiliser policy was likely to be cleared soon. The Committee hope that DOF would not loose any time for taking final view on the project after this policy is finalised.

(Recommendation Sl. No. 16)

CHAPTER VI

PRODUCTION PERFORMANCE

A. OVERALL PRODUCTION PERFORMANCE OF IFFCO

6.1 IFFCO has four production units at Kalol, Phulpur, Aonla and Kandla. Except Kandla plant all are Ammonia/ Urea plants whereas Kandla plant is the NPK/DAP plant.

6.2 The following Statement shows plant-wise licensed installed capacity, target and actual production of IFFCO during the last three years:-

(Quantity in lakh tonnes)

Year	Plant/Plant	Installed Capacity	Production		% Capacity Utilisation	Reasons for Shortfall
			Target	Actual		
1998-99	Kalol Urea	5.44	5.50	5.18	95	Mechanical Problem and natural gas shortage
	Phulpur-I	4.95	5.50	5.70	115	
	Phulpur-II	7.26	7.26	8.36	115	
	Aonla-I	7.26	7.80	8.51	117	
	Aonla-II	7.26	7.66	8.39	116	
	Kandla-NPK-10:26:26		2.50	3.03		
	NPK 12:32:26	3.00	2.84			
	DAP 12:46:16					
	Total NPK/DAP		10.50	13.05		
	In terms of N	16.61	16.91	18.43	115	
	In terms of P205	3.09	3.91	5.00	162	
1999-2K	Urea Kalol	5.44	5.50	4.71	87	ECA/NG Limitation
	Phulpur-I	4.95	5.50	5.07	103	
	Phulpur-II	7.26	7.80	8.05	111	
	Aonla-I	7.26	7.80	7.34	101	
	Aonla-II	7.26	7.80	8.44	116	
	Kandla-NPK-10:26:26		4.00	5.07		
	NPK 12:32:16		5.00	4.93		
	DAP 18:46:0		7.30	9.11		
	Total NPK/DAP		16.30	19.11		
	In terms of N	18.79	17.94	18.07	109	

	In terms of P205 $	5.61	5.99	7.08	126	
2000-01*	Urea Kalol	5.44	5.44	4.87	90	Earthquake/NG Limitation
	Phulpur-I	5.11	5.11	5.20	102	
	Phulpur-II	8.53	8.53	8.53	100	
	Aonla-I	8.53	8.53	8.14	95	NG Limitation
	Aonla-II	8.53	8.53	8.58	101	
	Kandla-NPK 10:26:26		4.70	3.00		
	NPK 12:32:26		5.00	4.22		
	DAP 12:46:16		8.30	9.80		
	Total NPK/DAP		18.00	17.03		
	In terms of N	1879.5	19.19	18.79	100	
	In terms of P205	561.0	6.64	6.64	118	

$ Due to commissioning of Kandla Phase-II.

**** Based on reassessed capacity.***

6.3 IFFCO has claimed that it has achieved targets in all four fertiliser plants based at Kalol and Kandla in Gujarat and Phulpur and Aonla in U.P.

B. **PRODUCTION CONSTRAINTS**

6.4 During the course of examination of IFFCO the Committee observed that production performance of IFFCO has been affected in Kalol and Aonla I plants reportedly due to production constraints such as gas shortage/restriction to the plants by suppliers (GAIL/ ONGC).

6.5 IFFCO has informed that its Kalol plant has been facing gas shortage during the last three years whereas its Aonla plant has also started facing same problem during 2000-01 as can be seen from the following table:-

(Quantity in lakh tonne)

Year	Plant/Product	Installed capacity	Target of Production	Actual	% capacity utilisation	Reasons for shortfall
1998-99	Urea Kalol	5.44	5.50	5.18	95	Mechanical problem and shortage of gas
1999-2000	-do-	5.44	5.50	4.71	87	-do-
2000-2001**	-do-	5.44	5.44	4.87	90	Earthquake and NG limitation.
2001-2002	Urea Aonla I	8.53	8.53	8.14	95	NG

						limitation.

** ***Based on reassessed capacity.***

6.6 IFFCO has informed that Kalol has been receiving gas from GAIL/ONGC under a contract but the supply is less and less as against the contracted quantity. Society has given the following figures about the contracted quantity vis-à-vis availability.

(In Lakh Sm 3/d)

Details of Supply	Contracted during the last three years	Availability		
		1998-99	1999-2000	2000-2001
Natural Gas	6.20	5.42	4.93	4.07
Associated Gas	2.20	2.13	1.80	1.65
Total Gas	8.40	7.55	6.73	5.72

6.7 The Committee observed that as against the total contracted quantity of 8.40 the availability has been declining year after year from 7.55 in 1998-99 to 6.73 in 1999-2000 and 5.72 in 2000-2001. IFFCO has informed that low availability has created operational problems in Kalol's plant with use of Naphtha being cost intensive. With the depletion of gas reserves in the nearby sources, this phenomenon has become regular and may be the supplies become erratic.

6.8 Explaining gas shortage being faced by IFFCO plant of Kalol and Aonla I, IFFCO in a written note informed that of late, the performance of Kalol and Aonla plants have been adversely affected due to deterioration of supply of gas both in terms of quantity and quality.

6.9 About problem being encountered by Kalol Unit, IFFCO in a note submitted:-

> "The first contract with ONGC was signed on 23.3.1971 which had a validity period from 1.8.1973 to 31.7.1985. The contract envisaged a Natural Gas (NG) supply of not less than 5.0 lakh SM^3 /day but limited to 6.0 lakh SM^3 /day at a pressure of not less than 40.0 kg/cm^2 for initial 5 years. The associate Gas (AG), to be used as fuel, was to be supplied in sufficient quantity, so that the total gas (NG+AG) would be 7.5 SM^3 lakh /day.
>
> A supplementary contract with ONGC was signed on 16.4.1981, covering a period from 1.7.1979 to 31.7.1985, wherein the gas supply pressure was reduced from 40 KG/CM^2g to 30 KG/CM^2g from June 1981 and to compensate the drop in gas pressure, the NG quantity was increased to 6.2 lakh SM^2 /day and AG was increased to 2.2 lakh SM^2 /day, making the total gas quantity to 8.4 lakhs SM^3 /day. Subsequently, a new contract with GAIL was signed on 19.5.1993 and is in operation till today, for the same gas quantities. With the depletion of gas reserves in the surrounding area the supply pressure of gas as well as quantity has substantially reduced.

From the beginning of the year 1999, the gas supply has further reduced and was in the range of 3.8 to 4.0 lakh SM^3 /day of NG and 1.4 to 1.6 lakhs SM^3 /day of AG during the years 1999-2001. Gas supplies further reduced in February, 2001. The depletion of gas is posing several problems in operation of the plant. The immediate impact is increase in energy consumption, higher cost of production. Also low gas supply is causing the mixed feed preheat coil in the primary reformer to operate at close to the maximum design temperature which may lead to a stress failure of the coil due to overheating…………..”

6.10 Regarding latest position IFFCO has informed:-

“In fact during 2001-02, the supply to IFFCO Kalol improved as the gas feeder line to AEC and RIL was closed down in March 2001 due to its failure. This pipeline is expected to be replaced by April 2001 and if the supplies are commenced to AEC and RIL, the Kalol plant would face serious difficulties as far as safety of plant is concerned. Moreover even after using naphtha in pre-reformer to maximum extent, it would not be possible to achieve the designed capacity and the cost of production would become very high due to use of costly naphtha.”

6.11 In reply a question IFFCO informed that Ahmedabad Electric Company (AEC), Ahmedabad and Reliance Industries Limited (RIL) Ahmedabad have entered into agreement with GAIL for supply of gas from the same wells in 1995 and 1991 respectively. The depletion of wells and with supplies to new non fertiliser industries has compounded the problem further.

6.12 Elaborating the problem of gas shortage at Aonla I plant, IFFCO informed the Committee:-

“The Aonla unit has entered into the contract with GAIL for supply of Natual Gas through HBJ pipelines effective from March 1988 for Aonla-I and from May 1993 for Aonla-II. As per the gas supply contract GAIL has agreed to supply 1.7 million SM^3 /day of NG each to Aonla-I and Aonla-II plants (1.7 X 2 = 3.4 MMSCMD for the complex) based on lower heating value (LHV) of 9000 Kcal/ SM^3 .

The contract further envisages that in case of change in heating value of gas, the gas quantities would be suitably revised for supply i.e. in case of LHV is lower than 9000 Kcal/ SM^3 , the gas quantity would be suitably increased and vice versa.

The lower calorific value of gas poses following problems in operation:

1. The gas consumption increases for the same production of ammonia.

2. The gas becomes lean (i.e. Fraction of higher hydrocarbons and carbon dioxide reduces) which leads to an imbalance in carbon dioxide production and therefore the total ammonia produced cannot be converted completely to urea. The problem becomes more acute in case urea plants gets shutdown due to some reason, and gives more surplus ammonia. This surplus ammonia cannot be converted to urea and also cannot be economically disposed off due to constraints of present pricing.

3. The PGR unit at Aonal, an energy conservation measure can maintain the same level of ammonia production at lesser quantity of NG feed consumption, has to be kept mostly shutdown due to CO2 shortage for conversion to urea.

4. The agreement for 1.7 million SM^3 /day of NG at 9000 Kcal / SM^3 for each plant was entered into for an ammonia production level of 1350 MTPD equivalent to 7.26 lakh MT of urea per annum. With the reassessment of capacity of these plants, it is logical to enhance the gas supply agreement for a quantity of 2x1.89 million SM^3 /day for the reassessed production capacity level of 17.07 lakh MT / annum (2x8.534) from 14.52 lakh MT per annum (2x7.26) at 9000 Kcal/ SM^3 heating value.

5. The Aonla-II plant has facilities to utilise naphtha as feed upto 50% capacity, and therefore can solve the surplus ammonia problem, as it can produce more CO2. however, with the present policies, naphtha can be used only when gas supplies are very low on an annual basis.

Therefore it is imperative that the required gas supplies be maintained to Aonla Unit strictly with 9000 Kcal/ SM^3 heating value to maintain the production level at reassessed capacity and solve the problem of CO2 shortage leading to surplus ammonia and PGR unit."

6.13 During his deposition before the Committee, MD, IFFCO apprised the Committee of hardships he is facing due to non/less supply of Gas. He stated:-

"There are constraints on Kalol and HBJ line. We had also requested you, many times that we should tell the government that they must give first priority of allocation of gas to fertilizer plants because there is a value addition."

6.14 He further added:-

"What is happening today is very dangerous. What they are doing is suppose, there is one litre of gas and one litre of gas is being used by us as half a litre and another halft a litre is used by Shri Kapur or Shri Bhatt, and tomorrow Shri Roy comes. So we get this divided. When the cut comes, Shri Roy will get the same cut as I get though he is a new player. We have been telling that please do not do that. Please cut the gas to those who have come later and them plan for those who have come first. It should be on first come first serve basis."

6.15 The Committee wanted to know whether there is any prioritisation in supply of Gas, MD, IFFCO replied :-

"This issue was taken up by Parliament last time. Our voice was heard at a certain level."

6.16 IFFCO has informed that it has taken various steps for ensuring availability of gas to its Kalol and Aonla I plants. On being asked about the steps taken by IFFCO for resolving issues relating to availability of gas during the last three years, IFFCO in a written note informed:-

"To resolve the problem of less availability of gas to Kalol Unit, a naphtha pre-reformer system was commissioned in 1997 which could compensate the shortage of gas to the extent of 30% of the Ammonia Plant capacity. The naphtha pre-reformer system is working satisfactorily but this is costly option as compared to gas."

6.17 When asked whether IFFCO has taken up the issue with the Ministry of Petroleum & Natural Gas through Department of Fertiliser, IFFCO in a written note informed:-

"IFFCO has been taking up the gas shortage issue of Kalol Unit with the Ministry of Petroleum & Natural Gas through the Department of Fertilisers."

6.18 IFFCO has further informed the Committee that it has requested GAIL/ ONGC to connect Gujarat Gas grid with existing network of HBJ pipeline to supply gas to IFFCO Kalol to sustain production. Asked whether the matter was taken up through DOF, IFFCO in a written note informed:-

"IFFCO had requested GAIL to connect Kalol gas pipe network with HBJ Pipeline for adequate supply of gas to Kalol Unit but GAIL indicated that at present HBJ Pipeline gas availability itself has reduced hence these aspects could be planned alongwith LNG import and supply project. Even fertiliser factories located at HBJ Pipeline are not getting contracted quantity of gas. IFFCO has taken up the matter with Ministry of Chemicals & Fertilisers vide our letters dated 27.2. 2001 and 20.7.2001."

6.19 About the long term solution of this problem, IFFCO in a written note stated:-

"GAIL has indicated that with the setting up of the Petronet LNG's gas terminal of Dahej, they will connect the gas supply line to Kalol Unit with that of proposed Dahej pipeline network. In that situation, the gas shortage problem could be solved on long term basis. Also British Gas is setting up a LNG terminal at Pipav and plan to have gas supply network to Kalol area as well."

6.20 IFFCO is facing the similar problem at Aonla. As regards steps taken for ensuring availability for IFFCO Aonla I, in reply to a question about specific dates when the matter was taken up with GAIL/ Ministry of Petroleum and Natural Gas, IFFCO in a written note informed:-

"The matter of less availability of gas with lower calorific value to Aonla Unit has been taken up with GAIL and also with the Ministry of Chemicals & Fertilisers several times e.g. vide our recent letters dated July 20, September 25 and November 21, 2001."

6.21 IFFCO has further informed that consequent upon reassessment of capacity of Aonla from 1350 tonne per day to 1500 tonnes per day by Government of India, IFFCO has sought enhancement of contractual gas supply from 1.7x2 MMSCMD to 1.89 x 2 MMSCMD at calorific value of 9000K Cal/SM3. IFFCO supplemented to this as under:-

"The information from DOF regarding reassessed capacity was received in September, 2000. A letter to GAIL requesting to increase the Gas allocation was written on 21.11.2000. This was further taken up through DOF vide our letter dated 25.9.2001. So far the quantity of gas supply has not increased as requested."

6.22 During the course of examination of DOF the Committee wanted to know about steps taken up by DOF for ensuring required gas availability for IFFCO's plant at Kalol and Aonla I. DOF in a written note informed:-

"**Kalol Unit** - During 2001- 02, the gas supply to Kalol Unit has improved temporarily in comparison to previous years due to the failure of gas feeder line to Ahmedabad Electric Company and Reliance Industries Limited at Ahmedabad. The gas supply to Kalol has been in the range of 4.8 lakh Sm3/d of NG and 2 to 2.2 lakh Sm3/d of AG against the contractual quantity of 6.2 lakh Sm3/d NG and 2.2 lakh Sm3/d AG, respectively. The said gas pipelines is expected to be replaced by April, 2002 after which the gas supply to IFFCO may further deteriorate.

Aonla Unit - Ammonia-Urea Plants of Aonla-I was commissioned in 1988 and Aonla-II in December, 1996. For meeting the requirement of Natural Gas for feed and fuel of these plants, IFFCO entered into a Gas Supply Agreement with GAIL, to supply 3.4 million SM3 per day (1.7 million SM3 per day for Aonla-I & II each) of Natural Gas (NG) based on lower heating value (LHV) of 9000 KCal/SM3. Since 1992, there has been marked deterioration in quality and quantity of NG supply to the plant."

6.23 The Committee wanted to know the action taken by the DOF to ensure gas supply and also whether the Department has any contingency plan to ensure continuing of operation of Kalol, DOF replied in a written note:-

"The issue regarding inadequate supply of natural gas by ONGC/GAIL to IFFCO for its Kalol plant was taken-up vide D.O. letter dated 27th August, 2001 from Joint Secretary (Fertilizers), Department of Fertilizers to Joint Secretary, Ministry of Petroleum & Natural Gas. In the reply received from Joint Secretary, Ministry of Petroleum & Natural Gas dated 31st October, 2001, it has been stated that the gas availability from Kalol field is only around 0.7 MMSCMD but the requirement of various consumers in the region is estimated at 1.4 MMSCMD. Kalol field, from where natural gas is being supplied since 1974, has crossed its plateau period of production and entered into a declining phase. Due to ageing of the field, the gas availability is unlikely to improve in future and as such there is no option except to supply gas on 'as and when available' basis to the consumers connected to the above field. However, Liquefied Natural Gas (LNG) is expected to be made available by Petronet LNG Limited (PLL) at Dahej terminal in the year 2004 and GAIL proposes to purchase re-gasified LNG from PLL to meet the requirement of gas of various consumers in the region. Accordingly, the additional gas requirement of IFFCO will be considered as per policy when the gas availability improves. In the Gas Linkage Committee meeting held on 27th July, 2001, Department of Fertilizers and Department of Expenditure emphasised that cuts should not be effected in case of fertilizer units. In the meanwhile, Kalol unit has to use the alternative feed/fuel facility in order to maintain the plant operation."

6.24 In reply to another query by the Committee about specific action taken by DOF on IFFCO's letter dated 20th July, 25th September, 21st November, 2001 regarding availability of gas for Aonla I unit, DOF in a written note informed:-

"The issue regarding gas restrictions from GAIL faced by the Aonla unit and the requirement of additional supply of gas for the unit was taken-up by the Department of Fertilizers with Ministry of Petroleum & Natural Gas vide letter addressed to Secretary, Ministry of Petroleum & Natural Gas from Secretary (Fertilizers) dated 23rd November, 2001 with a request to consider these issues in the Gas Linkage Committee (GLC) meeting scheduled for 29th November, 2001. In an earlier reply received from Ministry of Petroleum & Natural Gas dated 8th October, 2001, it was mentioned by Ministry of Petroleum & Natural Gas that availability of gas ex-Hazira and along HBJ pipeline system is only around 38 to 40 MMSCMD per day while the allocation of gas made to various consumers ex-Hazira and HBJ pipeline system is of the order of about 48 MMSCMD. The gas availability from the domestic sources in the region is likely to deplete further in the years to come. In these circumstances, it will not be feasible to accommodate any fresh demand for gas supply ex-Hazira and along HBJ unless the gas availability improves by import of LNG or new explorations/exploitation of fields."

6.25 The Committee regret to note that capacity utilisation in IFFCO's plants at Kalol and Aonla I had been very less as compared to its other plants. The Committee note with concern that capacity utilisation of Kalol plant of IFFCO has been 95% in 1998-99, 87% in 1999-2000 and 90% in 2000-2001. Whereas for Aonla it was 95% in

2000-2001. IFFCO has submitted before the Committee that there has been shortfall in production during the last three years on account of shortage of gas from the sources/supplies i.e. GAIL/ONGC. In this connection, IFFCO has informed that as against total contractual quantity of 8.40 lakh SM3 per day of Natural Gas and associated gas, the availability has been only in the range of 7.55 lakh SM3 per day in 1998-99, as low as 6.73 lakh SM3 per day in 1999-2000 and even lowest at 5.72 lakh SM3 per day. As regards gas restriction in Aonla I plant IFFCO has submitted before the Committee that as against contracted quantity of gas of 3.4 MMSCMD of gas based on calorific value of 9000 K.cal SM3 per day, the supply from GAIL has been at the calorific value in the range of 8200-8500 K.cal/ SM3 per day. IFFCO has further brought out that shortage of gas in Kalol plant is causing several problems in operation of the plant. This has resulted in increase in energy consumption and higher cost of production. IFFCO has also submitted that for solving the gas shortage it has in 1997 commissioned a naphtha pre-reformer system and the same is working satisfactorily. However, it is costly option. IFFCO has pleaded allocation of gas on first come first served basis as a solution to shortage of gas at Kalol. In this connection, they have further suggested to GAIL to connect Gujarat Gas Industries with HBJ pipeline to sustain production. However, the gas supply in HBJ pipeline is itself reduced. During the course of examination DOF informed that gas supply to Kalol may further deteriorate. In order to end the uncertainty Secretary (Fertilisers) also pleaded that in the Gas Linkages Committee meetings Ministry of Petroleum & Natural Gas be asked to give first preference for allotment of full level gas for fertiliser sector and allocation for other sector should come later. DOF has further informed that Gas Linkages Committee at its sitting held on 27th July, 2001, both DOF as also Department of Expenditure had emphasised that there should be no further cuts of gas supply to fertiliser units. The Committee, therefore, strongly recommend that in the larger interest of fertiliser industry allocation of gas to fertiliser be given first preference. For IFFCO Kalol, DOF should take up this matter with the Ministry of Petroleum & Natural Gas and that GAIL should arrange gas to meet the requirement of IFFCO Kalol before allocating gas to AEC and RIC.

(Recommendation Sl. No. 17)

6.26 Ministry of Petroleum & Natural Gas have indicated long term solution to the paucity of Gas Supply to IFFCO's plants but has not suggested any immediate resolution. The Committee desire that senior officer of MOP&NG and DOF should formally sit together and work out a plan ensuring uninterrupted qualitative supply of gas for IFFCO'' plants.

(Recommendation Sl. No. 18)

C. AVAILABILITY OF GAS IN FUTURE

6.27 Reportedly Fertiliser companies had proposed to form consortium to import gas for their exclusive use. Asked about the progress on this proposal including IFFCO's role in implementing this, IFFCO in a written note informed:-

"The Deptt. of Fertilisers formed a Core Group of fertiliser companies on July 31, 1998 to explore feasibility of importing LNG for the manufacture of Urea. The Core Group included the DOF, MOP&NG, IFFCO, TCL, , NFL, KRIBHCO, Duncans, Indo-Gulf, MoF, GAIL, SCI and IDBI. MD, IFFCO was the Chairman of the Core Group.

The Core Group submitted the Pre-Feasibility Report to Government in March, 1999. The Core Group, in its report, proposed an integrated approach for project including Liquefaction, LNG Ships, Regas Terminal and Pipeline network. The proposed LNG terminal was at Kishorprasad, Orissa with a capacity of 7 million tpa of LNG and the pipeline network passing through Orissa, Bihar and UP in Phase -I connecting to HBJ at Auraiya, and to Nangal and Bhatinda in Phase -II. The Project cost was estimated at Rs. 21,832 crore and the fixed LNG price at a discount rate of 15% for a period of 20 years worked out to US$ 3.08/mmbtu. The Core Group asked for Govt. authorisation for preparation of Detailed Feasibility Report and to carry out Pre-project activities such as finalising the source of Gas, preparation of a Basic Engg. Package etc. at an estimated cost of Rs. 25 crore to achieve financial closure.

Meetings with the Committee of the PIB were held in August, 1999 and in March, 2000.

A meeting was then held with Secretary (Fertilisers) on 17th April, 2000 during which it was decided that the Core Group on LNG should be revived to prepare the DFR and that the DFR should touch upon points raised by CPIB and also deal with the strategy necessary for getting naphtha, fuel oil/LSHS at reasonable prices from oil companies so as to reduce overall cost of production.

The Reconstituted Core Group held three (3) meetings in October, 2000, March, 2001 and Sept. 2001. The Core Group decided that it would be better to hold work on the DFR until the fertiliser policy is announced. A study on Naphtha demand and supply situation was meanwhile awarded to a Consultant.

The naphtha study concluded that there would be surplus naphtha production in the country from 2003-04 which is projected to increase to 6.6 million MT in 2006-07 and then gradually reduce to 5.0 million MT in 2011-12. The surplus of naphtha will have to be exported. In view of strong Asia-Pacific naphtha demand, export of naphtha would not be a problem. It was also observed that Naphtha based units would not be viable even at export parity prices of naphtha and that LNG would be available at $4/mmbtu ex-regas terminals and at $5/mmbtu along HBJ line, linked to a crude oil price of $25/bbl.

In its final meeting of the Core Group held on 24th September, 2001, the Core Group decided that as the Long Term Fertiliser Policy is still not announced, fertiliser companies are not in a position to finance the Core Group's massive project. It was decided to stop further activities of the Core Group."

6.28 The Committee pointed out that over-all gas demand supply scenario to fertiliser sector according to Fertiliser Association of India is very grim. As against immediate requirement of gas of 18 million Standard Cubic Meter per day (MMSCMD) for fertiliser sector the availability is only 13 MMSCMD. They apprehend that demand may increase in coming five years as gas supply from Mumbai High and other on-shore resources may dwindle. Solution for this according to them is import of Natural Gas through pipelines from Bangladesh route. Other solution is import of LNG gas by construction of Dahej Terminal of Petronet . However, in this case these are several difficulties since LNG chain for the project require huge investment, second, landed cost of LNG is unattractive and third uncertainty looming large over two large consumers of gas, viz. fertiliser and power in view of absence of Long Term Policy in Fertiliser Sector and uncertainty reforms in power sector.

6.29 In this connection the Committee wanted to know how DOF plans to make-up the present as well as future shortfall in gas-supply in fertiliser sector, DOF in a written note informed:-

> "Ministry of Petroleum & Natural Gas, in their report of the Working Group on Petroleum & Natural Gas, have mentioned that so far positive indications have been received in respect of 15 projects for setting-up LNG import terminals. The critical requirement for successful implementation of LNG project is the identification and aggregation of linked bankable markets which can pay for expensive LNG on long term basis. As of now 3 LNG terminals, i.e. Dhabhol, Dahej and Hazira, are under construction. Similarly, Cochin terminal can also be considered in matured category. Considering that 3 to 4 LNG terminals will get commissioned during the Tenth Plan period, the overall potential of import could be in the range of 40 to 50 MMSCMD of gas by terminal year of the Tenth Plan. It has been projected that gas supplies by terminal year of Tenth Plan, based on domestic gas supply, LNG imports and trans-national gas pipeline, may be in the range of 140 to 145 MMSCMD. Under this scenario, the demand-supply position, including the demand from the fertilizer sector, would balance itself and there are not likely to be significant gaps."

6.30 The Committee find that a Core Group consisting of representative of DOF/Ministry of Petroleum & Natural Gas, Fertiliser Industry was constituted to look into the problem and suggest remedial measures for import of LNG. This LNG project estimated to cost Rs. 21,832 crore was conceived on 31st July, 1998. The pilot study was also made but the Core Group at its sitting held on 24th September, 2001 has decided to stop its further activities on the ground that long term policy on Fertiliser is yet to be announced and as such fertiliser companies are unable to finance the project.

6.31 Ministry of Petroleum & Natural Gas has indicated positive indications for 15 projects for setting up LNG import terminals. Out of these, work on three terminals at Dhabhol, Dahej and Hazira is in progress and Cochin terminal is coming up. Besides 3 to 4 more terminals may also come up during Tenth Plan period. With

these terminals the import potential of LNG would be between 40 to 50 MMSCMD of gas by the end of Tenth Plan. With this, according to Ministry of Petroleum there could not be significant gap in demand-supply gas of LNG. The Committee feel that Core Group should have continued its study and have come out their plan/concept to import LNG exclusively for fertiiser Industry just as the same is being conceptualised by Power Sector. Power Sector, Fertiliser Sector and other bulk consumers may have competitions amongst themselves. The Committee would recommend that the Core Group should explore the possibility on these lines.

(Recommendation Sl. No. 19)

CHAPTER – VII

LONG TERM FERTILISER POLICY

A. ISSUES CONCERNING UREA

7.1 It came out during the course of examination that for urea, the Government has decided to replace existing Retention Price Scheme (RPS) with Group Retention Scheme (GRS) with a view to rationalise subsidy. The Scheme is based on feedstock and vintage of the plant in respect of gas based plants. The Scheme also envisages fixed rate of concession for urea units which have been grouped into five following categories:

(i) Pre-1992 gas based units;
(ii) Post-1992 gas based units;
(iii) Naphtha based units;
(iv) FO/LSHS based units;
(v) Mixed energy units.

(i) Problems with new Group Retention Scheme (GRS)

7.2 The Standing Committee on Petroleum & Chemicals have found that the grouping of units has disregarded various important factors like the technology adopted, vintage of plants new investment recently made and total cost of production at normative level. The Committee had, therefore, earlier in their 14th Report (13th Lok Sabha) recommended that all these issues be resolved first before accepting the recommendations in all matters. Govt. has assured the Committee to examine all the issues raised by the Committee.

7.3 In this connection, IFFCO submitted the following pros and cons of new policy:-

Pros	Cons
(i) Since actual costs are not an input for future subsidies, Cost efficiency is encouraged. (ii) Future plant modifications	(i) Units on the HBJ pipeline pay higher prices for gas. So, the pre-1992 gas-based units should be split into two groups. (ii) New Naphtha-based units are more energy-efficiency and have higher Capital costs than old units. So, they should be grouped separately.

shall be done purely on commercial considerations and not based on impact on subsidy.	(iii) Old Naphtha-based units with more than 5 Lakh MT capacity have the advantage of economies of scale compared to units with less than 5 Lakh MT capacity. So they should be grouped separately. (iv) Similarly, in FO-based units, GNFC has the advantage of economies of scale due to higher capacity. So, it should be grouped apart from the other FO-based units. (v) In the first period, escalation should be based on the average actual energy consumption for the group and not based on the norms of energy consumption set for the second phase. (vi) Savings on account of Import Parity Prices of Inputs should not be on a assumed basis. The actual rates, as obtaining today, should be adopted and no further mopping up of estimated savings ought to be done.

7.4 In addition to the above, during the course of examination IFFCO has apprehended that if the above grouping is retained, viability of old units based on Naphtha and fuel oil would not only be severely effected but a few units of pre-1992 on HBJ would suffer erosion in profitability. IFFCO has also suggested increase in number of groups in Phase-I for ensuring the viability of fertiliser Industry.

7.5 In this connection, the Committee wanted to know the detailed reasons for announcing this policy particularly when above cons of the Policy outnumber pros of the policy and also wanted to know Whether IFFCO's suggestions for increasing the number of group in Phase-I has also been taken into consideration in the proposed New Long Term Policy, DOF stated in a written note:-

> "Although Finance Minister has, while presenting Annual Budget for 2001-2002, announced inter alia that recommendations of the Expenditure Reforms Commission (ERC) would be implemented and the unit specific Retention Price-cum-Subsidy Scheme will be replaced by a Group Concession Scheme w.e.f. 1.4.2001, it is stated that a decision for replacing the unit specific RPS by a Group Concession Scheme based on recommendations of RPS is yet to be taken. Recommendations of ERC have been examined in consultation with concerned Ministries/Departments of Government of India, State Governments and fertilizer industry with a view to formulate a new pricing policy for urea units in place of existing RPS. Fertilizer industry and many State Governments have expressed

their views against some of the recommendations of ERC particularly pertaining to 7% annual increase in farm gate price of urea, replacement of existing RPS by a group based concession scheme based on averaging of retention prices, dual price scheme etc. After examining all the relevant aspects and the views of the fertilizer industry and State Governments on ERC's recommendations, Government expects to finalise the new pricing policy for urea units shortly."

7.6 During the course of evidence of the representatives of Department of Fertilisers the Committee wanted to know by when the policy is expected particularly when all the issues connected with Urea have been kept in abeyance with finalisation of new long term Fertilisers Policy yet to be announced by Government, Secretary (Fertilisers) submitted:-

"You have raised a very vital point about the draft long-term policy. I will be very honest with you because it is not an obvious one, but it is a very logical question to ask as to what is going to be the impact and why are you delaying long-term fertilizer policy.

Sir, let me tell you basically the long-term fertilizer policy what we are talking is really talking in terms of 2, 3 or four items. (a) total de-regulation of the fertilizer sector in a phased manner, (b) removal of aberrations and deficiencies in the existing system, (c) increase in price of urea at regular intervals, (d) formulation of new pricing policy for urea units and removal of distribution controls on urea. Now, all these five issues I am putting under one head. I call it the pricing policy because all of them are co-related."

7.7 He, further added:-

"I am extending an assurance now to this hon. Committee that by the end of this month, hopefully, give or take a few weeks or the pricing policy is going to be cleared by the competent authority. It has been cleared by our hon. Minister today in the morning and we are now going to the competent authority for getting it cleared. But within two or three weeks it should be cleared."

7.8 The Committee find that with a view to rationalise that subsidy, the DOF had earlier informed the Committee that Government have decided to replace the existing Retention Price Scheme (RPS) with Group Retention Scheme (GRS) based on feedstock and vintage of gas based plants. The scheme envisages fixed rate of concession for urea units after grouping them under five categories. These are (i) Pre 1992 gas based units (ii) Post 1992 gas based units (iii) Naphtha based (iv) FO/LSHS based units' and (v) Mixed energy units. The Standing Committee on Petroleum and Chemicals in their 14th Report (13th Lok Sabha) had pointed out that above grouping has disregarded various important factors. In pursuance DOF had assured the Committee to examine these points raised by the committee. A perusal of comparison between pros and cons brought out by IFFCO, the Committee find that minus points of the policy highly out number the plus points of the policy. In this connection, the DOF has now informed that Government is yet to take a final decision on the Group Retention Scheme. All relevant aspects are being examined and Government expects to finalise new pricing policy shortly. Secretary (Fertilisers) also informed that new policy has been cleared by Minister of Chemicals on 11th December, 2001 and hopefully in another two to three weeks time the policy would be out. The Committee

hope that the Government would come out with a policy which is pro to none but balanced one.

(Recommendation Sl. No. 20)

(ii) Payment of Outstanding retention prices to IFFCO.

7.9 During the course of examination, it came out that huge sums are outstanding to be paid to IFFCO by Department of Fertilisers/FICC on account of adhoc retention prices for its various plants. In this connection, IFFCO in a written note submitted:-

"Final retention prices of our expansions at Aonla-II, Phulpur-II and Kalol have not yet been finalised and 2% of the provisional retention prices have been withheld by the FICC. Also, the impact of salary revision and the increased use of naphtha at Kalol have not been allowed as yet. The impact of these and other such pending claims is expected to be about Rs.1020 crore. This is not only causing a direct reduction in profit to the Society but is also increasing the interest burden on account of increasing use of cash credit. The interest burden is further increased because of delayed payment of subsidy on Complex fertilisers which incidentally is about Rs.226 crore as on date. The FICC may be requested to expedite these claims and delayed payment of subsidy by the Government should be paid along with the interest on delay."

7.10 Giving plant-wise breakup of the amount outstanding to be paid to IFFCO, society in a written note submitted:-

"The details of claims for urea amounting to Rs. 1020 crore pending with FICC as on 6.11.2001 is given below:-

(1A) Amount admissible under the pricing policy awaiting implementation:

Sl. No.	Particulars of Claims	Amount in Rs. crore
I	Review of salary & wages claim from 1.1.97 to 30.6.2001 on account of Pay Revision.	100.00
II	Delay in finalisation of Quarterly Escalation Claim for 2nd , 3rd and 4th quarters of 2000 and 1st quarter of 2001 pertaining to Phulpur – II. Additional annual impact for Kalol for usage of Naphtha as alternative feed.	47.00 22.00
III	Review of repairs and maintenance expenditure for the year 1997-98 to 2000-01.	100.00
IV	Non recognition of vintage allowance for Aonla-I upto 30.6.2001.	56.00
V (a)	Treatment of Kalol as a new unit after expansion (upto 30.6.2001)	30.00
V(b)	With holding of 5% and 2% of retention price for Aonla-II, KEP and Phulpur-II (upto 30.6.2001)	138.00
	TOTAL 6 (1A)	493.00

(1B) Under recoveries due to policy decision taken by FICC.

Sl. No.	Particulars of Claims	Amount in Rs. crore
I	Non recognition of proportionate foreign exchange fluctuation on CPP for Aonla-II.	38.00
II	Purchase tax/additional sales tax from 1991-92 to 2000-01.	65.36
III	Under recoveries in the Equated Freight/BLEF from 1991-92 to 2000-01	42.27
IV	Foreign exchange fluctuation from 1991-92 to 2000-01	381.90
	TOTAL (1B)	***527.53***
	TOTAL (1A) + (1B)	**1,020.53"**

7.11 During the course of examination of Department of Fertilisers, the Committee wanted to know by when the outstanding amount will be paid, DOF in a written note informed:-

> "The pending claims of IFFCO relating to urea subsidy are indicated at about Rs. 1020 crore. Out of this amount, claims worth Rs. 345 crore are under process at different stages and majority of these claims are likely to be cleared within the next three months. The remaining amount of Rs. 675 crore include the claims relating to foreign exchange fluctuations, turnover taxes, equated secondary freight, repairs and maintenance, etc. Some of the these are inadmissible claims such as turnover tax/additional sales tax, claims related to capital addition, etc. during the VI/VI-A pricing period. The remaining claims will be finally decided after the Government notifies the pricing policy for the VII and VIII pricing periods commencing from 1.7.1997."

7.12 The Committee note that a huge amount to the tune of Rs. 1020 crore is due to be paid to IFFCO by DOF/ Fertilisers Industries Coordination Committee (FICC), DOF in this connection has revealed that out of Rs. 1020 crore, claims to the tune of Rs. 345 crore are under process at different stages. Majority of these claims are to be cleared within next three months. As regards remaining amount of Rs. 675 crore, DOF has informed that these claims would be decided after Government notifies the pricing policy effective from 1st July, 1997. The Committee hope that DOF would take urgent steps to clear the claims of Rs. 345 crores which are being processed by Government to IFFCO immediately. About remaining claims of Rs. 675 crore the Committee hope that DOF would expedite the new policy paving the way for necessary Government notification, so that blocked amount of IFFCO are given to IFFCO.

(Recommendation Sl. No. 21)

(iii) Recommendations of Expenditure Reform Commission regarding urea price.

7.13 Another issue relating to subsidy on urea dealt with by the Committee during examination of Demands for Grants of DOF for 2000-2001 related to 7% yearly increase in price of urea as recommended by the Expenditure Reform Commission (ERC). The Department of Fertilisers had earlier assured the Committee it was not in favour of such an increase. This issue is being examined by DOF in consultations with concerned Ministries/State Government and Fertiliser industry with a view to formulate new pricing policy for urea units. In this connection, during the course of evidence the Committee wanted to know whether IFFCO has been invited by DOF for discussing the issue, if so when and what suggestions IFFCO offered to the Government, IFFCO in a written note submitted:-

"The views of IFFCO have not been formally sought on this specific issue."

7.14 Asked further about IFFCO's views on 7% yearly increase in price of urea as recommended by ERC and what would be its impact on affordability of prices, IFFCO in a written note opined:-

> "The farmers might find the increase in the price of Urea as unaffordable at present."

7.15 During the course of evidence of the DOF, the Committee also wanted to know the stand of DOF on the above recommendation, the Secretary (Fertilisers) informed:-

> "We are extending a commitment to the competent authority that within a prescribed period of two months from the date of the sanction, we will come back to you for taking a decision on ERC which works out to be the final logical step of the pricing policy. Now, We cannot take a decision about ERC because from 1st July, 1997, We have no pricing policy. So, what I am saying is (a) first clear this, (b) We will come back to you with what my policy will be long-term. I would say that by the month of February or beginning March, we should be able to clear this pricing policy hundred per cent."

7.16 The Committee recall that on the issue of proposed 7% yearly increase in prices of urea as recommended by Expenditure Reform Commission Report, the Committee in their earlier report have already expressed reservations. DOF has informed that this issue was being examined IFFCO has also opined that such an increase in price of urea in effect would make the urea unaffordable to farmers. Secretary (Fertilisers) has informed that within a month time new pricing policy was going to be cleared by the competent authority and by Feb, March, 2002 the policy would be cleared finally. The Committee, therefore, recommend that before finalising the pricing policy issue of affordability of urea small and marginal to farmers be first examined in depth.

(Recommendation Sl. No. 22)

(iv) Policy Changes in Feedstock affecting Fertiliser Units

(a) Import Parity Price (IMPP)

7.17 During the course of examination it was brought to the notice of the Committee that under the decontrolled regime for liquid hydrocarbons viz., naphtha, fuel oil and LSHS in vogue since 1.4.1998, their prices continued to rise during 2000-01 on account of continuing increase in their import parity prices (IMPP). In view of the FM's announcement in Budget for 2001-02 to link concession for naphtha, fuel oil/LSHS based plants and plant based on mixed feed to their IMPP levels as also considering the fact that there were serious anomalies in pricing of feedstock by oil companies, necessary exercises were initiated at the inter-ministerial level to rectify the situation.

7.18 The Committee were also informed that following a Report prepared by the Cost Accounts Branch (CAB) of Ministry of Finance and further discussions on the subject at the inter-ministerial level, the Indian Oil Corporation (IOC) notified revised prices w.e.f. 9th July, 2001. As a result, whereas, there is substantial reduction in the landed cost of naphtha to the port-based plants including IFFCO-Kalol, GSFC-Vadodara, MCF-Mangalore, ZIL-Goa, for plants located in north and central parts viz., IFFCO-Aonla. TCL-Babrala, the revised price is higher. For some plants in the latter group viz., SFC-Kota and Indo Gulf-Jagdishpur, the revised prices are marginally lower.

7.19 In this context, Fertiliser Association of India has also informed that while, the IOC is supposed to provide information on the break-up of price to DOF/FIC, it would appear that for arriving at the price for plants at inland locations, freight from port to the refinery has been assumed. While, affecting the concerned fertilizer plants, this will lead to a fortituous benefit to the oil company.

7.20 FAI has further argued that in respect of fuel oil, whereas, for some port based plants viz., IFFCO-Kalol, SPIC-Tuticorin, there is reduction in price, for others i.e.GNFC-Bharuch, MCF-Mangalore, the revised prices is significantly higher. For plants located in north/central India, as in case of similarly placed naphtha based plants, there has been significant increase in the price. The plants in this category include NFL-Panipat/Nangal/Bhatinda, IFFCO-Aonla/Phulpur. In this connection, the following is the plant-wise details of IFFCO showing feedstocks, installed capacity per tonne and year of commencement and their retention prices:-

Sl. No.	**Year of commencement**	Name of Plant	**Feedstock Used**	Installed **Capacity (lakh/MT)**	**Retention Price (per tonne) (as on 1.4.2000)**
1.	1978	Kalol (Port based)	Gas	3.96	7467
2.	1981	Phulpur (Land based)	Naphtha	5.12	11,175
3.	1988	Aonla (Land based)	Gas	8.53	5280*
4.	1996	Aonla Expansion (Land Based)	Gas	8.53	6161*
5.	1997	Kalol Expansion	Gas	1.50	7467*

		(Port Based)		additional	
6.	1997	Phulpur Expansion (Land based)	Naphtha	8.53	11,574*

* ***Adhoc***

7.21 In this context, the Committee were also informed that besides, the increase in price on supplies for use as non-feed is significantly higher than the increase applicable as feed. For instance, for NFL-Panipat, increase in former is more than double the hike in latter.

7.22 In view of the above the FAI has, therefore, observed that under the new dispensation, the landed cost of naphtha varies widely from plant to plant from a low of about Rs. 12,514 per tonne to a high of about Rs. 15,274 per tonne. Likewise, the landed cost of fuel oil varies substantially from a low of Rs. 9767 per tonne to a high of Rs. 13,271 per tonne. In the face of these wide variations, introduction of a group-wise pricing would still play havoc with several plants whose production cost will be higher due to high price of feedstock. There is an urgent need for further rationalisation of the feedstock prices with view to minimise inter-plant variations particularly between the port based plants on one hand and plants located in the hinter land on the other.

7.23 In this connection, the Committee wanted to know the pros and cons of the new revised pricing of feedstocks for fertiliser plants. IFFCO in a written note clarified:-

> "The new revised pricing of feedstocks for fertiliser plants has resulted in lower prices of inputs to fertiliser plants and thus lower subsidies.
>
> However, the breakup of pricing is not being intimated by IOC, which makes it impossible to identify how accurately the laid down methodology is being followed and to what extent benefits are being passed on to the Fertiliser Units and what, if any, are the fortuitous gains made by the Oil companies.
>
> Also, the main intention of reducing disparities in Input Prices for different units has not been served, because the Oil Companies have insisted on adding the Freight from Port to Fertiliser Unit on a Unit-wise basis instead of averaging it out. They have also reverted to charging Sales Taxes on a unit-wise basis, instead of the average basis."

7.24 When the Committee further equired as to whether the above complaints are correct, IFFCO in a written note informed:-

> "The complaints are true that there are very significant disparities in the Input Prices charged to various units. The disparities have been increased by the decision of the Oil Companies to charge Sales Taxes also on a unit-wise basis.

If these disparities continue to exist, it shall make the implementation of any Group Retention Scheme very difficult, if it is intended to maintain the viability of the Fertiliser Industry."

7.25 The Committee also wanted to know whether there are solutions of the present anomalies between port based plants and plants away from ports on the issue of prices of feedstocks, IFFCO in a written note stated:-

> "The Oil Companies must charge a uniform delivered cost of Inputs to all units, much as is the case with consumer goods. This uniform delivered cost for each input may be derived by averaging out the costs of supplies to all units. The fact remains that non-feed usage is subject to excise duty and so different prices shall be charged for Feed usage and non-Feed usage.

Only if such a system for pricing of inputs is in place can a viable group retention price be put in place."

7.26 During the course of examination of DOF the Committee wanted to know whether DOF has taken up these issues with the Ministry of Petroleum & Natural Gas. The DOF in a written note informed:-

"The import parity pricing arrangement in respect of domestic supplies of naphtha, FO & LSHS has led to increase in the delivery price of these hydrocarbons in some cases, though in the overall, it has led to estimated annual saving of almost Rs.500 crore in fertilizer subsidy expenditure of the Government.

Escalation/de-escalation in the price of feedstock/fuel, including naphtha, FO & LSHS, gets duly reflected in the computation of retention prices under the Retention Price Scheme (RPS). The cost of transportation of feedstock/fuel is also recognised under the RPS."

7.27 The Committee further wanted to know from DOF about Government response to the entire issue. The Secretary (Fertilisers) explained during evidence:-

"In the case of Naphtha, we tried to be very smart. We said, you give us at import parity price. We went to the Ministry of Petroleum. They have given naphtha to us at import parity price. It has brought my subsidy bill down by Rs. 510 crore. But they did something smarter. They said, from now on they will charge the transport cost so that those fertiliser plants located at the port, will get it at cheaper price, but those which are land-based, will get it at a higher price. So, they tried to be smarter than us."

7.28 He further added:-

"We feel that the import parity price given to us is not the correct import parity price. In our opinion, it could be anywhere about Rs. 700 to Rs. 800 per tonne less than what is being offered. If on a land-based project I ask for tenders from the open market, from the global market, at least we will get to know the truth, if nothing else."

7.29 Presently Natural Gas is the most preferred feedstock for fertilisers. The Committee were also informed that another feedstock Naphtha has already been given to fertiliser units on import parity price. In reply to a question as to whether there will be any impact on fertiliser industry if natural gas is also given to fertiliser production units on import parity prices, Secretary (Fertilisers) replying in affirmative said:-

"Yes Sir, it is absolutely so."

7.30 The Committee find that the Government's decision to supply different feedstocks viz. naphtha, fuel oil and LSHS since 1st April, 1998 to fertilisers units has created problems for fertilisers units. As regard its impact on IFFCO it has been reported that its Kalol, Aonla and Phulpur plants are affected by this decision of Govt. IFFCO has also informed that this decision has resulted in lower prices of inputs to fertiliser units and thus lower subsidies. IFFCO has also complained to the Committee that Indian Oil Corporation has neither given break-up of pricing nor the method of pricing of different feedstocks, IFFCO has further informed these has led to fortuious gains to oil companies. The Committee therefore recommend that DOF should take up this matter with Ministry of Petroleum and Natural Gas/ IOC so that grievances of IFFCO are adequately addressed.

(Recommendation Sl. No. 23)

7.31 Another issue arising out of the import parity issue affecting IFFCO is that oil companies have insisted on adding freight from port to fertilisers units on unit-wise basis. Sale tax is also charged thereon. For solving the issue IFFCO has requested that oil companies must charge uniform delivered cost of inputs to all units by averaging out the cost to supplies to all units. In this context DOF has informed that due to above decision of import parity arrangement delivery price of different feedstock has increased in some case not overall. DOF feel that transport cost incurred by fertiliser units is covered under Retention Price Scheme. Committee, however, feel that IFFCO's suggestion for uniform delivered cost of inputs to all unit by averaging out the cost of supplies to all units.

(Recommendation Sl. No. 24)

(b) Viability of feedstocks

7.32 About the viability of feedstocks for fertiliser during the course of evidence of the Department of Fertilisers it also came out to the knowledge of the Committee that the future scenario in this area is quite uncertain. The Committee find that issue of viability of feedstocks is another segment which is agitating the fertiliser industry.

7.33 In this connection the Committee pointed out that out of the three feedstocks *viz.* natural gas, Naphtha and LNG, Naphtha is already being given on import parity. For remaining two feedstocks i.e. of natural gas and LNG, the Committee pointed out that for natural gas there is a possibility of giving this to fertiliser units on import parity. As regards, LNG the Committee observed that LNG being costlier as compared to gas. Hence because of variance in prices. There is uncertainty looming large over fertiliser sector. In this connection, the Committee wanted to know what action is needed to counter this situation, the Secretary (Fertilisers) informed:-

> "That is exactly what I wanted to request you. You are absolutely right that Naphtha is now on import parity. But what is sauce for the goose has to be sauce for the gander. They now ask us that we talk of import parity price for Naphtha which is Okay; but what about the import parity price for the second feedstock which is your natural gas? I cannot say a thing. While formally the hon. Minister for Petroleum says that from 1.4.2002 they are going to jack up the price of natural gas, we still feel that this is going to be lower than the Naphtha price. But our internal understanding is that we are hoping that instead of raising it to the import parity price, it may be done in phases. We are hoping for that. We have some ground for that hope whether it is at a personal level or at some other level. We informally agree. You are absolutely right about the LNG."

7.34 About future availability of LNG, Secretary (Fertilisers) further states:-

> "Let me mention about LNG. When Shri Suresh Prabhu used to be the Minister for Chemicals & Fertilisers, he had set up a core group under the chairmanship of the M.D., IFFCO for LNG. This core group worked out a scheme for something like about Rs. 22,000 crore; that we will be able to supply at some place in Orissa from port and that is linked up with the HBJ, HBZ etc. That did get the first clearance from PIB. But, unfortunately, the whole scheme stands dropped. In the meanwhile, the Petroleum Ministry has, on its own, started giving LNG contracts; for example Petronet, Dabhol, Dahej etc. Reliance is, perhaps, coming up. You have on in Cochin and I am told there is some proposal in the East also which is under consideration."

7.35 He further added:-

> "In respect of other, a lot of efforts have been done. Unfortunately, when we checked up the price from the Petronet, they called us. They first talked of something like 4.10 or 4.20 dollars. By the time we finished discussion, we felt that it was going to be 5.50 dollars. Who is going to pay this kind of money? Nobody, ERC in their final conclusion-Sir, you have read the Report – have assumed that Naphtha based units will move over to natural gas or LNG and natural gas depleting within the country, we move to LNG."

7.36 The Committee find that there is uncertainty prevailing over viability of different feedstocks *viz.* naphtha, natural gas and LNG. The Committee have been informed by Secretary (Fertilisers) that naphtha is being given to fertiliser units on import parity prices. As regards other two feedstocks natural gas and LNG, the Secretary (Fertilisers) have informed that it might be given on import parity price on the pattern of naphtha in future. This will make natural gas costlier to fertiliser units. About the third feedstocks of LNG the Committee were informed that it would be equally costlier. To solve this problem the Ministry of Petroleum & Natural Gas should be asked to increase the price of natural gas in a phased manner. The

Committee, therefore, recommend that whatever price increase in price of gas is effected it should be in phased manner in the interest of viability of feedstocks for fertiliser units.

(Recommendation Sl. No. 25)

B. <u>ISSUES CONERNING DAP/NPK</u>

(i) *Payment of Outstanding dues from State Governments due to delay in certification of sales.*

7.37 Out of total 41.89 lakh tonnes of phosphate production in the country it came out that IFFCO has been producing around 17.4 lakh tonnes of phosphate. In this connection, a major complaint has been that due to non-certification of sales by State Governments investors money is being blocked unnecessarily, an amount of Rs. 795 crore has been pending from 1997-98 on this account. Explaining the details of pending amount, IFFCO stated:-

"The total amount of subsidy not forwarded by the State Govt. during 1998-99 to 2000-01 comes to Rs. 21.51 crore. The year -wise break-up is as under :

Year	**Amount (Rs. in Crore)**	**States from where certificates not received**
1998-99	0.64	Bihar
1999-2000	4.12	Bihar - Rs. 1.93 Crore U.P. - Rs.1.10 Crore Pun - Rs1.09 Crore
2000-2001	16.75	Punjab- Rs.11.00 Crore Bihar - Rs.3.14 Crore U.P. - Rs. 1.77 Crore Others - Rs.0.84 Crore

7.38 The Committee pointed out that the DOF in connection with a Report of the Committee in their action taken notes have informed that govt. has further framed new guidelines which has expedited (17.5.2001) certification of sales. Asked whether any improvement has been occurred of the fresh guidelines issued by DOF. IFFCO in a written note informed:-

"Yes, there is a general improvement. However, the certification has not been done mainly by the State Governments of Punjab and Bihar."

7.39 During the course of examination of DOF, the Committee pointed out that the major complaint in their field is non-payment of investors money for want of delay in certification of sales of DAP/NPK by State Governments. In this context, the Committee drew the attention of DOF that the Standing Committee on Petroleum & Chemicals have already recommended for expediting the payment of pending amount.

7.40 The Committee wanted to know the latest position in regard to payments outstanding to IFFCO, DOF in a written note informed:-

> "As on date, the outstanding claims on phosphatic fertilisers of IFFCO are amounting to nearly Rs.118.31 crore which are being processed and are likely to be settled in a months time."

7.41 In reply to another query whether any action plan of DOF for prompt resolution of outstanding claims of IFFCO has been finalised, DOF in a written note informed:-

> "The Concession Scheme of decontrolled phosphatic and potassic fertilisers has been transferred w.e.f. 1.10.2000 to the Department of Fertilisers. However, Department of Agriculture & Cooperation has recently transferred the work relating to settlement of concession claims pertaining prior to 1.10.2000 of phosphatic and potassic fertilisers to the Department of Fertilisers. In order to expedite the settlement of outstanding claims prior to 1.10.2000, a Special Cell relating to the expeditious settlement of concession claims of phospahtic fertilisers has been set up in the Fertilizer Industry Coordination Committee (FICC)/Department of Fertilisers."

7.42 Asked further as to whether DOF ever asked State Governments of Punjab and Bihar to clear the dues of IFFCO, DOF in a written note informed:-

> "Ever since the transfer of the Concession Scheme to Department of Fertilisers (DOF), the DOF has repeatedly taken up the issue of delay in sale certifications by the States from time to time and especially with the State Governments of Punjab and Bihar. This issue was also discussed in depth in the National Level Consultations held on 9.2.2001 which was chaired by Secretary (Fertilisers).
>
> Even after the consultations, the Department of Fertilisers has been constantly taking up this issue with the concerned State Governments. Secretaries (Fertilisers) vide D.O. No. M.19011/40/2001-MPR dated 25.9.2001 had written to Chief Secretary of States of Punjab, Bihar and Uttar Pradesh apprising about delays

that have been experienced in the issuance of sales certification in required proforma and requesting them to resolve the problem.

This issue was again deliberated upon in length during the one day Work Shop on decontrolled fertilisers held on 10.10.2001. Secretary (Fertilisers) through D.O. letter No. M.19011/40/2001-MPR dated 31.10.2001 reminded the Chief Secretary of States of Punjab and Bihar to resolve the problem of inordinate delay in certification of sales of decontrolled fertilisers. Further, this issue has also been taken up on a regular basis during the Zonal Conferences for Kharif and Rabi seasons, convened by the Ministry of Agriculture. In view of constant pursuation with the State Governments, it is now understood that the Government of Punjab has started certifying the sales of decontrolled fertilisers. The Government of Uttar Pradesh has also issued guidelines for certification of sales of phosphatic and potassic fertilisers."

7.43 The Committee also wanted to know by when all the dues would be paid to IFFCO, DOF in a written note informed:-

"As far as the remaining claims pertaining to phosphatic fertilisers prior to 1.10.2000 are concerned, the settlement of outstanding claims of IFFCO are subject to receipt of certificates about the sales of phosphatic fertilisers from the State Governments."

7.44 The Committee regret to note that huge amounts of IFFCO are also not being paid on due to non-certification of sales of IFFCO's DAP by different States. IFFCO has informed that Rs. 21.51 crore are still to be paid to IFFCO. Of Rs. 21.51 crore Rs. 11.00 crore from Punjab and Rs. 3.14 crore from Bihar are pending for payment. Certification from these States has not been done. The Committee hope that DOF should take up this issue with concerned State Governments for early payment to IFFCO.

(Recommendation Sl. No. 26)

(ii) ***Payment of outstanding dues from DOF/FICC due to delayed payment of subsidy on complex fertillisers to IFFCO***

7.45 During the course of examination in reply to query about non-payment of outstanding dues for subsidy for complex fertiliser to IFFCO, IFFCO in a written note submitted:-

"Interest burden is further increased because of delayed payment of subsidy on complex fertillisers which incidentally is about Rs. 226 crore as on date. The FICC may be requested to expedite these claims and delayed payment of subsidy by Government should be paid along with the interest on delay."

7.46 In this connection IFFCO has given the following break up of its blocked amount of Rs. 226 crore as under:-

"(Rs. in crore)

S.No.	**Period**	**Pending for non-receipt of Proforma 'B' from States**	**Bill pending with FICC/DOAC***	**Total Amount Due**
1	Upto Sept. 2000	28.78	43.59	72.37
2	Oct. –March, 2001	41.50	67.58	109.08
3	**April-June 2001**	**12.00**	**33.07**	**45.07**
	Total	**82.28**	**144.24**	**226.52"**

7.47 In this context the Committee wanted to know from DOF the latest position in regard to payment of outstanding dues to IFFCO, DOF in a written note informed:-

"As on date the outstanding claims on phosphatic fertilizers of IFFCO are amounting to nearly Rs. 118.31 crore which are being processed and are likely to be settled in a months time."

7.48 The Committee find that Rs. 226 crore of IFFCO are outstanding for payment by FICC/DOF for non-payment of delayed subsidy on complex fertilisers. In this connection, DOF has informed that as on date amounts of Rs. 118.31 crore are being processed and likely to be settled in a month's time. The Committee hope that these payments be made available to IFFCO as early as possible.

(Recommendation Sl. No. 27)

CHAPTER – VIII

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE

The financial performance of IFFCO showing its turn over and actual profits during the last three years has been as under:

Year	Turnover	Profits
	(Rs. in crore)	
1998-1999	3820.00	345.81
1999-2000	4529.49	312.90
2000-2001	5151.90	234.00

8.2 The Committee pointed out that turnover of IFFCO has been increasing year after year whereas the profits are decreasing correspondingly, The Committee wanted to know the reasons for decreasing profits particularly when there has been annual addition of more than Rs. 600 to 700 crore. IFFCO in a written note informed:-

> "The profits for the year 1998-1999 and 1999-2000 included prior period subsidy of Rs.52.85 crore and Rs.88.24 crore respectively. Excluding these and the corporate revenue for these two years, the operating profits were Rs.274.3 crore for 1998-99 and Rs.205.67 crore for 1999-2000. There was a reduction in operating profit during 1999-2000 mainly due to downward revision of adhoc concession on Phosphatic Fertilisers amounting to Rs.58 crore and the additional impact of Rs.22 crore due to finalisation of wage revision.
>
> The operating profit for the year 2000-01 was Rs.233.04 crore, though the same was adversely affected due to interim reassessment of the capacity of urea plants resulting into reduction in subsidy income by Rs.84 crore as well as increase in short term interest from Rs.58 crore during 1999-2000 to Rs.122 crore during 2000-01 as a result of substantial increase in short term borrowings of the Society."

8.3 In this context the Committee pointed out that a perusal of financial performance reveals that operating profit to sales, profit before tax to sales, gross profit to capital employed, profit before tax to Net worth, all are declining and this year are at the lowest in the decade. Asked whether IFFCO analysised their performance and planning done to correct the position, IFFCO in a written note informed:-

"Final retention prices of our expansions at Aonla-II, Phulpur-II and Kalol have not yet been finalised and 2% of the provisional retention prices have been withheld by the FICC. Also, the impact of salary revision and the increased use of naphtha at Kalol have not been allowed as yet. The impact of these and other such pending claims is expected to be about Rs.1020 crore. This is not only causing a direct reduction in profit to the Society but is also increasing the interest burden on account of increasing use of cash credit. The interest burden is further increased because of delayed payment of subsidy on Complex fertilisers which incidentally is about Rs.226 crore as on date. The FICC may be requested to expedite these claims and delayed payment of subsidy by the Government should be paid along with the interest on delay."

8.4 The Committee further wanted to know whether there are any plans to reduce the interest burden, MD, IFFCO informed during evidence:-

"We are doing it. We are swapping loans, that is, from high cost loans to low cost loans and thereby we are reducing the interest burden. Now, we are left with around Rs. 500 crore long-term loan which should be over by March, 2003."

8.5 During the course of examination of Department of Fertilisers, the Committee pointed out that as per the present pricing policy, the fertiliser producing company should achieve 12% post tax return on net worth, provided the Company has performed within the normative level. Asked about the details of return on net worth achieved by companies in public and cooperative sector working under the administrative control of DOF during the last five years, DOF in a written note informed the following information:-

"**Return of Networth**

	1996-97	**1997-98**	**1998-99**	**1999-2000**	**2000-01**
KRIHBCO	23.19%	27.84%	21.58%	04.20% *	10.81*
PPL	(-ve)	(-ve)	(-ve)	47.0%	(-ve)
FACT	9.84%	8.14%	(-ve)	(-ve)	(-ve)
PDIL	(-ve)	(-ve)	(-ve)	(-ve)	(-ve)
RCF	10.74%	20.96%	14.32%	3.25%	5.06%
MFL	8.63%	(-ve)	(-ve)	20.63%	(-ve)
HFC	(-ve)	(-ve)	(-ve)	(-ve)	(-ve)
NFL	0.93%	14.11%	3.01%	2.51%	1.94%
FCI	(-ve)	(-ve)	(-ve)	(-ve)	(-ve)
PPCL	(-ve)	(-ve)	(-ve)	(-ve)	(-ve)
IFFCO	**11.60%**	**24.16%** **	**16.48%**	**13.11%**	**9.00%**

* *Low return due to recovery from FICC.*

** *The profit in the year 1997-98 in respect of IFFCO appears higher because it includes prior period subsidy of Rs. 278 crore."*

8.6 The Committee find that IFFCO's profits are decreasing year after year even though its turnover has been increasing. IFFCO's profits during 1998-99, 1999-2000 and 2000-2001 has been at Rs. 345.81 crore, Rs. 312.90 crore and Rs. 234.00 crore respectively . Whereas turnover of IFFCO was Rs. 3820 crore, Rs. 4529.49 crore and Rs. 5151.90 crore during the same period. IFFCO has informed that it is due non-finalisation of retention prices of IFFCO's plant at Aonla II, Phulpur II and Kalol. IFFCO has also informed that interest burden of IFFCO has increased due to delay in payment of Rs. 226 crore by FICC. In this connection DOF elsewhere in the Report has informed that Committee that out of this amount claims of Rs. 118.31 are under process and would be paid shortly. About payment of Rs. 1020 crore DOF has informed that claims to the tune of Rs. 345 crore are being processed. Taking into consideration of the fact that fertiliser companies are passing through a critical phase the Committee desire that Government should expedite retention prices of fertilisers early and due amount to all units including IFFCO are released at the earliest.

(Recommendation Sl. No. 28)

CHAPTER- IX

MARKETING ACTIVITIES

A. MARKETING

IFFCO market their produce through mainly cooperative network throughout the country. This Cooperative network comprises of 29 State level Marketing Federations, 171 district level Marketing Societies and 41,000 village level Cooperative Societies. IFFCO has also informed that in some States viz. UP, Rajasthan and Bihar State Level Marketing Federations are not involved in the business due to some financial and administrative reasons. In these States, IFFCO is marketing direct supplies to village level Cooperative Societies. However, in other States like Haryana, Maharashtra, Orissa, Karnataka etc. both the system co-exist. Besides these, IFFCO is also marketing its produce through NAFED, State Agro-Industries Coporations and Departments of Agriculture in different States.

9.2 For managing its marketing operations IFFCO has Marketing Division comprising of 5 zonal offices ,17 State offices and 62 Area officers. In this connection the Committee wanted to know the State-wise break-up of the above State Level Marketing Federations district level societies and village level cooperative societies during the last three years, IFFCO in a written note has given the following information:-

Name of State	**No. of State Level Federation**	**No. of District Level Federation/ Marketing Societies**	**No. of Village Level Cooperatives Societies (PACS) (dealing with fertilisers)**		
			1997-98	**1998-99**	**1999-2k**
Punjab	1	-	3,456	3,392	3,402
Haryana	1	-	2,182	2,200	2,398
Rajasthan	1	32	3,728	3,756	4,056
J&K	1	-	45	45	31
H.P.	1	-	268	275	270
Gujarat	1	27	4,284	4,380	4,482
M.P. / Chhatisgarh	1	-	4,030	4,175	4,247
Maharashtra & Goa	2	29	1,568	1,627	1,700
U.P. & Uttaranchal	2	64	6,283	6,310	6,377
Bihar / Jharkhand	1	-	1,975	2,143	2,803
West Bengal	1	-	1,751	1,645	1,558
Assam & NE States	4	-	42	44	40
Orissa	1	-	1,650	1,438	1,614
Andhra Pradesh	2	-	1,774	1,830	2,174

Karnataka	1	3	2,430	2,385	2,397
Tamil Nadu & Pondicherry	2	2	3,100	3,154	3,052
Kerala	1	14	413	425	391
Other States & UTs	5	-	15	20	28
Total	**29**	**171**	**38,994**	**39,244**	**41,020**

9.3 The Committee wanted to know the States where IFFCO markets its products through other channels, IFFCO in a written note informed:-

> "IFFCO has also been selling fertilisers to the State Governments' institutional agencies like Agro-Industries Corporation and through its FSCs depending upon the policy of State Governments and availability of fertilisers.
>
> This requirements also vary from season to season and are not constant.
>
> IFFCO has also sold some minor quantity in U.P., and Punjab through its joint venture partners like IPL and GFCL. IFFCO has not sold fertilisers to any private sector network. Break up of sales during the year 2000-01 is as under:
>
> 1. Apex Marketing Federation & Cooperatives 81%
> 2. AGROs & Institutional Agencies 16%
> 3. Farmer Service Centres 3 %"

9.4 The Committee further enquired the State-wise details of its number of zonal offices and Area offices, IFFCO furnished the following details:-

Zonal Office	**State***	**Number of Area Offices**		
		1998-99	**1999-2k**	**2k-01**
North(Chandigarh)	Punjab (Chandigarh)	6	6	6
	Haryana (Chandigarh)	3	3	3
	Rajasthan (Jaipur)	5	5	5
	J & K (Jammu)			
	H.P. (Shimla)			
West (Bhopal)	Gujarat (Ahmedabad)	5	5	5
	Madhya Pradesh (Bhopal)	8	8	8
	Maharashtra (Bombay)	6	6	6
North Central (Lucknow)	U.P. (Lucknow) Bihar (Patna)	13 4 1[illegible]		
East (Calcutta)	West Bengal (Calcutta)	4	4	4
	Assam (Guhawati)			
	Orissa (Bhubaneswar)	2	2	2

South (Bangalore)	Andhra Pradesh(Hyderabad)	2	2	2
	Karnaraka (Bangalore)	3	3	3
	Tamil Nadu (Chennai)	3	3	2
	Kerala (Cochin)			
	Total ::	67	67	66

* ***Three newly created states of Chhatisgarh, Jharkhand and Uttranchal have also been provided with separate State Office in addition.***

9.5 On being enquired about the administrative and financial reasons due to which IFFCO is selling its products in UP, Rajasthan and Bihar to district to village level cooperative societies, IFFCO in a written note informed as under:-

"The statewise details are furnished as under:

Uttar Pradesh :

Apex Federation in the State of U.P opted out of fertiliser business because of their poor financial conditions. Therefore, IFFCO resorted to direct supply system with the approval of the State Govt.

Rajasthan:

The Apex Federation in Rajasthan has been doing wholesaling business on a very small scale which could not take full volume of IFFCO's fertiliser sale. Therefore, direct supply system has been prevalent in the state right from the beginning.

Bihar:

The Bihar State Cooperative Marketing Union Ltd. (BISCOMAUN) was acting as wholesaler for the entire cooperative system in the state. BISCOMAUN used to distribute fertiliser in the state through its own depots as well as the taluka level/ village level societies. During eighties, BISCOMAUN started defaulting on payments for the fertiliser supplies made to them by IFFCO and overdues reached to very high proportions. Consequently, Govt. of Bihar permitted direct sale to the societies. In addition, Bihar Swavlambi Sahyog Samiti Act 1996 was passed and IFFCO started selling fertilisers through these societies also. "

9.6 Asked about major threat being faced by IFFCO, M.D. informed during evidence:-

"On the threat part, I feel that a very major threat is that the State Governments have started tenders for purchase of DAP and NPK. Unfortunately, they are asking their State Federations who are also our Members to follow tender process wherein an institution like IFFCO is also made to participate along with private sector, public sector, small importers and traders. We are not companies. We are a Cooperative Society. We are an institution. We are the farmers organisation. We are farmers-owned organisation. So, our commitment to the farmers' causes is much higher than anybody else and even then we are asked to compete through tenders. It has created a lot of problems for us because for 30 years we have been serving these Federations. We have served these farmers and today also we are serving, but when we are asked to compete and stand in the queue with the private trader, it is a very very dangerous and unfortunate situation for us. So, personally, I have written to every Federation requesting them not to join this tender process and whatever is the market price, we are prepared to supply them at that price but please do not ask us to stand in queue with private manufacturers/suppliers to compete.

Then, our Minister has written to all the Chief Ministers of the States that please do not get tenders issued for supplies to Federations and IFFCO is prepared to supply at market rates and especially because IFFCO supplies only to co-operatives. Our cent per cent product is marketed through the co-operatives or through the designated State Institutions like Agro-Industries Corporations etc. We do not sell to private trader at all. So, our Minister has written to the Chief Ministers but there has been no response from some of the States. There have been still been tenders. Unfortunately, the co-operative laws of States are such that the co-operative societies or, particularly, the States are not able to buy from the others. There are certain exceptions like West Bengal. It does not issue tenders. But the States of Punjab, Madhya Pradesh, Haryana and UP have been issuing tenders. So, there are certain problems in context."

9.7 During the course of examination of DOF the Committee wanted to know whether DOF has ever considered the above problem of IFFCO, DOF in a written note clarified:-

"Purchase of Fertilizers by the Marketing Federations and Cooperative Societies is the transaction which is governed by the commercial interests and the market factors wherein Department of Fertilizers has no direct role to play. But, to encourage purchase of fertilizers by the Cooperative Sector IFFCO and KRIBHCO, Minister of Chemicals & Fertilizers requested Chief Ministers of respective States to advise their State Cooperatives including Marketing Federations to give preference to IFFCO and KRIBHCO in purchase of fertilizers."

9.8 Elaborating the marketing problems IFFCO informed that of late, IFFCO has been facing problems in selling its fertilisers as sometimes cooperatives in some states are not able to absorb the quantity of fertilisers offered by IFFCO. This is because some societies have become defunct because of poor loan recovery. Second difficulty being faced by IFFCO is that sometimes Marketing Federations and Cooperatives do not give preference to IFFCO's fertilisers for sales and they purchase fertilisers from open market. Explaining it in detail IFFCO in a written note informed:-

"The number of Primary Agricultural Cooperative Credit Societies (PACS) whose loan recoveries are poor, can be provided financial assistance from other sources like NABARD and NCDC. Further, the State Govt. should educate on business development plan and improvement of management. IFFCO can also provide managerial and technical guidance to these selected societies to some extent.

Under direct supply scheme, PACS are getting full margins allowed by the Govt. of India. In the case of supplies through federation, PACS are not getting adequate margins and disproportionately part of the margin is retained by the federations. In some states, they are not getting sufficient margin even to meet the normal expenses of the business. As a result, many of the PACS involved in fertiliser business are incurring losses. Number of PACS lost their interest in continuing to be in fertiliser business as the same was not profitable on account of meager margin. As this is the prime factor responsible for decline in cooperative share in total fertiliser business, the PACS can be allowed the freedom of buying fertiliser directly from IFFCO. This will help in cutting down the avoidable expenditure involved in multi tier system of distribution of fertilisers. It will enable cooperatives to withstand competition from the private trade and made fertilisers available to farmers at comparatively cheaper rates.

Alternative channels such as non-credit cooperative societies like fisheries, milk, weavers, handicrafts, vegetable and horticulture etc. can also be developed for fertiliser business. This will help in increasing number of cooperative sale points and cooperative share in the fertiliser distribution.

When the Federation do not purchase the fertiliser from IFFCO, sales through other institutional agencies can be made such as Agro Industries, Commodity Federations, Land Development and Reclamation Corporations, Mandi Boards etc. However, there are limitations on the capacity of these channels. Therefore, IFFCO sometimes goes for selling through other fertiliser marketers viz. NAFED, IPL, GFCL, PPCL etc.

In addition, IFFCO has also started work on development of a few cooperative societies by providing them financial and technical assistance. It has been planned to develop 1500 Cooperative Societies upto 31st March, 2002. So far 1200 Cooperative Societies has been adopted and developed and provided them financial, managerial and technical assistance."

9.9 The Committee find that IFFCO has been carrying out its marketing operations largely through Cooperatives particularly by State Level Marketing Federations and Village Level Cooperative Societies i.e. Primary Agricultural Credit Societies (PACS). In this connection, IFFCO has brought to the notice of the Committee that in some States like UP, Rajasthan, Bihar, these State Level Federations are not involved in fertiliser business due to some financial and administrative reasons. In these States IFFCO's fertiliser is directly supplied to Village Level Cooperative Societies. The Committee agree with the contention of IFFCO that Cooperatives/PACSs with poor loan recovery be provided financial assistance. Accordingly, they desire that DOF should take up this matter with nodal Ministry i.e. Department of Agriculture and Cooperation, NABARD and NCDC so that financial health of these sick Cooperatives/PACS be reviewed and these are put back on fertiliser business.

(Recommendation Sl. No. 29)

9.10 The Committee have been informed that several States like Punjab, Madhya Pradesh, Haryana and Uttar Pradesh have started procuring fertiliser through tenders and IFFCO is being asked to compete with other competitors like private operators. IFFCO has taken up the matter with Chief Ministers of State Governments. However, no response has been forthcoming. DOF in this connection has informed that purchase of Urea is a commercial transaction and as such DOF has no role over the issue. However, in order to encourage purchase of Urea from Cooperatives the matter has been taken up at Ministry level among concerned States. The Committee feel that given the credibility of IFFCO in terms of its quality fertiliser market network, insurance back-up (through Joint Venture) on purchase of Urea and other related schemes, it should be able to retain its market share in fertiliser industry. The Committee accordingly, would like to IFFCO to sharpen their skill in marketing. DOF should also provide necessary help at Government level, wherever necessary and feasible. As recommended elsewhere in the Report, IFFCO should also spread its membership/market network in other States where its presence is marginal or negligible.

(Recommendation Sl. No. 30)

NEW DELHI — **MULAYAM SINGH YADAV,**

December 20, 2001 — ***Chairman,***

Agrahayana 29, 1923 (Saka) — Standing Committee on Petroleum & Chemicals

APPENDIX-I

STATEMENT OF RECOMMENATIONS/OBSERVATIONS OF THE COMMITTEE

Sl. No.	Ref. to Para No. in the Report	Observations/Recommendations
1	1.10	The Committee observe that objectives laid down in the bye-laws of the Society are wide ranging in nature varying from promoting the economic interest of its members by undertaking manufacture/ production development of chemicals fertilisers, bio-fertilisers their impact and technologies, storage, transportation, marketing processing of farm products, pesticides, trading, shipping, tele-communication, power generation, housing, real estate, banking and insurance etc. For achieving these objectives IFFCO has informed that it has successfully realised many of its objectives like production and marketing of fertilisers. For remaining objectives like processing farm products, pesticides, trading, shipping, and petro-chemicals, IFFCO has informed that IFFCO had explored the feasibility of diversification in these areas but preferred not to pursue due to various techno-economical and commercial considerations. However, these objectives may be reviewed in a changed economic scenario. About the need to retain relevant objectives in bye-laws of the Society, IFFCO has informed that these are not revised frequently and hence allowed to remain in bye-laws. The purpose of these objectives is to provide commercial options for venturing into new areas of business depending on the available opportunities of growth. The Deptt. of Fertilisers have also agreed with IFFCO. However, the Committee feel that the society should review all the objectives enshrined in the bye-laws and retain such of the objectives as are synergic in its character. The society should make plans for the next 10 years to 25 years to achieve their fulfilment. As agreed to by Fertilisers Secretary, IFFCO should explore the possibilities of taking food processing, storage activities on priority basis as these are rural/agriculture based where IFFCO has roots.
2	2.9	The Committee note that as against the authorised share capital of Rs. 1000 crore of IFFCO, the paid up capital of IFFCO was Rs. 417.72 crore as on 31st March, 2001. The Committee also note that majority share of IFFCO is held by the Government of India. Out of total paid up capital of Rs. 417.72 crore of IFFCO, Rs. 289.61 crore is held by Central Government. The Standing Committee on Petroleum & Chemicals (1994-95, 10th Lok Sabha) had also examined the matter and in their 13th Report on IFFCO and KRIBHCO, presented to the Parliament in March, 1995 had recommended that Government should transfer more share capital to Cooperatives in a phased manner for making both the Cooperatives real

		Cooperatives in character. However, the Committee's examination has revealed that equity in IFFCO held by Government has been left untouched and whatever increase in equity held by Cooperatives in IFFCO has been done that is made by partly by increase in equity by Cooperatives themselves or by reducing the share of National Cooperative Development Corporation (NCDC) in IFFCO. The Committee find that share held by Cooperatives in 1998-99 of Rs. 90.12 crore was increased to Rs. 112.56 crore and Rs. 126.06 crore in 1999-2000 and 2001-2002 respectively. The Committee also find that share of equity of Rs. 289.61 crore held by Government has not been diluted during the last three years. The share of equity held by NCDC of Rs. 3.05 crore in 1998-99 has been reduced to Rs. 2.05 crore during 1999-2000 and 2000-2001. In this context the Committee note that with a view to free Cooperatives from Government control the Government have already introduced a Bill in the Parliament. The Committee note that the Bill *inter-alia* proposes to reduce Government equity. The Committee also find that Clause 35(1) of the Bill stipulates that shares held in a Multi-State Cooperative Society shall be redeemable. The Committee find that Standing Committee on Agriculture has even recommended that redeeming provisions in the Bill be made obligatory for all Cooperatives . IFFCO has informed that IFFCO's Board of Directors has already debated the issue and informed that at appropriate time they will take up the matter of repatriation of equity held by Government to the extent of additional contribution made by the Cooperatives. However, final view in this regard will be taken after the Bill is passed in Parliament. Department of Fertilisers has further informed (March, 2001) that for more and more participation of Cooperatives in equity of Cooperatives , DOF has requested Department of Agriculture & Cooperation for issuing necessary instructions to apex banking institutions in rural sector and State Registrar of Cooperatives to help the Cooperatives at root level financially. In the light of the foregoing development the Committee hope that IFFCO would take a definite stand on the issue of reduction of Government equity in Society and its substitution by equity by Cooperatives in a big way.
3	**2.15**	**The Committee have been informed that Cooperatives have been the backbone of IFFCO for distribution of IFFCO's fertilisers among the farmers in different States. The Committee find that number of memberships in these Cooperatives throughout the country during the last three years has been 35 072, 35302 and 35973 during 1998-99 , 1999-2000 and 2000-2001 respectively. The Committee find that Memberships of IFFCO has by and large been concentrated in twelve States viz. U.P/Uttranchal, Gujarat, Rajasthan, Punjab, Bihar, Tamil Nadu, Haryana, Karnataka, Andhra Pradesh, Maharashtra and West Bengal. Whereas in remaining States IFFCO has less membership particularly in North-Eastern States where it has not added even one membership during the last three years. Admittedly cooperative movement is not spread evenly and uniformly and reportedly it is weak in North-Eastern States. The**

		Committee find that IFFCO now plans to reach North-Eastern States in a phased manner. The Committee hope that IFFCO spreads its memberships in the next 2 years in a manner that its presence is marked throughout the country.
4	**2.16**	**As regards strengthening of Cooperatives, the Committee find that it can be done by bringing back around forty eight thousand Cooperative Societies to fertiliser business which are no longer in the business. This can be made possible by giving these Cooperatives financial and managerial support. The Committee strongly feel that IFFCO/DOF in cooperation with Department of Agriculture Cooperation should prepare feasible plan to bring these societies back. The Committee hope that the plan would be ready in the next three months.**
5	**2.17**	**The Committee were informed that in Bihar more than four hundred societies have come up after enactment of Swamlambi Sahyog Samiti Act in 1996 and reportedly these are doing very well. According to IFFCO there is a need for such a legislation in other States and IFFCO itself has been discussing the success of Cooperative Societies of Bihar with other States and requesting them to adopt the same pattern. The Committee recommend that DOF in consultation with DOAC will analysis the possibility of such a legislation in different States and the Government take up this matter at the highest level with State Governments.**
6	**2.18**	**Amongst other suggestions from IFFCO for Cooperatives include introduction of direct delivery of fertilisers to Primary Agricultural Cooperatives Societies (PACs) in States, special incentives for PACs working in remote, hilly and tribal areas, encouraging non-credit cooperatives to take up fertiliser business and consolidation of short term credit through cooperatives by Banks Kisan Credit Card of Central Government. The Committee recommend that DOF should examine and implement these suggestions in consultation with DOAC as early as possible.**
7	**3.11**	**The Committee find that IFFCO has recently diversified into the field of insurance business since 4th December, 2000 IFFCO with Tokio-Marine & Fire Company Ltd., a Japanese Company under a Joint Venture Company titled 'IFFCO-Tokio General Insurance (ITGI) for marketing 34 products in commercial, personal and rural lines. The Committee find that out of 34 items, only 29 items are operated at present. About business transacted by ITGI, the Committee find that against the target of Rs. 88 crore for current year ITGI, has achieved Rs. 5.83 crore upto 31st March, 2001 and upto October, 2001 Rs. 26.85 crore is expected to be achieved. On perusal of items covered under insurance the Committee find that as many as 16 items and 9 items are placed under commercial and personal insurance. Against this only 4 items have been placed for rural sector. The Committee have taken note of special scheme titled as 'Sankat Haran Yojana' which is claimed to be very attractive and sought after. The**

		Committee would await the analytical findings of the scheme after the scheme has remained in operation for one year. The Committee are glad to note that ITGI has plans for extensive expansion in rural insurance as desired by the Committee. The Committee hope that more expansion in the rural insurance sector would be made by ITGI in the earliest possible time.
8	**3.18**	**As regard diversification in information and technology the Committee find that IFFCO in association with KRIBHCO, ICAR, IARI and ISRO plans to deliver the benefits of information technology at the doorstep of farmers for dissemination of information about balanced use of fertilisers. The Committee find that the estimated cost of the project is Rs. 25 crore (IFFCO's share) spread over 2-3 years. IFFCO has informed that the objective is to take e-revolution to farmers and Cooperatives and other in rural areas by setting up information kiosks. About progress on the project, the Committee have been informed that response to the project is positive and by 2002-2003 implementation of the project is likely to begin. The Committee feel in this age of information technology, diversification in the field of information technology is a welcome step for educating the farmers in all spheres related to agriculture. The Committee hope that this project would be expedited by IFFCO.**
9	**3.21**	**During the course of examination the Committee found that in the field of food processing IFFCO has not started its operations in a big way. In this connection, IFFCO has explained that due to various techno-economical and commercial considerations, this was not done. However, IFFCO has assured to review the same if situation so warranted. DOF has informed that so far no such proposal for diversification has been submitted by IFFCO. However, Department would certainly examine such proposal as and when the same was received. The Committee feel that even the multinational companies are venturing into food processing industry and indigenous companies/societies like IFFCO which has large rural net work can be successful in this sector. The Committee, therefore, recommend that IFFCO should examine this scheme de-novo.**
10	**4.10**	**The Committee note that as per By-Laws of the Society, IFFCO's Board consists of 30 Directors. Five of these are nominated by the Government. Out of the remaining 25 Directors, 12 represent State level apex federations and 8 are elected, remaining 5 Directors three viz. MD, IFFCO, Director (Finance) and Director (Marketing) are ex-officio and the remaining two, one is from financing agency, if any and the other is Chairman, National Cooperative Union of India. The Committee find that MD, IFFCO and DOF have justified the present strength of Board but also stated that with the passage of new Bill, the strength shall go down. The Committee would await the revision of the strength after the new Bill is passed by Parliament.**
11	**4.11**	**As regard nomination of non-officials in Board of IFFCO, the Committee find that out of five Government nominees, two are non-**

		officials. DOF has informed that there no criteria has been laid down for their nomination. As per established practice such nomination are done with the approval of the Minister and approval of Appointment Committee on Cabinet. The Committee find that proper guidelines be laid down and an institution be created for nomination of non-officials.
12	**4.18**	**The Committee are of strong opinion that Cooperatives should be really autonomous in taking their decisions and not to look towards Government for their administrative and even policy decisions. The Committee were informed that Multi-State Cooperative Societies Bill, 2000 has addressed the existing problems being faced by the Cooperatives. The Committee trust that after the enactment of the new legislation, Cooperatives like IFFCO would have more functional autonomy and fast decision making powers which is essential in the competitive atmosphere.**
13	**5.7**	**The Committee are glad to note that finally DOF has been able to firm up all major project agreements and initialled these on 5.12.2001. The Committee especially note with great satisfaction that Urea off-take Agreement has finally been cleared. About achieving financial closure Secretary (Fertilisers) assured the Committee that by March, 2002, it would hopefully be achieved. The Committee hope that now there would be no difficulty in achieving much awaited financial closure for the project.**
14	**5.11**	**The Committee find that IFFCO has been facing difficulty in its ICS project where commercial production has not started even though its expansion was commissioned in July, 2001. The Committee hope that IFFCO would take necessary steps for early commencement of commercial production.**
15	**5.15**	**About joint venture projects in Iran and Tunisia, DOF has informed that viability of these projects is reviewed depending upon resolution of environment aspect for Iran project and techno-economic feasibility for Tunisia Project. The Committee find that these projects are pending since long. The Committee recommend that their viability be reviewed and a decision eitherway be taken ending uncertainty.**
16	**5.19**	**The Committee regret to note that IFFCO's proposed Ammonia Urea Project of Nellore with a capacity of 7.68 lakh tonnes of Ammonia Urea per year has been deferred by Government in June, 2000 due to limited demand-supply forecasts. The Committee find that final decision on the project would be taken after final decision is taken on fertiliser policy. The Secretary (Fertilisers) has elsewhere informed the Committee that the fertiliser policy was likely to be cleared soon. The Committee hope that DOF would not loose any time for taking final view on the project after this policy is finalised.**
17	**6.25**	**The Committee regret to note that capacity utilisation in IFFCO's**

		plants at Kalol and Aonla I had been very less as compared to its other plants. The Committee note with concern that capacity utilisation of Kalol plant of IFFCO has been 95% in 1998-99, 87% in 1999-2000 and 90% in 2000-2001. Whereas for Aonla it was 95% in 2000-2001. IFFCO has submitted before the Committee that there has been shortfall in production during the last three years on account of shortage of gas from the sources/supplies i.e. GAIL/ONGC. In this connection, IFFCO has informed that as against total contractual quantity of 8.40 lakh SM3 per day of Natural Gas and associated gas, the availability has been only in the range of 7.55 lakh SM3 per day in 1998-99, as low as 6.73 lakh SM3 per day in 1999-2000 and even lowest at 5.72 lakh SM3 per day. As regards gas restriction in Aonla I plant IFFCO has submitted before the Committee that as against contracted quantity of gas of 3.4 MMSCMD of gas based on calorific value of 9000 K.cal SM3 per day, the supply from GAIL has been at the calorific value in the range of 8200-8500 K.cal/ SM3 per day. IFFCO has further brought out that shortage of gas in Kalol plant is causing several problems in operation of the plant. This has resulted in increase in energy consumption and higher cost of production. IFFCO has also submitted that for solving the gas shortage it has in 1997 commissioned a naphtha pre-reformer system and the same is working satisfactorily. However, it is costly option. IFFCO has pleaded allocation of gas on first come first served basis as a solution to shortage of gas at Kalol. In this connection, they have further suggested to GAIL to connect Gujarat Gas Industries with HBJ pipeline to sustain production. However, the gas supply in HBJ pipeline is itself reduced. During the course of examination DOF informed that gas supply to Kalol may further deteriorate. In order to end the uncertainty Secretary (Fertilisers) also pleaded that in the Gas Linkages Committee meetings Ministry of Petroleum & Natural Gas be asked to give first preference for allotment of full level gas for fertiliser sector and allocation for other sector should come later. DOF has further informed that Gas Linkages Committee at its sitting held on 27th July, 2001, both DOF as also Department of Expenditure had emphasised that there should be no further cuts of gas supply to fertiliser units. The Committee, therefore, strongly recommend that in the larger interest of fertiliser industry allocation of gas to fertiliser be given first preference. For IFFCO Kalol, DOF should take up this matter with the Ministry of Petroleum & Natural Gas and that GAIL should arrange gas to meet the requirement of IFFCO Kalol.
18	**6.26**	**Ministry of Petroleum & Natural Gas have indicated long term solution to the paucity of Gas Supply to IFFCO's plants but has not suggested any immediate resolution. The Committee desire that senior officer of MOP&NG and DOF should formally sit together and work out a plan ensuring uninterrupted qualitative supply of gas for IFFCO'' plants.**
19	**6.30 & 6.31**	**The Committee find that a Core Group consisting of representative of DOF/Ministry of Petroleum & Natural Gas, Fertiliser Industry was constituted to look into the problem and suggest remedial measures for**

		import of LNG. This LNG project estimated to cost Rs. 21,832 crore was conceived on 31st July, 1998. The pilot study was also made but the Core Group at its sitting held on 24th September, 2001 has decided to stop its further activities on the ground that long term policy on Fertiliser is yet to be announced and as such fertiliser companies are unable to finance the project. **Ministry of Petroleum & Natural Gas has indicated positive indications for 15 projects for setting up LNG import terminals. Out of these, work on three terminals at Dhabhol, Dahej and Hazira is in progress and Cochin terminal is coming up. Besides 3 to 4 more terminals may also come up during Tenth Plan period. With these terminals the import potential of LNG would be between 40 to 50 MMSCMD of gas by the end of Tenth Plan. With this, according to Ministry of Petroleum there could not be significant gap in demand-supply gas of LNG. The Committee feel that Core Group should have continued its study and have come out their plan/concept to import LNG exclusively for fertiiser Industry just as the same is being conceptualised by Power Sector. Power Sector, Fertiliser Sector and other bulk consumers may have competitions amongst themselves. The Committee would recommend that the Core Group should explore the possibility on these lines.**
20	**7.8**	**The Committee find that with a view to rationalise that subsidy, the DOF had earlier informed the Committee that Government have decided to replace the existing Retention Price Scheme (RPS) with Group Retention Scheme (GRS) based on feedstock and vintage of gas based plants. The scheme envisages fixed rate of concession for urea units after grouping them under five categories. These are (i) Pre 1992 gas based units (ii) Post 1992 gas based units (iii) Naphtha based (iv) FO/LSHS based units' and (v) Mixed energy units. The Standing Committee on Petroleum and Chemicals in their 14th Report (13th Lok Sabha) had pointed out that above grouping has disregarded various important factors. In pursuance DOF had assured the Committee to examine these points raised by the committee. A perusal of comparison between pros and cons brought out by IFFCO, the Committee find that minus points of the policy highly out number the plus points of the policy. In this connection, the DOF has now informed that Government is yet to take a final decision on the Group Retention Scheme. All relevant aspects are being examined and Government expects to finalise new pricing policy shortly. Secretary (Fertilisers) also informed that new policy has been cleared by Minister of Chemicals on 11th December, 2001 and hopefully in another two to three weeks time the policy would be out. The Committee hope that the Government would come out with a policy which is pro to none but balanced one.**
21	**7.12**	**The Committee note that a huge amount to the tune of Rs. 1020**

		crore is due to be paid to IFFCO by DOF/ Fertilisers Industries Coordination Committee (FICC), DOF in this connection has revealed that out of Rs. 1020 crore, claims to the tune of Rs. 345 crore are under process at different stages. Majority of these claims are to be cleared within next three months. As regards remaining amount of Rs. 675 crore, DOF has informed that these claims would be decided after Government notifies the pricing policy effective from 1st July, 1997. The Committee hope that DOF would take urgent steps to clear the claims of Rs. 345 crores which are being processed by Government to IFFCO immediately. About remaining claims of Rs. 675 crore the Committee hope that DOF would expedite the new policy paving the way for necessary Government notification, so that blocked amount of IFFCO are given to IFFCO.
22	**7.16**	**The Committee recall that on the issue of proposed 7% yearly increase in prices of urea as recommended by Expenditure Reform Commission Report, the Committee in their earlier report have already expressed reservations. DOF has informed that this issue was being examined IFFCO has also opined that such an increase in price of urea in effect would make the urea unaffordable to farmers. Secretary (Fertilisers) has informed that within a month time new pricing policy was going to be cleared by the competent authority and by Feb, March, 2002 the policy would be cleared finally. The Committee, therefore, recommend that before finalising the pricing policy issue of affordability of urea small and marginal to farmers be first examined in depth.**
23	**7.30**	**The Committee find that the Government's decision to supply different feedstocks viz. naphtha, fuel oil and LSHS since 1st April, 1998 to fertilisers units has created problems for fertilisers units. As regard its impact on IFFCO it has been reported that its Kalol, Aonla and Phulpur plants are affected by this decision of Govt. IFFCO has also informed that this decision has resulted in lower prices of inputs to fertiliser units and thus lower subsidies. IFFCO has also complained to the Committee that Indian Oil Corporation has neither given break-up of pricing nor the method of pricing of different feedstocks, IFFCO has further informed these has led to fortuious gains to oil companies. The Committee therefore recommend that DOF should take up this matter with Ministry of Petroleum and Natural Gas/ IOC so that grievances of IFFCO are adequately addressed.**
24	**7.31**	**Another issue arising out of the import parity issue affecting IFFCO is that oil companies have insisted on adding freight from port to fertilisers units on unit-wise basis. Sale tax is also charged thereon. For solving the issue IFFCO has requested that oil companies must charge uniform delivered cost of inputs to all units by averaging out the cost to supplies to all units. In this context DOF has informed that due to above decision of import parity arrangement delivery price of different feedstock has increased in some case not overall. DOF feel that transport cost**

		incurred by fertiliser units is covered under Retention Price Scheme. Committee, however, feel that IFFCO's suggestion for uniform delivered cost of inputs to all unit by averaging out the cost of supplies to all units.
25	**7.36**	**The Committee find that there is uncertainty prevailing over viability of different feedstocks *viz.* naphtha, natural gas and LNG. The Committee have been informed by Secretary (Fertilisers) that naphtha is being given to fertiliser units on import parity prices. As regards other two feedstocks natural gas and LNG, the Secretary (Fertilisers) have informed that it might be given on import parity price on the pattern of naphtha in future. This will make natural gas costlier to fertiliser units. About the third feedstocks of LNG the Committee were informed that it would be equally costlier. To solve this problem the Ministry of Petroleum & Natural Gas should be asked to increase the price of natural gas in a phased manner. The Committee, therefore, recommend that whatever price increase in price of gas is effected it should be in phased manner in the interest of viability of feedstocks for fertiliser units.**
26	**7.44**	**The Committee regret to note that huge amounts of IFFCO are also not being paid on due to non-certification of sales of IFFCO's DAP by different States. IFFCO has informed that Rs. 21.51 crore are still to be paid to IFFCO. Of Rs. 21.51 crore Rs. 11.00 crore from Punjab and Rs. 3.14 crore from Bihar are pending for payment. Certification from these States has not been done. The Committee hope that DOF should take up this issue with concerned State Governments for early payment to IFFCO.**
27	**7.48**	**The Committee find that Rs. 226 crore of IFFCO are outstanding for payment by FICC/DOF for non-payment of delayed subsidy on complex fertilisers. In this connection, DOF has informed that as on date amounts of Rs. 118.31 crore are being processed and likely to be settled in a month's time. The Committee hope that these payments be made available to IFFCO as early as possible.**
28	**8.6**	**The Committee find that IFFCO's profits are decreasing year after year even though its turnover has been increasing. IFFCO's profits during 1998-99, 1999-2000 and 2000-2001 has been at Rs. 345.81 crore, Rs. 312.90 crore and Rs. 234.00 crore respectively . Whereas turnover of IFFCO was Rs. 3820 crore, Rs. 4529.49 crore and Rs. 5151.90 crore during the same period. IFFCO has informed that it is due non-finalisation of retention prices of IFFCO's plant at Aonla II, Phulpur II and Kalol. IFFCO has also informed that interest burden of IFFCO has increased due to delay in payment of Rs. 226 crore by FICC. In this connection DOF elsewhere in the Report has informed that Committee that out of this amount claims of Rs. 118.31 are under process and would be paid shortly. About payment of Rs. 1020 crore DOF has informed that claims to the tune of Rs. 345 crore are being processed. Taking into consideration of the fact that fertiliser companies are passing through a critical phase the Committee desire that Government should expedite retention prices of fertilisers early**

		and due amount to all units including IFFCO are released at the earliest.
29	**9.9**	**The Committee find that IFFCO has been carrying out its marketing operations largely through Cooperatives particularly by State Level Marketing Federations and Village Level Cooperative Societies i.e. Primary Agricultural Credit Societies (PACS). In this connection, IFFCO has brought to the notice of the Committee that in some States like UP, Rajasthan, Bihar, these State Level Federations are not involved in fertiliser business due to some financial and administrative reasons. In these States IFFCO's fertiliser is directly supplied to Village Level Cooperative Societies. The Committee agree with the contention of IFFCO that Cooperatives/PACSs with poor loan recovery be provided financial assistance. Accordingly, they desire that DOF should take up this matter with nodal Ministry i.e. Department of Agriculture and Cooperation, NABARD and NCDC so that financial health of these sick Cooperatives/PACS be reviewed and these are put back on fertiliser business.**
30	**9.10**	**The Committee have been informed that several States like Punjab, Madhya Pradesh, Haryana and Uttar Pradesh have started procuring fertiliser through tenders and IFFCO is being asked to compete with other competitors like private operators. IFFCO has taken up the matter with Chief Ministers of State Governments. However, no response has been forthcoming. DOF in this connection has informed that purchase of Urea is a commercial transaction and as such DOF has no role over the issue. However, in order to encourage purchase of Urea from Cooperatives the matter has been taken up at Ministry level among concerned States. The Committee feel that given the credibility of IFFCO in terms of its quality fertiliser market network, insurance back-up (through Joint Venture) on purchase of Urea and other related schemes, it should be able to retain its market share in fertiliser industry. The Committee accordingly, would like to IFFCO to sharpen their skill in marketing. DOF should also provide necessary help at Government level, wherever necessary and feasible. As recommended elsewhere in the Report, IFFCO should also spread its membership/market network in other States where its presence is marginal or negligible.**

Appendix-II

MINUTES

SUB-COMMITTEE ON FERTILISERS
(A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS)
(2001)

FIFTH SITTING

(09.11.2001)

The Committee sat from 1100 hrs. to 1245 hrs.

Present

Shri Dipankar Mukherjee - Convenor

Members

Lok Sabha

2. Shri Ananda Mohan Biswas
3. Shri Ajay Singh Chautala
4. Shri Padam Sen Choudhary
5. Shri Dilipkumar Mansukhlal Gandhi
6. Shri D.C. Srikantappa
7. Shri Rajesh Verma
8. Dr. Bikram Sarkar

Rajya Sabha

9. Shri K. Kalavenkata Rao
10. Shri Rajiv Ranjan Singh 'Lalan'

Secretariat

1. Shri Brahm Dutt - Deputy Secretary
2. Shri J.N. Oberoi - Under Secretary

Representatives of Indian Farmers' Fertilisers Cooperative Limited (IFFCO)

1. Shri U.S. Awasthi, Managing Director
2. Shri D.K. Bhatt, Director Marketing
3. Shri Rakesh Kapoor, Director Finance
4. Shri A. Roy, Chief Manager (MSD)

At the outset, the Hon'ble Convenor of the Sub-Committee welcomed the Members of Sub-Committee at the sitting. The Committee thereafter took oral evidence of the representatives of Indian Farmers' Fertilisers Cooperative Ltd. (IFFCO) in connection with examination of IFFCO.

2. The main issues that came up for discussions *inter-alia* included need for diversification in the field of food processing by IFFCO, more focus on rural products for insurance business of which IFFCO is carrying out as a partner in Joint Venture with Tokio General Insurance Company of Japan, marketing difficulties being faced by IFFCO arising out of purchase of DAP/NPK by different State Governments through Tendering System, financial closure of Indo-Oman Project and other issues linked with Long Term Fertiliser Policy.

3. A verbatim record of the proceedings of the sitting has been kept.

The Sub-Committee then adjourned

APPENDIX-III

MINUTES

SUB-COMMITTEE ON FERTILISERS

A SUB-COMMITTEE OF THE

STANDING COMMITTEE ON PETROLEUM & CHEMICALS

(2001)

SIXTH SITTING
11.12.2001

The Sub-Committee sat from 1500 hrs. to 1600 hrs.

PRESENT

Shri Dipankar Mukherjee - Convenor

MEMBERS

LOK SABHA

2. Shri Padam Sen Choudhary
3. Shri Dilipkumar Mansukhlal Gandhi
4. Shri Punnulal Mohale
5. Dr. Bikram Sarkar

RAJYA SABHA

6. Shri P. Soundararajan

SECRETARIAT

1.	Shri Brahm Dutt	- Deputy Secretary
2.	Shri J.N. Oberoi	- Under Secretary

Representatives of Ministry of Chemicals & Fertilisers, (Deptt. of Fertilisers)

1.	Shri Ashok Pahwa	- Secretary (F)
2.	Shri Sudhir Krishna	- Joint Secretary (F)
3.	Shri Balvinder Kumar	- Joint Secretary (A&M)
4.	Smt. S. Bhawani	- Director
5.	Shri M. Ajaneyulu	- Director (FICC)

The Sub-Committee took oral evidence of the representatives of Ministry of Chemicals & Fertilisers, Department of Fertilisers, in connection with examination of Indian Farmers' Fertilisers Cooperative Limited (IFFCO).

2. The Committee discussed *inter-alia* issues concerning non-finalisation of long term fertiliser policy, reasons for delay in finalisation of long term fertiliser policy, possible impact of import parity price on different feedstocks for fertiliser units, etc. Besides future availability of LNG, status of Indo-Oman Fertiliser Project and need for IFFCO's diversification in food processing were also discussed.

3. A verbatim record of the proceedings of the sitting has been kept.

The Sub-Committee then adjourned.

Appendix-IV

MINUTES

SUB-COMMITTEE ON FERTILISERS

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM AND CHEMICALS

(2001)

SEVENTH SITTING

19.12.2001

The Sub-Committee sat from 1600 hrs. to 1630 hrs.

PRESENT

Shri Dipankar Mukherjee - Convenor

MEMBERS

LOK SABHA

2. Shri Padam Sen Choudhary
3. Shri Dilipkumar Mansukhlal Gandhi
4. Shri D.C. Srikantappa
5. Shri Punnulal Mohale
6. Dr. Bikram Sarkar

RAJYA SABHA

7. Shri Rajiv Ranjan Singh `Lalan'
8. Shri P. Soundararajan

SECRETARIAT

1. Shri Brahm Dutt - Deputy Secretary
2. Shri J.N. Oberoi - Under Secretary

At the outset, Hon'ble Convenor welcomed the Members of the Sub-Committee to the sitting. Thereafter, he explained the main recommendations contained in the Report. Then he invited the Members to give suggestions if any.

2. After brief discussions, the Sub-Committee considered and adopted the Draft Twenty Fourth Report on Indian Farmers' Fertilisers Cooperative Ltd. (IFFCO).

3. The Sub-Committee authorised the Convenor to finalise the Draft Report and submit the same to Chairman for consideration by Standing Committee on Petroleum and Chemicals after incorporation of suggestions if any to be given by Members of Sub-Committee.

The Sub-Committee then adjourned.

APPENDIX – V

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2001)

Twelfth Sitting

(20.12.2001)

The Committee sat from 0930 hrs. to 1000 hrs.

PRESENT

Shri Mulayam Singh Yadav - Chairman

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Padam Sen Choudhary
4. Shri Dilipkumar Mansukhlal Gandhi
5. Smt. Sheela Gautam
6. Shri Shriprakash Jaiswal
7. Smt. Nivedita Mane
8. Shri Punnulal Mohale
9. Dr. Debendra Pradhan
10. Dr. Bikram Sarkar
11. Shri Shyama Charan Shukla
12. Smt. Kanti Singh
13. Shri D.C. Srikantappa
14. Shri Tarlochan Singh Tur
15. Shri Ratilal Kalidas Varma
16. Shri B. Venkateshwarlu
17. Shri Rajesh Verma
18. Dr. Girija Vyas

Rajya Sabha

19. Shri Anil Kumar
20. Shri Ram Nath Kovind
21. Shri Daya Nand Sahay
22. Shri Dipankar Mukherjee
23. Shri K. Kalavenkata Rao
24. Shri Rajiv Ranjan Singh 'Lalan'
25. Shri P. Soundararajan

Secretariat

1.	Shri Brahm Dutt	-	Deputy Secretary
2.	Shri J.N. Oberoi	-	Under Secretary

At the outset, Hon'ble Chairman welcomed the Members to the sitting and explained the purpose of the day's meeting. He conveyed his thanks to the Members of the Committee for the cooperation extended by them in conducting the business of the Committee smoothly during the tenure of two years. He specifically mentioned the achievements of the Committee in presenting the 24 Reports during his tenure and gave the full credit of this achievement to three Sub-Committees of the Committee .

2. Thereafter, he invited the Members to give their suggestions, if any, on the draft Reports being considered for adoption. On the suggestion of a Member, the Committee decided to modify Paras 30 and 31 of Twenty-First Report on `Production of Oil and Gas so as to make DGH to remain advisory body. The Committee then considered the following draft Reports:-

(i) ** ** ** ** ** ** ** ** ** ** **
** ** ** ** ** ** ** ** ** ** **

(ii) ** ** ** ** ** ** ** ** ** ** **
** ** ** ** ** ** ** ** ** ** **

(iii) ** ** ** ** ** ** ** ** ** ** **
** ** ** ** ** ** ** ** ** ** **

(iv) Twenty-Fourth Report on 'Indian Farmers' Fertilisers Cooperative Limited (IFFCO)'.

3. After some consideration, the Committee adopted the Reports subject to modification as above.

4. The Committee, thereafter, authorised the Chairman to finalise the Reports after factual verification from the concerned Ministries/Departments and present them to Hon'ble Speaker before completion of the term of the Committee i.e. on 31st December, 2001 under the Direction 71-A by Directions of the Speaker, Lok Sabha.

5. The Committee placed on record their appreciation of the work done by the Sub-Committees on Petroleum and Fertilisers.

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

The Committee then adjourned.

***** Matters not related to this Report***

APPENDIX-VI
ORGANISATIONAL SET UP OF IFFCO