TWENTY-SIXTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2002)

(THIRTEENTH LOK SABHA)

MINISTRY OF CHEMICALS & FERTILISERS
(DEPARTMENT OF FERTILISERS)

DEMANDS FOR GRANTS

(2002-2003)

*Presented to Lok Sabha on **23.04.2002***

*Laid on Rajya Sabha on **24.04.2002***

LOK SABHA SECRETARIAT
NEW DELHI

April, 2002/Chaitra, 1924 (Saka)

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5.	Shri A.K. Shah	:	*Committee Officer*

**** Vacancy caused consequent upon the retirement of Shri Bangaru Laxman, MP (RS) from the membership of Rajya Sabha w.e.f. 9th April, 2002.***

***** Vacancy caused consequent upon retirement of Shri Mukesh R. Patel, MP (RS) from the membership of Rajya Sabha w.e.f. 2nd April, 2002.***

****** Nominated w.e.f. 8th April, 2002 vice Shri P. Soundararajan, M.P. (RS) retired from the membership of Rajya Sabha w.e.f. 2nd April, 2002***

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (2002) having been authorised by the Committee to submit the Report on their behalf present this Twenty-Sixth Report on Demands for Grants of the Ministry of Chemicals & Fertilisers, Department of Fertilisers for the year 2002-2003.

2. The Committee examined/scrutinised the Demands for Grants pertaining to the Ministry of Chemicals & Fertilisers, Department of Fertilisers for the year 2002-03 which were laid on the Table of the House on 19th March, 2002.

3. The Committee took evidence of the representatives of the Ministry of Chemicals & Fertilisers, Department of Fertilisers at their sitting held on 2nd April, 2002.

4. The Committee considered and adopted the Report at their sitting held on 15th April, 2002.

5. The Committee wish to express their thanks to the Officers of the Ministry of Chemicals & Fertilisers, Department of Fertilisers for furnishing the material and information which they desired in connection with the examination of Demands for Grants of the Department, for the year 2002-03 and for giving evidence before the Committee.

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

New Delhi:
15 April, 2002
25 Chaitra, 1924 (Saka)

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

REPORT

A. INTRODUCTORY

The Department of Fertilisers (DOF) is a part of Ministry of Chemicals & Fertilisers. This Department is entrusted with the responsibilities of:-

1. Planning for fertiliser production including import of fertiliser through a designated canalising agency.

2. Arrangement for movement and distribution of fertilisers in terms of allocations made by the Department of Agriculture and Cooperation.

3. Administration of concession scheme and management of subsidy for controlled as well as decontrolled fertilisers including determination of retention price of urea, quantum of concession of decontrolled fertilisers and costing of such fertilisers.

4. Administration of the Fertilisers (Movement Control) Order, 1973.

5. Administrative responsibility for public enterprises under the control of the Department.

6. Public Sector projects concerned with subjects included under this Department.

7. Administrative responsibility for fertiliser production units in the cooperative sector, namely Indian Farmers' Fertilisers Cooperative Limited (IFFCO), Krishak Bharati Cooperative Limited (KRIBHCO).

2. The following PSUs* and cooperatives are under the administrative control of DOF:-

Public Sector Undertakings

(i) Fertiliser Corporation of India Ltd. (FCI)
(ii) Hindustan Fertiliser Corporation Ltd. (HFC)
(iii) Madras Fertilisers Ltd. (MFL)
(iv) National Fertilisers Ltd. (NFL)
(v) Fertilisers and Chemicals Travancore (FACT)
(vi) Projects & Development India Ltd. (PDIL)
(vii) Pyrites, Phosphates & Chemicals Ltd. (PPCL)

(viii) Rashtriya Chemicals & Fertilisers Ltd. (RCF)

Cooperative Sector Undertakings

(i) Indian Farmers Fertiliser Cooperatives Ltd. (IFFCO)
(ii) Krishak Bharati Cooperative Ltd. (KRIBHCO)

Joint Sector Undertakings

Indian Potash Ltd. (IPL)

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* *Since Paradeep Phosphate Ltd. (PPL) has been disinvested, it is no longer a PSU.*

Analysis of Demands for Grants of Deptt. of Fertilisers for 2002-2003

3. The Detailed Demands for Grants of Department of Fertilisers (Demand No.6) laid on the Table of Lok Sabha on 19th March, 2002 makes provisions of Rs. 11,765.25 crores. The item-wise details are given in **Appendix-IV**. The main items are as under:

			Rs. in crores
(i)	Subsidy on indigenous fertilisers		6,499
(ii)	Concessions for decontrolled fertilisers		4,224
(iii)	Net Subsidy on imported fertilisers	505	
(iv)	Non-Plan loans to 4 PSUs namelyHFC/FCI/ PPCL & PDIL	250	
(v)	Revival of HFC Namrup		200

4. Demands for Grants of Deptt. of Fertilisers for the year 2002-2003 (Demand No. 6) has provided for the following gross provisions in Revenue Section and Capital Sections:-

(Rs. in crore)

	Plan	Non-Plan	Total
Revenue Section	20.80	11,678.25	11,699.05
Capital Section	259.20	250.00	509.20
Total	280.00	11,928.25	12,208.25

(The above entire amount is voted except Rs. 1.00 lakh which is a charged expenditure)

5. The net budgetary provisions for 2002-2003 after adjusting recoveries on account of import of fertilisers (Rs. 443 crore) are as under:-

(Rs. in crore)

	Plan	Non-Plan	Total

Revenue Section	20.80	11,235.25	11,256.05
Capital Section	259.20	250.00	509.20
Total	280.00	11,485.25	11,765.25

B. REVIEW OF 9TH PLAN (1997-2002), ANNUAL PLAN 2002-2003 AND PROJECTED OUTLAY FOR 10TH PLAN (2002-2007)

(a) *Review of 9th Plan (1997-2002)*

6. The approved outlay for 9th Plan for PSUs and cooperatives under DOF was Rs. 11,013 crores for continuing schemes as well as for new schemes, the latter having the major share. Out of this outlay the budgetary support from Govt. was Rs. 927 crores only. The balance was proposed to be funded by concerned PSUs/ cooperatives by their own resources. Out of total approved outlay of Rs. 11013 crore major share of Rs. 9791 crore had been allotted to IFFCO (Rs. 3253 crore), KRIBHCO (Rs. 2720 crore), RCF (Rs. 2700 crore) and NFL (Rs. 1118 crore). The following statement shows year-wise Budget/ Revised outlays, vis-à-vis actual expenditure as also the Budget support and percentage utilisation with respect to approved Budget outlays during Ninth Plan (1997-2002) upto December, 2001:-

(Rs. in crores)

Year	Budget Outlay	Revised Outlay	Actual Exp.	Budget Support	Utilisation in %
1997-98 (First Year)	1728.38	1728.38	1324.38	239.78	77
1998-99 (Second Year)	2200.00	989.00	801.30	209.20	36
1999-2000 (Third Year)	1828.00	888.84	604.25	165	33
2000-2001 (Fourth Year)	1872.00	807.87	586.49	197	31
2001-2002 (Fifth Year)	1149.03	731.61	232.62 *(upto Dec.2001)*	207	

*(PSU-wise details of actual expenditure and Plan outlays during Ninth Plan period are given in **Appendix-V**).*

7. Thus the achievement performance of approved plan outlays has decreased year after year. From 77% in 1997-98 it got reduced to 36% in 1998-99, 33% in 1999-2000 and 31% in 2000-2001.

8. Together the actuals (upto Dec. 2001) of Rs. 3549.04 crore utilisation accounts for only 32.22% of total approved outlay for 9th Plan (1997-2002) of Rs. 11,013 crores. The Department of Fertilisers has attributed the following reasons for non-utilisation of the plan funds :

(a) Delay in implementation of Revival packages of the Namrup Unit (HFC);

(b) Approval to certain new schemes/ expansions/ joint venture could not be finalised.

9. The Department has however, expected that Plan expenditure might pick up marginally during remaining part of the last year when some expenditure on Namrup Revamp and Indo-Oman Projects may be made.

10. In this context the Committee during the course of examination invited attention of DOF to the recommendations made in various Reports about need for synchronizing the proper planning and uniform spending during the plan period. The Committee wanted to know the assessment of DOF in sectoral planning and development of fertilisers industry particularly when non-utilisation of funds is as high as 67.38% of approved outlay during the 9th Plan (1997-2002). The DOF in a written note submitted:-

> "The outlays proposed in the Five Year Plans are based on tentative assessments. The schemes/projects identified are taken up subject to investment appraisal. These targets are, therefore, revised periodically at the time of finalisation of annual plan outlays considering the actual trends of growth and development in the sector in the previous years. Such periodic revisions and adjustments of targets are also part of planning process. Though there was low utilisation of 9th plan outlay because of non commencement of a number of large projects, the country has reached near self-sufficiency in urea and DAP production by the end of the 9th Plan which was in line with the sectoral objectives of the Plan."

11. During the course of evidence of the representatives of DOF the Committee pointed out that one of the major reasons for non-utilisation of approved outlay has been the delay in finalisation of four mega projects of IFFCO Nellore, Gorakhpur and Hazira of KRIBHCO and Thal project of RCF totalling to an estimated amount of Rs. 5922 crore. These four projects were in principle' approved by Govt. in April, 1999 but were subsequently deferred in June 2000 on the ground of limited demand-supply forecast and due to non-finalisation of long term policy on fertilisers. During his evidence, Secretary, Fertilisers explained the reasons for non-utilisation of planned outlay as under:-

"I would submit that unlike the other Departments, Plan allocation in case of Fertilisers Department comprises two components. One is the Budgetary support and the second is the internal generation from the public sector units.

The combination of the two makes it the Plan outlay. I would honestly submit that for the Ninth Plan the projected demand growth did not materialise."

12. He further submitted:-

" The second important factor has been the feedstock. Because of the non-availability of gas, public sector undertakings are not willing to set up plants based on Naphtha. They are willing only if gas commitment is there or if there is clear policy on LNG and also a pricing policy. These are the three uncertainties of demand, feedstock and pricing policy which have slowed down investment, be it public or private sectors. If I just give out that in the Ninth Plan as to what were the investment envisaged – there was KRIBHCO Hazira expansion, which had an outlay of Rs. 1103 crore. We are not able to take a decision because both demand and the feedstock problem are there. Therefore, at the highest level, a decision has been taken to defer it for the time being. There is also the second project at Gorakhpur, at which KRIBHCO at Board level has taken decision not to make investment.

There was a suggestion, a request and almost in the nature of a directive given to KRIBHCO that they should set up a new brown field or ground plant in Gorakhpur but they are not able to do because there is no gas pipeline while it can only be on gas. This had an outlay of Rs. 1302 crore. RCF Thal expansion again was different. It needed Rs. 1200 crore. IFFCO's new green field project at Nellore was deferred again for want of commitments. This needed Rs. 1200 crore and Panipat expansion – Rs. 685 crore. These are some of the major projects which have been deferred in the Ninth Plan.

I should be very honest to you to say that some of these decisions have to wait now because of the disinvestment plan. For example, NFL is under the disinvestment plan. Any investment decision, and injection of fund there may not be desirable. While all the criticism of poor utilisation is accepted, but this outlay was based on certain projects, which were to come up. Those projects and their investment decisions did not come up in the Ninth Plan and may even find it difficult to find their place in the Tenth Plan except one or two only. Possibly Hazira would find its place, on the basis of their decision on LNG availability."

13. Asked whether the Government is continuously reviewing the economic viability of these pending projects, the DOF in a written note confirmed:-

"Yes, these projects are being reviewed by DOF from time to time."

14. In this connection during the course of evidence the Committee also wanted to know whether the estimates of Ninth Plan were reviewed periodically, the Secretary (Fertilisers) informed:-

> "Sir, on the first issue of determination of revised project estimates, we have revised and got the updated estimates. That is there. It went to the PIB. In the investment Board a decision was taken that taking the overall demand-supply position and taking the problem of gas at this point of time it would not be feasible to clear the project of KRIBHCO, Hazira expansion and RCF, Thal expansion because the demand-supply position as it stands today for urea would be more than adequate if Oman fertiliser and Namrup fertiliser projects came. I concede the point because in the long term these decisions also will take four years for implementation and production."

15. The Committee during the course of examination also wanted to know about the broad achievements in terms of policy of 9th Plan period, the DOF in a written note submitted:-

> "There has been continued, steady and adequate growth during the 9th Five Year Plan in the fertiliser sector in terms of build up of fertilizer production capacity which commensurated with the demand for fertilizers during the 9th Plan period. By the end of the 9th Plan (2001-02), the country has achieved near self-sufficiency in urea and DAP production."

16. The Committee are not convinced with the explanation regarding non-utilisation of Planned Outlay during 9th Plan (1997-2002). The Committee find that out of the approved Plan Outlay of Rs. 11013 crore, the actual plan expenditure was a meagre Rs. 3549.04 crore. This was 32.22% of the entire approved outlay. DOF has hoped that plan expenditure might pick up marginally during the remaining part of the plan when some expenditure on Namrup revamp and Indo-Oman Projects may be made. Delay in implementation of revival packages of Namrup Unit of HFC and delay in finalisation of four mega projects with an allocation estimated at Rs. 5922 crore were the reasons cited by DOF for non-utilisation of Plan Outlay. Secretary (Fertilisers) has cited two reasons for non-utilisation of Plan Outlay during Ninth Plan period viz. non-materialisation of projected demand and unwillingness of PSUs to set up capacities on costlier feedstock like Naphtha as cheaper feedstock like natural gas was not available. Besides, there was no clearcut policy on LNG, the future feedstock for fertiliser. Secretary (Fertilisers) hoped that possibly Hazira project of KRIBHCO with Plan Outlay of Rs. 1103 crore may materialise during 10th Plan on the basis of their decision on LNG availability.

17. The Committee take note of the assertions made by DOF that targets set in the Planned Outlays are revised periodically at the time of finalisation of annual plan outlays, considering the actual trends of growth and development in the sector in previous years. But it is seen in the present case that even after revising outlay to Rs. 5145.70 crore the actual utilisation was Rs. 3549.04 crore (upto December, 2001). The Committee recommend that Department should set up a monitoring and evaluation cell to conduct a comprehensive review of Plan performance as per the guidelines of the Planning Commission.

(Recommendation No. 1)

18. As against the investment of Rs. 3549.04 crores during Ninth Plan (1997-2002) period the targets vis-à-vis actual production of fertilisers have been as under:-

(in lakh tonnes)

Year	**Nitrogen**		**Phosphate**	
	Target	**Actual Production**	**Target**	**Actual Production**
1997-98	96.10	100.85	28.59	29.75
1998-99	106.82	104.79	30.26	31.40
1999-2000	110.67	108.90	33.44	33.98
2000-2001	112.14	109.61	39.93	37.43
2001-2002(Est.)	116.59	108.02	49.30	39.45

19. Thus production of Nitrogen during four years viz. 1998-99, 1999-2000, 2000-2001 and 2001-2002 was below the targets. Similarly, the production of phosphates for 2000-2001 and 2001-2002 was lower than the target. The Committee during the course of examination wanted to know the reasons for non-achievement of targets for Nitrogen and Phosphates during the above years and the steps that are taken to ensure that targets are achieved fully. The DOF in a written note informed:-

> "Year-wise major reasons for non-achievement of targets for Nitrogen and Phosphates during the years 1998-99 to 2001-02 are given below:-
>
> 1998-99
>
> During 1998-99, against the target of 106.82 Lakh MT of Nitrogen, the actual production was 104.79 Lakh MT resulting in a shortfall of 2.03 Lakh MT. The production was affected due to the following reasons:
>
> (i) Curtailment of supply of natural gas to all the fertilizer plants on HBJ pipeline by ONGC for the period from 17th to 23rd September, 98 due to flood in Hazira.
>
> (ii) Power and equipment problems, shortage of raw materials and labour problems.
>
> 1999-2000

In the year 1999-2000, the production of nitrogenous fertilizers fell short by 1.77 Lakh MT in terms of nitrogen on account of the following major reasons:

(i) Restricted gas supply to Trombay & Thal units of RCF;

(ii) Equipment problems in KRIBHCO-Hazira, SPIC-Tuticorin, NFCL-Kakinada, OCF-Shahjahanpur plants; and

(iii) Extended shutdown of NLC-Neyveli.

<u>2000-2001</u>

In this year the production suffered to the extent 2.53 Lakh MT of nitrogen and 2.50 Lakh MT of phosphate. The following factors were responsible for these shortfalls in achievement of targets:

(i) Poor quality and inadequate supply of natural gas to most of the gas-based fertiliser plants;

(ii) Equipment breakdowns in FCI, HFC, NLC and MFL plants;

(iii) Shortage of raw materials faced by PPL, Paradeep and HLL, Haldia plants engaged in the manufacture of phosphatic fertilizers;

(iv) Delay in stabilization of DAP plants of OCF, Paradeep and Indo-gulf/Dahej due to teething problems;

(v) Low production of complex grade fertilizers on account of financial constraints/shortage of raw materials; and

(vi) Production loss of 45,000 MT of nitrogen and 1,15,000 of Phosphate during January to March, 2001 at Kandla Plant of IFFCO due to earthquake in Gujarat.

<u>2001-2002</u>

In the current year, which is the terminal year of the Ninth Five Year Plan, the production of nitrogen is anticipated to fall short by 8.7 Lakh MT and of phosphate by 9.85 Lakh MT. The production losses in this year are expected to be comparatively higher and the reasons thereof are as follows:-

(i) Inadequate and poor quality of natural gas supply to all gas-based fertiliser plants;

(ii) Equipment breakdowns in urea plant of FACT, Cochin-I, IFFCO, Aonla-I and SPIC, Tuticorin;

(iii) Non-stabilization of production of DAP/complex fertilizer plant of IFFCO at Kandla during April-May, 2001 as a fall out of Gujarat earthquake;

(iv) Labour strike and shortage of phosphoric acid in PPL, Paradeep;

(v) Shortage of raw-materials and marketing constraints of DAP fertilisers;

(vi) Delay in commissioning of GSFC, Sikka-II DAP unit;

Production of all the fertilizers in the country are monitored on monthly basis. In case of major equipment breakdowns in public/cooperative sector plants, the reports are required to be sent to the Department. Such equipment failures are discussed in the quarterly review meetings also. The main factor for shortage of production in gas-based fertilizer plants is the poor and inadequate supply of natural gas and unscheduled shutdowns by ONGC/GAIL. This Department has already taken up the matter with the Ministry of Petroleum & Natural Gas to accord highest priority in the supply of natural gas of good quality to the fertiliser plants without fluctuations. Matter is also being taken up to ensure transparency in the allocation of gas to fertiliser consumers. Other problems connected with the gas supply are also given due attention by the Department."

20. The Committee note that production targets both for Nitrogen (for first four years) and Phosphates (for last two years) during Ninth Plan period (1997-2002) have not been achieved by DOF. For Nitrogen as against the target of 106.82 lakh tonnes, 110.67 lakh tonnes, 112.14 lakh tonnes and 116.59 lakh tonnes (estimated) during 1998-99, 1999-2000, 2000-01 and 2001-02, the actual production was as low as 104.79 lakh tonnes, 108.90 lakh tonnes, 109.61 lakh tonnes and 108.02 lakh tonnes respectively. Similarly, for Phosphate against the target of 39.93 lakh tonnes and 49.30 lakh tonnes during 2000-01 and 2001-02 the actual production was as low as 37.43 lakh tonnes and 39.45 lakh tonnes respectively. The Committee find that in the case of Nitrogen the reasons for not achieving the targets over the years were poor and inadequate supply of natural gas in gas based fertiliser plants of different PSUs and equipment problems in KRIBHCO, Hazira, SPIC Tuticorin, NFCL Kakinada, OCF Shahjahanpur plants. The Committee are glad to note that the Ministry of Petroleum & Natural Gas has already been approached by DOF for supply of good quality of gas to fertiliser plants and for also according highest priority in allocations of gas. Inspite of repeated pleadings, the fertiliser industry has not been able to procure adequate supply of quality gas. Non-availability of requisite quantity of gas has become a regular phenomenon. The Committee are aware that fertiliser industry is making efforts to look for other means to import or arrange gas. With the dismantling of APM in petroleum products, availability of these in the open market has become possible. The Committee recommend that Fertiliser PSUs should explore the possibility of procuring alternate feed stock than gas from the open market to achieve full capacity utilisation.

(Recommendation No. 2)

21. As regards other reasons like equipment failure, power break down etc. responsible for non-achieving production targets, the Committee find that these are regularly monitored by DOF in Quarterly Review Meetings. The Committee feel that these problems are not being properly looked into by DOF since these problems have been figuring in 1998-99 and 1999-2000 both in PSUs and in private sector plants. The Committee desire that DOF should make all out efforts to stamp out these problems so that production is not hampered only because of these reasons.

(Recommendation No. 3)

(b) Projected Outlay for 10th Plan (2002-2007)

22. As against the original outlay of Rs. 11,013 crore for the Ninth Plan (1997-2002) an outlay of Rs. 5900 crore has been fixed for 10th Plan (2002-2007) period. PSU-wise outlay for 10th Plan are given in **Appendix-VI.** Out of this Rs. 3790 crore is earmarked for RCF (Rs. 1900 crore), KRIBHCO (Rs. 1680 crore), IFFCO (Rs. 810 crore) and FACT (Rs. 400 crore). Department of Fertilisers has also informed that these figures have not been communicated formally to them by the Planning Commission. These are based on discussions held with Planning Commission keeping in consideration the disinvestment proposals under consideration, Expenditure Reform Commissions recommendations etc. Plan outlay for different PSUs like RCF, NFL, FACT and MFL are likely to be affected by disinvestment during 2002-2003. In this context during the course of examination the Committee wanted to know the objectives of 10th Five Year Plan. The DOF in a written note submitted:-

> "The major objectives for the fertilizer sector during the 10th Plan period are to achieve a phased decontrol of the fertilizer industry, establish a sustainable pricing policy for controlled and decontrolled fertilizers, deal with closure and sickness of non-viable units and concurrently prepare the industry to face the challenges of global competition."

23. The Secretary (Fertilisers) supplemented it further during evidence:-

> "There are two reports being contemplated. One is a long-term policy, which is for more than five years and for which a statement has been made. A committee has gone into some details. It has considered the opinion of various stakeholders. It is still not finalised, it is at a draft stage and we still have to go into it at much greater detail. That draft may not be meeting the expectations. So, all these aspects have to be gone into. In addition to that the Tenth Plan, which is being prepared by the Planning Commission in consultation with the Agriculture Ministry and the State Governments, would spell out the total requirement, what

would be the crop production and what would be the NPK requirement for that crop production level. It would be communicated to us that this would be the demand of NPK during the Tenth Plan. We take that into consideration while deciding the manufacturing capability of the units. While taking it into consideration, we would say that for the Tenth Plan there would be a near self-sufficiency from the existing units and Oman."

24. As regards lesser allocations during 10th Plan Period (2002-2007) as compared to 9th Plan (1997-2002) outlay, the Committee during the course of examination wanted to know the reasons for lesser allocations when schemes of this period remain to be implemented. The DOF in a written note submitted:-

> "While drawing up the tentative list of schemes/projects for which outlay has been earmarked during the 10th Plan period, factors relating to impending disinvestment, demand-supply gap position for fertilizers, future policy environment for the fertilizer sector etc. have been kept in mind which has resulted in lesser outlay during the 10th Plan compared to the 9th Plan. Not all the schemes that were short-listed for the 9th Five Year Plan period and that remain to be implemented have been carried forward to the 10th Plan period."

25. Asked further whether the left over schemes of 9th Five Year Plan have been carried over to 10th Five Year Plan, DOF in a written note submitted:-

> "Those schemes/projects which have been approved by the competent authority during the 9th Plan period and are under implementation, have been provided outlay in the 10th Five Year Plan. The 10th Plan outlay for other schemes/projects have been finalised afresh and are subject to approval of the schemes/projects by the competent authority on completion of prescribed investment appraisal. The left over schemes of the 9th Plan are not automatically carried over to the next Five Year Plan, but only those which have continued relevance would be provided outlays in the 10th Five Year Plan."

26. On being further enquired by the Committee about the rationale for allocation of Rs. 1900 crore for RCF Rs. 400 crore for FACT, Rs. 160 crore for NFL and Rs. 48.00 crore for MFL for 10th Plan period when these are likely to be disinvested, DOF in a written note informed:-

> "The 10th Plan outlay of Rs. 1900 crore for RCF, Rs. 400 crore for FACT, Rs. 160 crore for NFL and Rs. 48 crore for MFL is subject to review from time to time, based on the progress of the process of disinvestment of these companies. The desirability of taking up new and long-term projects by these companies in such circumstances will also be taken into account during this review."

27. The Committee also wanted to know how the allocations of Rs. 1680 crore for KRIBHCO and Rs. 810 crore for IFFCO are likely to be utilised during 10^{th} Plan period. The DOF in a written note clarified:-

> "The major part of the outlay of Rs. 1680 crore for KRIBHCO during the 10^{th} Plan is for expenditure on the Joint Venture Indo-Oman Project and other new-expansion proposals tentatively identified for implementation during the 10^{th} Plan. The outlay earmarked for the Indo-Oman Fertilizer Project is expected to be utilised as it has already been approved by the Government. Utilisation of the remaining outlay would depend on the proposed new projects/schemes being found economically viable. IFFCO's outlay of Rs. 810 crore for the 10^{th} Plan period also includes expenditure on the Joint Venture Indo-Oman Fertilizer Project which is expected to be fully utilised. The other major head of expenditure for which outlay has been included for IFFCO is on normal renewal/replacements of plant and machinery of existing units (Rs.420 crore) and it is expected to be utilised by IFFCO."

28. The Committee find that finalisation of 10^{th} Five Year Plan for the Department of Fertilisers has been delayed. Timely finalisation of plan and schemes under it is indication of sound planning and effective implementation resulting in cost effectiveness of projects. The Committee would like the Planning Commission to ensure finalisation of plan at the earliest and hope that DOF would start implementing the schemes thereunder in time.

(Recommendation No. 4)

29. The Committee find that DOF's goals for Tenth Plan (2002-2007) are phased decontrol of fertiliser industry, establishment of sustainable pricing policy for controlled and decontrolled fertilisers, dealing with closure and sickness on non-viable units and preparing the industry to face challenges of global competition. For achievement of these goals the DOF has prepared a Draft Policy which needs to be discussed with Planning Commission, Ministry of Agriculture and State Governments for the purpose of demand of different fertilisers during the 10^{th} Plan periods.

30. The Committee specifically take note of objectiveness of 10^{th} Plan viz. phased decontrol of fertiliser industry and sustainable pricing policy. The Committee caution the Government with their objective of phased decontrol of industry as it has vast implications for Indian economy especially in agricultural sector. The Committee recommend that the Government should have wider consultations with States, agriculturists and other concerned agencies before initiating any step in this regard.

(Recommendation No.5)

31. About continuation of schemes of Ninth Plan (1997-2002) during Tenth Plan (2002-2007) the Committee have been informed that left over schemes are not automatically carried over to next plan period. Only those which have continued relevance would be provided outlays in the 10^{th} five year plan. The Committee desire that DOF should examine all these left over schemes on priority basis so that plan allocation for such schemes/ projects be concretised.

(Recommendation No.6)

(c) Annual Plan Outlay for 2002-2003

32. Department of Fertilisers has informed that an outlay of Rs. 899 crore has been provided for the year 2002-2003. Out of this Rs. 781 crore has been earmarked for IFFCO (Rs. 276 crore), HFC (Rs. 200 crore), KRIBHCO (Rs. 180 crore) and RCF (Rs. 125 crore). The PSU-wise details of outlay are given in **Appendix – VII.** The Department of Fertilisers has informed that the above outlay were based on the following reservations:-

(i) Five companies viz. NFL, MFL, PPL, FACT & RCF are slated for disinvestment. In the first phase NFL, PPL and MFL are included and their outlays and projects have been considered and restricted keeping in view this fact. Their outlays will be reconsidered after two years in case these companies are not disinvested till then.

(ii) PPL has since been disinvested.

33. In this connection when the Committee wanted to enquire whether the schemes for which outlay has been provided have been finally approved by competent authorities, DOF in a written note explained:-

> "Outlays have been made for the year 2002-03 for new schemes/projects of PSUs/Cooperative Societies and final investment appraisal/approval for such schemes/projects would be carried out during the course of the year. No final approval has been accorded to new schemes/projects contemplated during 2002-03. Utilisation of outlay meant for continuing schemes/projects (like HFC's Namrup Revamp Project) in 2002-03, which have already been approved in earlier years would not require fresh approval of the competent authority."

34. On being asked as to what extent the uncertainty of disinvestment in various PSUs like RCF (Rs. 125 crore), NFL (Rs. 35 crore) and FACT (Rs. 19 crore), MFL (Rs. 17.50 crore) was likely to affect the utilisation of plan outlay for the Annual Plan 2002-2003, the DOF in a written note clarified:-

> "In case the disinvestment of RCF, NFL, FACT and MFL is completed during the year 2002-03, the utilisation of outlay for these companies in the year out of their internal resources would be left to the new management. In so far as the budgetary support is concerned, Government will discontinue further budgetary support to finance their outlay. Otherwise, in the normal course, the plan outlay earmarked for these companies in 2002-03 is expected to be fully utilised."

35. The Committee find that an outlay of Rs. 899 crore has been provided for DOF Annual Plan 2002-2003. Out of this Rs. 781 crore has been earmarked for IFFCO (Rs.276 crore), HFC (Rs. 200 crores), KRIBHCO (Rs.180 crore) and RCF (Rs.125 crore). The Committee have been informed that final investment appraisal/approval for new schemes would be carried out during the year and for HFC Namrup no further

approval is needed. The Plan Outlay for IFFCO and KRIBHCO is meant for Indo-Oman Fertiliser Project. About other allocation for RCF (Rs. 125 crore), NFL (Rs.35 crore), FACT (Rs.19 crore) and MFL (Rs.17.50 crore) the Committee have been informed that in the event of disinvestment the utilisation of outlay would be left to new management and budget support would be discontinued further. The Committee hope that DOF would soon obtain final investment approval on the different schemes for the Annual Plan 2002-2003 after getting clear picture from Deptt. of Disinvestment .

(Recommendation No. 7)

C. HEAD-WISE ANALYSIS OF DEMANDS

Major Head 3451

(i) Secretariat/Economic Services (Budget Estimates Rs. 5.82 crore)

36. This 'Head' is mainly for salaries of the Ministry officials and other office expenses like OTA, travelling and office expenses, etc. etc. The following table indicates details of actuals of 2000-01 (BE and RE) for 2001-02 and BE for 2002-03.

(Rs. In lakhs)

	Actuals 2000-01	**Budget Estimate 2001-02**	**Revised Estimate 2001-02**	**Budget Estimate 2002-03**
Salaries	392.77	418.00	418.00	418.00
Wages	2.54	3.00	2.50	3.00
OTA	6.79	7.00	7.00	7.00
Domestic Travel Expense	17.31	8.00	13.00	13.00
Foreign Travel Expense	5.22	18.00	11.00	11.00
Office Expenses	96.90	110.00	99.80	117.80
Professional Services	0.47	0.20	1.20	1.20
Publications	2.12	1.30	8.00	3.00
Other Administrative Expenses	2.64	3.00	3.00	3.00
Rents, Rates and Taxes	7.92	8.00	6.00	4.50
Advertising and Publicity	1.20	0.50	0.50	0.50
Total	**536.02**	**577.00**	**570.00**	**582.00**

37. During the course of examination the Committee pointed out that as against the actual expenditure of Rs. 5.36 crores in 2000-2001, there is provision of Rs. 5.82 crores under this 'Head' for 2002-03. The Committee wanted to know whether ERC has analysed the staff strength of Department of Fertilizers and made any recommendations. The DOF in a written note submitted:-

"ERC recommendations were received by the Department in the month of July, 2001. ERC recommended to abolish 29 Group A & B posts in the Department. Department of Fertilisers has so far abolished 14 (Gazetted/Non-Gazetted) posts by issuing an order on 1.10.2001.

Further exercise to explore the possibilities for abolishing more posts during 2002-03 is under way."

38. The Committee are happy to find that in pursuance of the recommendations of Expenditure Reform Commission, the DOF has been able to abolish 14 Group A&B posts in the Department as against the recommended figure of 29 posts. The Committee also hope that as assured by DOF more posts would soon be abolished during 2002-2003.

(Recommendation No. 8)

Major Head 2401

(ii) Payment for concessional sale of decontrolled fertilisers

39. The Scheme for payment for concessional sale of both indigenous and imported decontrolled fertilisers was earlier provided in Demands for Grants of Department of Agriculture & Cooperation. The object of the scheme is to encourage the farmers to optimise the use of three plant nutrients. Under the scheme Base Rates and Final Rates are fixed for the purpose of payment of concessions for decontrolled fertilisers viz. indigenous as well as imported DAP, MOP, SSP and other complex fertilisers. Base rate is fixed for full one year whereas final rate changes gradually since (except SSP) these are adjusted on quarterly basis according to fluctuations in prices of raw material/ intermediates (ammonia and phosphoric acid) and exchange rate as well as prices of DAP in the international market. 85% (90% on Bank Guarantee) of concession amount is paid *"on account payment"* of base rate and the balance after certification of sales from States. The following are the per tonne Base Rates for decontrolled fertilisers 2002-03:-

	Decontrolled Fertilisers	**Amount/Rs. per tonne**
(1)	DAP (Indigenous)	2,950
(2)	DAP (Imported)	950
(3)	MOP	2,950
(4)	SSP	650
(5)	Complexes	Ranging from 1,850 to 2,943

40. From 1.10.2000 this scheme was transferred to Department of Fertilisers. The following statement shows amounts towards payment of concessions for P&K and complex fertiliser provided during 2000-2001, 2001-2002 and 2002-2003:

(Rs. in crores)

Year	Payment for concessional sale of indigenous decontrolled fertilisers	Payment for concessional sale of imported decontrolled fertilisers	Total
2000-01 (Actuals)			4319.00*
2001-2002 (B.E.)	4308.50	1405.50	5714
2001-2002 (R.E.)	3760.00	755.00	4515
2002-2003 (B.E.)	3249.00	975.00	4224

* *Actuals for concessional sale of fertilisers not included in the detailed Demands for Grants of Department of Fertilisers as the expenditure was made by Department of Agriculture and Cooperation.*

(a) <u>Impact of price hike on NPK ratio</u>

41. As against the likely expenditure of Rs. 4515 crores for 2001-2002 an amount of Rs. 4224 crores has been proposed for 2002-2003. 5% revision in issue price of DAP and MOP and reduction in Subsidy for SSP by Rs. 50 per tonne has been attributed as reasons for lower amount for 2002-2003 by Department of Fertilisers. In this context the Committee wanted to know whether rise in price of P and K fertilisers will not further adversely hit the present imbalance in use of N:P:K from ideal ratio of 4:2:1, the DOF in a written note clarified:-

"The maximum Retail Prices of Di Ammonium Phosphate (DAP), the main phosphate fertilizer which had remained at Rs. 8300/- per MT from 1.4.1997, was increased to Rs. 8900/- per MT w.e.f. 29.2.2000; similarly, the MRP of Muriate of Potash (MOP), which had remained at Rs. 3700/- per MT from 1.4.1997, was raised to Rs. 4255/- per MT from 29.2.2000. The MRPs of these fertilizers continued at this level for two years till they were revised to Rs. 9350/- per MT for DAP and Rs. 4455/- per MT for MOP w.e.f. 28.2.2002 which represents an increase of nearly 5%.

The Nitrogen, Phosphate and Potash (NPK) ratio during the last ten years is as under:

Year	NPK Ratio
1990-91	6.0:2.4:1
1991-92	5.9:2.4:1

1992-93	9.5:3.2:1
1993-94	9.7:2.9:1
1994-95	8.4:2.6:1
1995-96	8.5:2.5:1
1996-97	10.0:2.9:1
1997-98	7.9:2.9:1
1998-99	8.5:3.1:1
1999-2000	6.9:2.9:1

It can be seen that the ratio, which was 5.9:2.4:1 prior to decontrol deteriorated to 9.5:3.2:1 following the decontrol of phosphatic and potassic fertilizers in August 1992, has since been showing an improvement. As there has been a 5% increase in the MRP for urea also, the increase in MRPs of DAP and MOP may only have a marginal impact on the NPK ratio."

42. ***The Committee find that as against the revised estimate of Rs.4515 crore of last year a provision of Rs.4224 crore has been proposed for payment of indigenous as well as imported decontrolled fertiliser. Department of Fertilisers has informed that 5% revision in issue price of DAP and MOP and reduction in subsidy for SSP by Rs. 50 per tonne has been the reason for lowering the amount of payment of concession over the previous year. According to DOF the 5% hike in price of these would have a marginal impact on the NPK ratio. The Committee find that as against the ideal ratio of 4:2:1 of N:P:K (available during 1999-2000) ratio is 6.9:2.9:1. The Committee find that above 5% hike in price of DAP and MOP has increased the per tonne price from Rs. 8300 to Rs.9350 for DAP and from Rs.4255 to Rs.4455 for MOP. The Committee feel that in view of the already distorted NPK ratio the present hike in price will further affect the NPK ratio considerably. The Committee therefore feel that in order to bring NPK ratio to 4:2:1 DOF should make all out efforts for promotion of fertilisers among the farmers rather than resorting to hike in price of P&K fertilisers.***

(Recommendation No. 9)

(b) <u>Redressal of complaints on fraudulent claims of concessions of decontrolled fertilisers.</u>

43. During the course of examination the Committee invited the attention of DOF about reported large number of fraudulent claims of concession for P&K fertilisers in Bihar and UP. In this context the Committee pointed out that Accountant General Bihar had directed fraud amounting to Rs. 162.13 crore in Bihar Agriculture Department in the matter of payment of concession/subsidy under the concession scheme on decontrolled phosphatic & potassic fertilisers. The Committee wanted to know whether similar reports have been received from other States and if so, what steps have been taken to make the system fault-proof and what action has been taken against defaulters in the above case, the DOF in a written note submitted:-

"Besides Bihar, a newspaper report in January 2000 had drawn attention of the Government of India to alleged fraudulent claims of concession, of similar nature and magnitude, by the Single Super Phosphate (SSP) units located in the State of UP. Based on the inquiry reports in respect of 29 SSP units of UP submitted by the State Government and in consultation with Government of UP, the DOF advised it to file FIRs against the units. The processing of concession claims of 21 units is yet to be restored. In case of the State of Punjab also, the State Vigilance Department after an inquiry had alleged involvement of some of the State officials in certification of bogus sales which led to refusal by Punjab officials to carry out further certification of sales up to farmers' level. After the matter was taken up by DOF with the State Government, the certification of sales has recently been resumed by the State authorities.

As regards Bihar, the Central Government in February 2000 had requested the State Government to furnish factual position and also decided to withhold payments against final settlement of concession claims. The State Government has recently informed that a decision has been taken to hand over the matter to CBI. However, a formal request from Government of Bihar to this effect is yet to be received by Department of Fertilisers.

In order to put a curb on sale of non-standard SSP to farmers and need to promote use of specified grades of rock phosphate, under the new guidelines for Concession Scheme on decontrolled posphatic and potassic fertilizers, a Technical & Audit Inspection Cell (TAC) has been constituted to conduct first time as well as six-monthly inspections of SSP manufacturers for ensuring usage of specified grades of rock phosphate to be notified by the Department of Fertilizers from time to time. The TAC has so far inspected 96 SSP units, out of the estimated 109 units, during the first phase of inspection. Seven primary grades of rock phosphate, besides a number of blending grades of rock, have since been notified by Department of Fertilisers."

44. During the course of evidence of the representatives of DOF the Secretary (Fertilisers) further explained about the action taken by DOF on such complaints:-

"As far as Bihar is concerned, C&AG has commented that there are 11 Districts in Bihar where the phosphatic fertilizer was given. Sir, in urea, it does not take place because it is distributed under ECA. In the case of phosphatic fertilizers, the rules required that before a company can get the actual difference as concession, the State Government has to verify that the company sent the stock and it has been sold to the farmer. Only then, the company gets the assistance. Till such time, 80 per cent is given 'on account ' and 20 per cent is withheld. So, C&AG reported that in these 11 districts, the Director of Agriculture gave a certificate about its sale to farmer without obtaining the report from the District Agriculture Officer. And, therefore, it came to a conclusion that there could be a possibility of misuse to the tune of Rs. 162 crore, which was the price of all the fertilizer which was sent to these 11 Districts. This matter, later from C&AG was also picked up by a Committee of Bihar Legislative Council and they also submitted their report. And the Bihar Government have already referred this matter to CBI for inquiry. But independent of that, what we have done is technical checking. There are two areas, where the concession is slightly in a fragile form, that is SSP, because there are small units and they are about more than 200 units all over the country. They submit the distribution and claim concession. The other is DAP. In these two, we have asked one of the PSUs, PDIL, to go and verify each of units, not one or two but 100 per cent units, whether they exist, did they produce, if they produced, then what was the nature of distribution, and how much of subsidy have they got? What is being described as, a technical audit, we have sent that for UP, we have sent that for Bihar. Although it relates to 1994-98, which is the period when this concession money was paid and this scheme was being implemented by the Ministry of Agriculture, it was only in October, 2000 that this scheme got transferred to the Department of Fertilisers. But the Government is one. The Report has come. We are writing now to CBI to please let us know as to what is their status of inquiry, whether we can have a parallel inquiry on these 11 Districts or we should assist CBI for making the inquiry."

45. The Committee wanted to know why the Government was not evolving a permanent system for checking misuse of concessional scheme for decontrolled fertilisers The Secretary (Fertilisers) during the course of evidence submitted:-

"I would submit again that we are not evading responsibility. But verification is the responsibility of the State Governments. The problem is the other way round which we are facing in Bihar. It is a matter which I must bring to your notice. Bihar after 1998 has stopped sales verification. Dispatches worth more than Rs. 200 crores are pending for payment because the officials from Bihar say they will not verify. Without sales verification, in FICC, we cannot make the payment. Likewise, Punjab for quite some time was refusing to verify. Now I am calling the meeting of the Bihar officers to look into this issue of verification. The entire responsibility of verification of its use at the level of the farmer is that of the State Government. We can only send it there. But the suggestion is, irrespective of what the State Governments do, at least, up to the company level, we must verify that they produce, they despatch and they claim rightly."

46. Responding to the suggestion by the Committee that the Central Government should devise its own mechanism particularly when the source of concession is the Central Government, the Secretary (Fertilisers) stated:-

"In case of Uttar Pradesh, this related to super phosphate. Twenty-nine companies were involved in it. Inspections have been done both by our people and also by the Economic Offences Wing SIB of UP.

The problem really is this. All right, we will stop. Already in many of these units, no more concession is being given. It is because the SSP units are not subject to any licence, they can come up and start producing and supplying. But there is a need for very drastic check and definitely a scheme will be evolved in the Department of Fertilizer by which, if not hundred per cent verification, there will be a sample verification of supplies each year by an independent agency."

47. The Committee note that reportedly large number of fraudulent claims of concessions for P&K and Single Super Phosphate (SSP) have been brought to attention of Govt. from the States of U.P.Bihar and Punjab. In the case of U.P., the DOF has informed that U.P. Govt. has already filed FIRs against 29 SSP units based on enquiry reports and 21 additional claims are under process. In case of Bihar on the report of alleged fraud of Rs.162.13 crores on fraudulent claims, the Secretary, Fertilisers informed that in 11 district the Director of Agriculture gave certificate about sale of phosphates to farmers without obtaining report from District Agriculture Officer. DOF has informed that the Central Govt. on February, 2000 had asked State Govt. to furnish factual position. The Govt. have decided to withhold further payment against final settlement of claims. State Government in turn has decided to refer the matter to CBI but the formal request from the former is awaited in DOF. In the case of complaints from Punjab the Committee find that State Vigilance Department had alleged involvement of some State officials in certification of bogus sales upto farmer level. Explaining further, Secretary (Fertilisers) informed that SSP and DAP claims are often questioned. About SSP the Committee were informed that there are around 200 units all over the country who submit the distribution and claim concession.

48. The Committee feel that instead of tackling problems of individual States as and when these occur there is a need for uniform system for effectively checking the misuse of fraudulent claims of decontrolled fertilisers although according to DOF there is already a system of Technical Audit Inspection Cell (TAC). The Committee recommend that DOF should adopt an independent mechanism at Central level to sample test the suppliers claims and those found defaulters should be strongly punished so as to leave demonstrative impact on others.

(Recommendation No.10)

(c) <u>Progress of payment of outstanding dues</u>

49. During the course of examination the Committee invited the attention of DOF that the Committee while examining last year's Demands for Grants of DOF had observed that manufacturers money of Rs. 795 crores was blocked for delay in certification of sales and the Committee had recommended expeditious payment of these claims. The Govt. in their action taken note (24^{th} July 2001) had informed that procedure has been rationalised to reduce the time lag between sales and release of concessions.

50. In this context it was also pointed out to the DOF that the Committee wanted to know how much of the amount of Rs. 795 crores has so far been cleared for payment. The DOF in a written note submitted:-

> "After the transfer of the Concession Scheme to the Department of Fertilizers from October, 2000, the Department requested all manufacturers to submit their pending claims (prior to October 2000). In response, the Department received pre-receipted claims amounting to Rs. 347.67 crore. Against this, the

Fertilizer Industry Coordination Committee (FICC) has processed and authorised payment of Rs. 179.75 crore and claims worth Rs. 167.92 crore are being processed. Thus, all the claims preferred before the FICC have either been settled or are in the process of being settled. In addition, the Department of Agriculture & Cooperation also settled claims worth Rs. 139.10 crore. The claims for the balance amount of Rs. 308.23 crores are yet to be received from the manufacturers."

51. When further asked about the amount due to manufacturers for want of certification of sales as on 28.2.2002 State-wise, DOF in a written note submitted:-

"The payment under the Concession Scheme which is subject to receipt of certification of sales pertaining to the sales for the period of 1.10.2000 to 28.2.2002 is Rs. 815 crore (approximately). Against this, payment of Rs. 520 crore (approximately) is expected to be released by 31.3.2002.

52. The matter relating to investors money being unnecessarily blocked for want of certification of sales by State Governments, was examined by the Committee last year also and the Committee had recommended expediting the payments of such money amounting to Rs. 795 crore. DOF has informed that from October, 2000 the scheme was transferred to DOF from Department of Agriculture and Cooperation (DOAC). Thus DOF was in receipt of claims worth Rs. 347.67 crore pre-receipted by DOAC. Out of this claims worth Rs. 179.75 crore have been settled and claims worth Rs. 167.92 crore are under process by Fertilisers Industries Coordination Committee (FICC). Besides, claims worth Rs. 139.10 crore have been settled by DOAC. Balance claims worth Rs. 308.23 crore are yet to be settled. The Committee recommend that DOF should lay down a timeframe for settling claims and in the present case hope that DOF would expedite settlement of the pending claims worth Rs. 308.23 crore.

(Recommendation No. 11)

Major Head 2401

(iii) Sub-Head Subsidy on Import of Urea

53. The following table shows the amount earmarked for import of urea and recoveries made on this account for the year 2000-01, 2001-02 and proposed for 2002-03:-

(Rs. in crores)

Year	Imports	Recoveries	Net Subsidy	Import of Urea (in lakh tonnes)
2000-2001 (Actuals)	11.87	10.87	1.00	NIL
2001-2002 (B.E.)	1017	517	500	12

2001-2002 (R.E.)	159	100	59	2.25
2002-2003 (B.E.)	948	443	505	10

54. The Department of Fertilisers has stated that a net provision of Rs. 505 crore have been proposed for import of 10 lakh tonnes of urea for 2002-2003. The recovery on sale of imported urea is estimated at Rs. 443.00 crore. During the course of examination the Committee wanted to know whether as against RE of Rs. 159 crore for import of urea in the last year, present provision of Rs. 948 crore would not be too much leading to greater outgo of precious foreign exchange, the DOF in a written note informed:-

> "Presently urea is the only fertilizer whose price and distribution are under Government control. Urea imports are being made on Government account through State Trading Enterprises to bridge the gap between assessed demand and indigenous availability. Rs. 948 crore for 2002-03 is only a budgetary provision. The actual import will depend on the trends in domestic production and the evolution of demand, which, in turn, is related, iner-alia, to the progress of the monsoon and distribution of rainfall etc. These factors are periodically reviewed by a Steering Committee of Secretaries of the Fertilizer Sector (SCOS) consisting of representatives of Department of Fertilizers, Department of Agriculture & Cooperation, Ministry of Finance, etc., which decides on the quantum of import.
>
> In 2000-01, the BE was kept at Rs. 1007 crore while the actual expenditure is only Rs. 159 crore (gross) (and Rs. 59 crore net)."

55. In this connection during the course of evidence of the representatives of DOF the Committee wanted to know whether as compared to previous year's level the proposed outlay for import is not huge, Secretary (Fertilisers) explained:-

> "Regarding the subsidy on imported urea, this is the assumed figure. What happens finally at the end of the year is that re-appropriation takes place where there is a saving in imports. If no import takes place, there is a higher subsidy on urea in the domestic manufacturing. This amount goes towards that. In fact, this year also, the same thing happened. Subsidy on account of import was much less and there was a higher demand for distribution. So, I would only submit that this figure of Rs. 900 crore is based on last year's preliminary estimates. It also takes into account the likely import we have to resort in case we face huge demand increase. But that will be closely monitored and there will be 100 per cent utilization of domestic manufacturing before any import is resorted to. There is no recovery involved in it."

56. The Committee note that a provision of Rs. 948 crore has been proposed for 2002-2003 for import of 10 lakh tonne of urea. During the course of examination, Secretary (Fertilisers) informed that this figure was based on last year's preliminary

estimates. It takes into account the likely import to be resorted to in case of huge demand increase. The Secretary (Fertilisers), however, assured the Committee that in the event of increase of huge demand of urea, the demand would be monitored and there would be 100% utilisation of domestic manufacturing before resorting to imports. The Committee feel that there is ample scope of increasing capacity utilisation of indigenous urea industry and any provision for import of urea is uncalled for. In Committee's opinion there should not be any budgetary provision for import of urea. In the present case, the Committee, however, hope that Government would utilise the domestic production of urea in full and resort to imports only in the event of urgent need.

(Recommendation No. 12)

Major Head 2852

(iv) Fertiliser Subsidy under Retention Price Scheme (RPS)/Freight Subsidy

57. The RPS enables the manufacturers of urea to recover their normative cost of production along with a reasonable return on net-worth. The cost of production of various fertilizer units differ from unit to unit and even from month to month, depending upon the health and vintage of the plant, the feedstock used, the levels of capacity utilisation, energy consumption, distance from the source of feedstock/raw materials, cost of inputs etc.

58. The RPS provides for fixation of retention price of urea units after taking into account the normative capacity utilisation prescribed by the Government and a combination of norms and actuals, in respect of various cost elements and expenses. Pre-tax return on net-worth corresponding to post-tax return of 12% is given as a part of the retention price after covering various elements of cost.

59. The Committee enquired, how did the Department ensure that return on net worth is achieved by companies in public and cooperative sectors and also wanted to know whether some of the fertiliser units have been closed down for the reasons that manufacturers are not getting return on their capital. The Department furnished the information in a written note as under:-

> "Under Retention Price-cum-Subsidy Scheme, the retention prices of indigenous urea manufacturing units are fixed unit-wise having regard to a combination of norms and actuals in respect of various cost elements. The RPS assures to the urea manufacturing units the reimbursement of costs on normative basis and a post tax return on 12% on networth. Rate of return on networth is uniform for all units whether in public sector, cooperative sector or private sector. Production cost recognized under RPS is based on a combination of norms and actuals. Accordingly, urea companies are required to achieve the norms and consequently, reduce the production cost to maintain /improve profitability."

60. The Committee found that Fertiliser companies especially PSUs are incurring losses as can be seen from the following table:-

(Rs. in crore)

Name of PSU	1999-2000	2000-2001	2001-2002 (April-Oct.) Actual	(2001-2002)
FACT	39.80	151.95	148.78	222.89
MFL	-	29.76	93.95	120.39
PPCL	70.17	108.30	52.12	94.45
FCI	855.00	948.84	629.52	1059.42
HFC	564.23	767.72	512.81	+873.90
PDIL	19.88	32.66	17.79	32.51
@PPL	--	141.03	84.19	115.26

@ Already disinvest so no longer a PSU. Remaining RCF/NFL are the only profit making PSUs.

61. The retention prices of urea are normally fixed once in three years after scrutinizing the cost data of the units for this period for which audited accounts are available. During the currency of the pricing period, escalation/de-escalation is provided to reflect variation in the prices of major inputs. Escalation is also allowed in respect of certain other items of cost (viz. salaries and wages, chemicals and consumables, repairs and maintenance, overheads etc.) where there is a significant variation during the currency of the pricing period due to unavoidable factors. In addition, equated freight support is also paid to the manufacturers of controlled fertilizers to cover the cost of transportation from the production points to the consumption centres.

62. The following statement shows the fertiliser subsidy provided during 2000-01, 2001-02 and 2002-2003 under the Demands of Deptt. of Fertilisers:-

(Rs. in crores)

Year	N (RPS)	Payment under Fertiliser Freight Subsidy scheme	Payment under incentive scheme for import of substitution on indigenous rock phosphates used for direct application	Payment on account of interest and customs duty concessions duty concession to new and recently commissioned fertiliser units	Total
2000-2001 (Actuals)	8680.17	772.86		26.97	9480.00
2001-02 (B.E.)	7146.00	805.00	1.00	4.00	7956.00
2001-02 (R.E.)	6525.20	830.00	0.80	14.00	7370.00

2002-03 (B.E.)	5675.00	814.00	-	10.00	6499.00

63. The DOF during the course of examination informed that as against the likely expenditure of Rs. 7370 crore during 2001-2002, a provision of Rs. 6499 crore has been made for 2002-2003 for providing subsidy on indigenous urea. Out of this Rs. 5675 crore is for subsidy under RPS and Rs. 814 crore is for Freight subsidy. DOF has stated that provisions for lowering the amount of subsidy to the tune of Rs. 871 crore is partially due to 5% upward revision in issue price of urea as per recommendation of Expenditure Reform Commission. Out of Rs. 871 crore reduction to the tune of Rs. 460 crore is due to increase in price of urea. Asked about the reasons for balance of Rs. 411 crore the DOF in a written note informed:-

> "The provision made for subsidy on indigenous urea under Budget Estimates for 2002-03 is less as compared to RE for 2001-2002 on account of increase in selling price of urea, tightening of consumption norms and availability of liquid petroleum products viz. naphtha, fuel oil and LSHS by oil companies to urea manufacturers based on import parity pricing formula."

64. During the course of examination the Committee drew the attention of DOF that the issue of 7% rise in price of urea was deliberated by the Standing Committee on Petroleum and Chemicals (2001) during examination of Demands for Grants of DOF for 2001-2002. The then Secretary, Fertilisers had agreed with the Committee's observation in not favouring 7% increase in price as recommended by Expenditure Reforms Commission and promised that a cost audit on the issue has been recommended and a report was expected shortly. Government in their action taken reply (24th July, 2001) have informed that before taking a decision on new pricing policy on the recommendations of ERC, they would keep in mind recommendations of the Committee. When the Committee wanted to know whether the present price increase in urea was interim pending implementation of ERC recommendations, the DOF was straightforward in saying:-

> "No, Sir,"

65. In this context the Committee during the course of examination wanted to know what would be the impact of increase in price of urea on affordability of farmers especially the marginal ones, the DOF in a written note explained:-

> "The increase of 5% in selling price of urea is not expected to have major impact on the affordability of urea to farmers including marginal ones."

66. The Committee find that reply of the Department regarding assured return to manufacturers as vague and rhetoric. It is reported that urea manufacturing units are not getting asssured return with the result that they have started incurring losses. The Committee would like the Department to identify the reasons for their losses and ensure

that these are not due to faulty implementation of retention price-cum-subsidy scheme. For this purpose, the Committee recommend that the Department should constitute a Study Group comprising representatives from urea manufacturers and Department of Fertilisers.

(Recommendation No. 13)

67. The Committee find that as against the revised estimate of Rs. 7370 crore for 2001-2002 a provision of Rs. 6499 crore has been proposed for fertiliser subsidy. Out of Rs. 6499 crore, an amount of Rs. 5675 crore has been provided for payment under Retention Price Scheme and another amount of Rs. 814 crore has been provided for freight subsidy. The Committee note that provisions for lowering the amount of subsidy to the tune of Rs. 871 crore is partially (about Rs. 460 crore) due to 5% upward revision in issue price of urea as per recommendations of the Expenditure Reform Commission. Whereas the balance of Rs. 411 crore is due to tightening of consumption norms and availability of liquid petroleum products like Naphtha, fuel oil and LSHS by Oil Companies to urea manufacturers based on import parity price. The Committee are constrained to note that the hike of 5% on the issue price of urea is not interim. DOF during the course of examination has informed that hike in price of urea would not have major impact on the affordability of urea to farmers including the marginal one. However, the Committee do not share the perception of the Government that price increase was not going to have major impact on affordability of farmers. The Committee, therefore, recommend that price hike should be withdrawn forthwith.

(Recommendation No. 14)

(a) <u>Subsidy – in selected countries and India – need for review</u>

68. The entire question of fertiliser subsidy has been of importance for the Nation as on the one hand farmers have to be given urea at affordable prices and on the other hand Expenditure Reforms Commission had recommended phasing out of subsidy by 2006 by gradual increase in the issue price of urea. In this connection, the Committee wanted to know the perception of the Government about the importance of subsidy in agricultural sector and its comparative analysis vis-à-vis European countries, U.S.A., China and Pakistan. The DOF in a written note informed:-

> "Government is well aware of the importance the agriculture sector plays in the economic growth of the country. Agriculture, therefore, is and will continue to be central to all strategies for planned socio-economic development of the country. Rapid growth of agriculture is essential to achieve self-reliance at national level.
>
> In the National Agriculture Policy 2000, it has been mentioned that adequate and timely supply of inputs such as seeds, fertilizers, plant protection chemicals, bio-pesticides, agriculture machinery and credit at reasonable rates to farmers will be the endeavour of the Government.
>
> There is no data available wherein the provision of subsidy on fertilizers in India vis-à-vis European countries, U.S.A., China and Pakistan can be compared. "

69. On being further enquired whether DOF still feels that the system of fertiliser subsidy benefits the farmers and not the manufacturers, the Secretary (Fertilisers) clarified:-

> "There are ways of judging it. One way of judging would be what is the international price, and what is the price in India. If the international price of getting urea is more than the price at which the farmer gets, possibly it will be seen as assistance to the farmer because it is lower than the international price. Take for example the price of urea today is Rs. 4830 per tonne. The imported cost of urea which will be coming here will be more than Rs. 6000. Another way of looking at it is what price, our neighbouring countries, namely Bangladesh and others, provide to their farmers.
>
> I entirely concede your observation that there are other parameters. What is the final price of the product that he grows, and what is the support price we are giving him? It is a little complex issue. I would refrain from making any comment on that."

70. In this connection he further elaborated:-

> "This is a very major question. It is true that if somebody tells the farmers, 'Look here, you are buying at Rs. 4,830 per tonne but I am giving subsidy of about Rs. 10,000 crore or Rs. 7,000 crore. Though it is also being paid to the manufacturer but is actually to you.' The ideal system would be where unit produce or sell at whatever price they want. Then, we decide that what should be the subsidy to the farmer and give it directly to the farmers. Then, it will be a very clear that urea is coming and subsidy is also coming to the farmer."

71. He further added:-

> "I would only submit that in a country of this size like India, subsidy payment to the individual farmer would be a big problem. Though, in fact, it is more WTO compatible than subsidy to the individual manufacturing units, its practicality poses a big problem. How do we give subsidy to each farmer on each bag every time he buys? That is why it was considered by a number of Committees in the past and they have said that it has to be centralized at the manufacturing level."

72. The Committee pointed out that on one hand more and more subsidy is being given in developed countries and on the other subsidy is decreased in India. In this connection the Committee drew the attention of Secretary (Fertilisers) to the following quantum of subsidy in selected countries and India during 1997, 1998 and 1999 and their share of Average Gross Domestic Product (AGDP) from Agriculture.

(In US $ billion)

Name of country	**1997**		**1998**		**1999**	
	Total subsidies	**% AGDP**	**Total subsidies**	**% AGDP**	**Total subsidies**	**% AGDP**
Canada	3.113	14.0	3.573	18.0	3.093	20
EC	112.260	38.0	122.946	45.0	114.450	49.0
Japan	50.534	57.0	49.962	62.0	58.885	65.0
USA	30.459	14.0	48.441	22.0	54.009	24.0
India	6.096	7.5	6.707	6.8	7.247	6.5

Source: Page II-35 of FAI publication Fertiliser Statistics 2000-2001.

73. Secretary (Fertilisers) candidly informed:-

"The subsidy in Europe and US is not the subsidy on fertilizer alone. That is as per their agreement on agriculture in WTO. They were allowed to give subsidy of various nature which is called blue box, green box etc. It is true that there is a very huge subsidy which is disbursed by developing countries. They even give subsidy for not growing wheat etc. and also for growing wheat. They give subsidy of various kinds, namely market support, infrastructure, etc."

74. He further informed:-

"The problem here of an increasing level of subsidy in India is not WTO, the limitation of subsidy is Budget. We can give subsidies admissible in the agreement on all forms of transportation, subsidies admissible on infrastructure, subsidies admissible to small and marginal farmers. Ninety per cent of the subsidy in India, considered at WTO is for resource poor. The whole issue is that if you want to give subsidy on the fertilizer in any other form or directly to the farmers, the constraint is the Budget. It is a larger issue and may be the Ministry of Finance could possible clarify it. It is undisputed that the developed countries of the world bring down prices of primary commodities by giving subsidy and we are not able to export because their subsidy brings down the international price. That is what is presently being agitated in WTO under new Rounds of negotiations."

75. The Committee feel that concept of fertiliser subsidy has to be viewed in the context of national priorities. In India, our economy is based on agriculture and this sector needs preferential treatment. The agriculturist has to be given his due remuneration if he has to sustain himself. For this he needs agricultural inputs at the rates which are within his reach. The Government is bound to provide him all this. It is said that the international price of urea is higher than the price in the country and the farmer is subsidised indirectly. However, the subsidy in India has to be compared with huge subsidies being given by developed countries. During the course of evidence Secretary (Fertilisers) opined before the Committee that ideal system would be that there should be

uniform price for production as also for selling of urea and thereafter the Government should decide the subsidy to be given to farmers. The Committee feel that the farmers should be the direct beneficiary of subsidy but this concept has been debated time and again without concrete results. The Committee recommend that subsidy should not be viewed as a burden on exchequer and the existing level of subsidy should not be curtailed.

(Recommendation No. 15)

76. On the second issue of subsidising fertiliser at par with developed countries, the Secretary (Fertilisers) clarified that Subsidy in Europe and US is not the subsidy on fertiliser alone, but as per their agreement on agriculture in WTO, He, however, admitted that there is huge subsidy which is being disbursed by developed world for market support, infrastructure etc. However, subsidy in India on the contrary is not WTO related but is limited by Budget. 90% of subsidy is for resource poor. The Secretary (Fertilisers) opined that it is a larger issue and as such Ministry of Finance could possibly clarify the same. The Committee have been informed that developed countries bring down the prices of primary commodities by giving subsidy and country like India is unable to export because of price competitiveness. The Committee would like the Government to perceive subsidy in the same manner as is being seen even in developed countries and adopt this perception as a matter of objective of the Department of Fertilisers.

(Recommendation No. 16)

(b) Subsidy – whether for inefficient production

77. It came out during the course of examination that a substantial portion of subsidy provision in last year's budget reportedly went to make up for the inefficient production of fertiliser manufacturing units rather than to the farmers. The Committee wanted to know the views of the DOF on this issue. The DOF in a written note clarified:-

> "Benefit of subsidy is passed on to the farmers by making fertilizers available to them at uniform subsidized selling prices, which are far less than the cost of production. The cost of production of the indigenously produced urea is more than the price of urea in the international market mainly on account of the high cost of feedstock viz. naphtha, fuel oil and LSHS. The cost of production of urea based on natural gas as feedstock is comparable to that of international price despite the fact that the cost of natural gas in India is more than that prevailing in Gulf countries. Therefore, one of the main reasons for high cost of production of urea in the country is the high cost of feed stock. However, need for improvement in efficiency is also recognized."

78. In this context the Committee further pointed out that in order to get more subsidy urea units are showing more production. The Committee wanted to know what steps the Government have taken for checking this misuse of subsidy. The Secretary (Fertilisers) during the course of evidence informed:-

"What we have done is that we have mopped up the unintended, as we see, the profit to the manufacturers. What we did was that the capacity was re-assessed. So, by re-assessment of capacity, manufacturing cost for which they claim subsidy came down. Like-wise, the consumption norm was re-assessed. In fact, there was a Question in Parliament and the matter was also raised by ex-Prime Minister that there is wrong subsidy being given to manufacturers. So, we have implemented that, which in no way, affects the fertiliser price to the farmer as it has no link with the fertiliser price to the farmers. In fact, our efforts should be that any unearned income of manufacturing units should be mopped up. We tightened the consumption norms thereby brought efficiency; we tightened the capacity thereby reduced the retention price."

79. He further added:-

"Capacity has been re-assessed and we have mopped up Rs. 463 crore. That is true. But that is what we have done now. We do not allow unearned gains to them. We only allow them subsidy to the extent they are asked to supply under ECA on a revised capacity."

80. DOF has further informed that it has taken various steps for efficiency improvement in the matter of subsidy and their results are as follows:-

- "Capacity of 16 units revised on interim basis resulting in saving of Rs. 461 crore per annum.
- Implementation of Alagh Committee will lead to further recoveries from 4 more units.
- Encouragement for installation of energy saving devices.
- Interim revision in consumption norms based on 1999-2000 levels or existing levels, whichever is lower, w.e.f. 1.4.2000, resulting in saving of about Rs. 769 crore per annum.
- Further tightening of consumption norms proposed w.e.f. 1.7.1997.
- Reduction in urea subsidy by more than Rs. 1000 crore for the first time in recent years."

81. Asked further how this action has affected viability of the naphtha based units and whether some of these units have become loss making, the DOF in a written note stated:-

"In order to fix the consumption norms at the realistic levels, the Government has revised the consumption norms of the urea units on interim basis w.e.f. 1.4.2000 based on the actual levels achieved in 1999-2000 or the existing level, whichever is lower. The retention prices have also been revised correspondingly ad interim. This revision has led to reduction in retention prices of the urea units. Such revision is, however, only an interim arrangement and is subject to the decision of the Government on the policy parameters for VII and VIII pricing periods, which will include consumption norms also, and will be effective from 1.7.1997.

Since the interim revision of consumption norms has been carried out on the basis of actual levels achieved in 1999-2000 or the existing level whichever is lower, Government does not expect the units to make losses on this account."

82. The Committee also drew the attention of DOF that huge amount to the tune of Rs. 1020 crore was to be paid to IFFCO by Department of Fertilisers/Fertiliser Industry Coordination Committee. In this context the Committee wanted to know the present status of this payment and why should the Government not be made responsible to pay interest on dues. The DOF in a written note informed:-

"Necessary notification has been issued by the Department of Fertilizers on 18.3.2002 for the claim of Rs. 100 crore on account of review of salary and wages from 1.1.1997 to 30.6.2002. The payment is being made by FICC. Notification for quarterly escalation claims for Phulpur II Unit (indicated as Rs. 47 crore) are under process. As regards a small percentage of retention prices withheld in respect of the Expansion Projects of Aonla, Kalol and Phulpur (Rs.137 crore), these have been recently approved by FICC for payment and the same is under process. As regards the claim of Rs. 65.36 crore and Rs. 42.27 crore on account of purchase tax/additional sales tax of the period from 1991-92 to 2000-01 respectively, the existing approved pricing policy does not recognise these claims. As far as the remaining claims are concerned, they are linked with the finalisation of the 7th and 8th pricing policy and the same would be decided as soon as the policy parameters are finalised."

83. On the matter of subsidy being given to manufacturing units for their inefficient production. The DOF has admitted that there is need for improvement in efficiency. In this process in order to check the misuse of subsidy Secretary (Fertilisers) revealed before the Committee that DOF has put a check on the unintended profits to the manufacturers by taking various steps such as re-assessment of capacities of such manufacturing units and by tightening of consumption norms. The DOF further informed that in this exercise revision of capacity of 16 units on interim basis resulted in saving of Rs. 461 crore per annum. Further recoveries from 4 more units are expected. DOF also informed that revised consumption norms on interim basis based on 1999-2000 levels or existing levels whichever is lower w.e.f. 1.4.2000 resulted in saving of about Rs.769 crore per annum. DOF has informed that with retrospective from 1.7.1997 further tightening is proposed. The Committee find that as a result of efficiency measures, in subsidy management Government could save a considerable amount. The

Committee hope that these measures are not one time or ad-hoc affair. The Committee recommend that there should be a regular institution to monitor the subsidy dispensation to manufacturers.

(Recommendation No. 17)

84. As regards payment of Rs. 1020 crore of IFFCO to be paid by FICC the DOF has informed that payment of Rs. 100 crore on account of review of salary and wages from 1.1.97 to 30.6.02 is being made by FICC. Other claims of Rs. 47 crore for cost escalation of Phulpur II are under process and claims of Rs. 137 crore for small percentage of retention prices withheld in respect of Expansion Projects of Aonla. Kalol and Phulpur have been approved by FICC. Claims on account of sales tax from 1991-92 to 2000-01 purchase tax are not admissible. The Committee have been informed that remaining claims would be decided as soon as the policy parameters for 7th and 8th pricing policy are decided. The Committee would like the Government would be able to announce these policy parameters soon so that ad-hocism prevailing in fertiliser sector is done away with once for all. This Committee feel that this would lessen the scope of any complaint of non-payment of dues by FICC.

(Recommendation No. 18)

(v) Delay in finalisation of long term policy

(a) <u>Delay in Pricing Policy</u>

85. It came out during the course of examination that problem of feedstock has been the major cause for absence of investment in fertiliser sector. In this connection the Committee pointed out that due to non-availability of gas and in the absence of clear cut policy on LNG and pricing policy, PSUs are not willing to set up plants based on naphtha. The Committee pointed out that keeping in view the importance of the subject matter they had earlier also recommended that before making any price increase on urea, the Goverment should have first prioritised finalisation of long term policy in consultation with State Governments Farmers' organisations, Fertiliser industry etc. The Committee also pointed out that Govt. in their action taken reply (July 2001) informed that it has also reviewed response from many States, fertiliser industry and interest groups on the recommendations of ERC relating to Fertiliser subsidy. These will be kept in view while taking a decision on the subject. The Committee also drew the attention of DOF that the Committee in their 19th Report had regretted to note that required interactions with Farmers Organisations, Industry were not completed. They had recommended for early completion of interaction for finalisation of long term policy. Department of Fertilisers in the final action taken comments (Feb. 2002) had stated as under:-

> "Delay in finalization of long term policy has been on account of the fact that there are some issues like formulation of new pricing policy for urea units and reassessment of capacity of urea units, feedstock availability and pricing etc. that will have a significant bearing on the formulation of long term policy for fertilizer sector. The Department is separately engaged in getting the approval of the

competent authority on these issues. In view of these circumstances, finalisation of the long term policy has to wait till a clearer picture emerges in respect of such issues."

86. On being enquired whether the interactions with Farmers' Organizations and representatives of industry have been completed, DOF in a written note informed:-

"A draft outline of the Long Term Policy for holding discussions with stakeholders such as State Governments, fertilizer industry, farmers, economists etc. had been prepared and was also put on the web site of the Department of Fertilizers for inviting comments/suggestions on the proposals made in the draft policy. The Draft Policy has also been discussed in seminars/workshops held in different parts of the country wherein farmers' organizations and representatives of fertilizer industry also participated.

There has been a very encouraging response to the proposals made in the draft policy and a number of suggestions and comments from various stakeholders have been received. A Committee has been constituted under the chairmanship of Secretary (Fertilizers), with representatives from fertilizer industry, media etc., to examine the responses to the draft policy. As there are some issues like formulation of new pricing policy for urea units and reassessment of capacity of urea units which will have a bearing on the formulation of long term policy for fertilizer sector, finalization of the long term policy has to wait till Government takes decision on key factors such as new pricing policy for urea and reassessment of capacity.

Final policy will be announced after incorporating the suitable views/comments of the stakeholders and after obtaining the approval of the competent authority in the Government."

87. As regards Pricing Policy for fertiliser, the Committee during course of examination also pointed out that the pricing policy in existence is 6th Pricing Period and its period ended on 30.06.1997. 7th and 8th Pricing Periods policies were long over due. Attention of DOF was also drawn to the then Secretary (Fertilisers) assurance given before the Committee at the time of examination of last year's Demands for Grants that the proposed pricing policy would be cleared by December, 2001.

88. In this connection the Committee wanted to know the basis of this assurance and why this could not be fulfilled, DOF in a written note informed:-

"The then Secretary (Fertilizers) has made the above assurance about the formulation of policy norms/parameters for VII and VIII pricing periods within one month during the oral evidence before the Standing Committee on 11.12.2001. Subsequent to this, the Department of Fertilizers submitted a note on 14.12.2001 for consideration and approval of competent authority, which was considered by it in the meeting held on 8.3.2002. Now, a Group of Ministers has been constituted to examine the proposals for formulation of policy parameters/norms for VII and VIII pricing periods. Further action would depend on the recommendations to be made by GOM."

89. Asked further what impact the non-declaration of Pricing Policy had on fertilizer industry and whether views of fertilizer industry and/or Fertilizer Association of India had been taken into consideration before finalizing the Policy, DOF in a written note informed:-

> "Pending finalisation of policy norms for VII and VIII pricing periods, subsidy payments to urea manufacturers are being made on ad-hoc basis based on policy parameters approved for VI pricing periods.
>
> Fertilizer industry and Fertilizer Association of India have given their views/suggestions in this regard and these have been taken due note of."

90. On being further asked by when the Department will be able to obtain the approval of competent authority on the issue of new pricing policy on urea and reassessment of capacity of urea units, DOF in a written note informed:-

> "Group of Ministers has been recently constituted by the Government, to consider the pricing policy proposals for VII and VIII pricing periods as well as the ERC's report and give its recommendations.
>
> The issue of reassessment of capacity has been processed as part of the Department's proposal for formulation of policy parameters/norms for VII and VIII pricing periods, which was considered by competent authority recently. Now, the proposals are first to be examined by Group of Ministers. However, DOF has already re-assessed the capacities of 16 units w.e.f. 1.4.2000 resulting upto savings of about Rs. 461 crore and implementation of Alagh Committee report would lead to further marginal recoveries from such units.
>
> Further action would depend on the recommendations to be made by GOM and decision of the Government thereon."

91. The Committee are constrained to note that DOF has still not been able to finalise its much awaited long term Fertiliser Policy. They find that this has been the major reason for absence of investment in fertiliser sector. The DOF has informed that Draft Policy was already under discussion for quite long time among farmers organisations, different State Governments and various interest Groups and that pending completion of discussion the Government is getting approval of competent authority on issues like new pricing policy of urea units and feedstock availability. The

DOF has further informed that Group of Ministers (GOM) has been constituted to examine the policy parameters for VII and VIII pricing period and further action would depend on GOM's recommendation. The Committee regret to observe that most important issue of finalising pricing policy has not been taken by DOF in all seriousness over the last couple of years since 1997 onwards. The Committee recommend that Government should soon clear the proposed policy based on GOM's recommendations.

(Recommendation No. 19)

(b) <u>Delay in feedstock policy</u>

92. It came out during the course of examination that the quantum jump in subsidy over the years has been due to increase in price of feedstock used for Urea production. In this connection the Committee pointed out that according to Fertiliser Association of India (FAI) the increase in quantum of subsidy from 1990-91 to 1999-2000 has largely been due to cost escalation of hydro-carbons which account for 79% of the total increase in subsidy. DOF has informed that the oil companies have started supplying feedstock to urea units at import parity price w.e.f. 9th July, 2001. The DOF has also informed that Rs. 500 crore saving would be made on this account. Asked further as to how the above saving of Rs. 500 crores in subsidy is expected to be achieved during 2002-2003, the DOF in a written note informed:-

> "As per arrangement reached at Secretaries level meetings between the Department of Fertilisers, M/o Petroleum & Natural Gas and the Department of Expenditure, Naphtha/FO/LSHS are being made available to fertilizer units on import parity price w.e.f. 9.7.2001. This arrangement was valid for six months from 9.7.2001 to 8.1.2002. The matter was further taken up with the M/o Petroleum & Natural Gas who had initially agreed for continuation of the existing system beyond six months. Now, however, the M/o Petroleum & Natural Gas have decided to dismantle the Administrated Price Mechanism (APM) from 1st April, 2002 and have informed that post APM Government intervention is envisaged to be minimal. Hence, they have decided not to intervene in fixing the price of naphtha/FO/LSHS from 1st April, 2002 and requested the Department of Fertilizers to advise the fertilizer units to directly deal with oil companies henceforth. The fertilizer units are being advised accordingly."

93. The Committee also wanted to know the quantum of hike in price of natural gas after the Ministry of Petroleum & Natural Gas has decided to supply gas at import parity price. The Secretary (Fertilisers) submitted:-

> "We have just received a letter from the Minister of Petroleum that the Department should get ready for the deregulated petroleum market. With the dismantling of the APM, gas prices may go up. This is very relevant because very often our Ministry is criticised that we produce high cost urea. If in the Arab world the price of gas is 50 to 70 cents as of now, here it is about 2 dollars, but there are

indications that it would be going up by at least 50 per cent. So, it will affect the performance in terms of economic parameters of the gas-based plants because gas prices are likely to go up. It is true that the units are in the open market now and they have to negotiate the gas price and naphtha price and then they should decide whether they should purchase or not. There is a variation of gas price internationally. In terms of efficiency, gas today remains the most efficient feedstock. LNG will be the next best opinion and last will be naphtha which is uneconomical."

94. In the context of pricing of gas, Secretary informed during evidence:-

"We are thinking on the lines of cartel or a syndicate which should negotiate on the price of gas. In the case of phosphoric acid, the prices came down due to negotiations. So, that strategy is being thought of in consultation with the Fertiliser Association of India (FAI)."

95. The Committee further enquired whether there was any coordination between DOF and Ministry of Petroleum & Natural Gas particularly when for LNG, the Ministry has set up facilities in Eastern and Western coasts and by such a coordination DOF could have projected it's requirement so that LNG policy could be finalised on that basis. The Secretary (Fertilisers) informed:-

"Regarding the need for coordination with the Ministry of Petroleum, I must confess that it is yet to be fully achieved. A clear direction is not there. we are going to immediately write a letter to the Ministry of Petroleum to take a lead in this matter because they are the ones who would be able to tell us what the future plan is."

96. The Committee find that in fertiliser subsidy a major portion of subsidy goes towards cost of feedstocks like Naphtha, fuel oil, LSHS used for production of fertilisers. As per Fertiliser Association of India estimates the increase in quantum of subsidy has been due to cost escalation of hydrocarbons which account for 79% of the total increase in subsidy between 1990-91 to 1999-2000. DOF informed the Committee that with the supply of feedstock to Urea units at import parity price w.e.f. 9th July, 2001 a saving of Rs. 500 crore is expected on this account. M/o Petroleum & Natural Gas has decided to dismantle Administered Price Mechanism (APM) w.e.f. 1st April, 2002 and has advised DOF to ask the fertiliser units to deal with oil companies directly since the Ministry has minimum control on the issue. The Secretary (Fertilisers) apprehend that price of gas might go up in decontrolled scenario and admitted that there is lot of scope for negotiation on price of gas and a strategy is being contemplated with FAI. The Committee see the deregulated market of petroleum products both as challenge and opportunity for Fertiliser Industry. What is needed is professionalism. The Committee recommend that Fertiliser Industry should collectively take decisions and assert its bargaining power.

(Recommendation No. 20)

97. Another area which needs a clear policy is Liquefied Natural Gas (LNG). Since M/o Petroleum & Natural Gas has set up facilities in Eastern and Western coast for catering the future demand, there is a need for coordination between M/o Petroleum & Natural Gas for firming up full demand of LNG for fertiliser sector. The Committee expect the DOF to be able to have proper coordination with M/o Petroleum & Natural Gas for firming up demand of LNG for fertiliser sector.

(Recommendation No. 21)

(c) Need of Subsidy on Bio-fertilisers

98. It came out during the course of evidence of DOF that keeping in view of the importance of bio-fertiliser for soils, the Government propose to introduce subsidy for promotion of bio-fertiliser. In this context the Secretary (Fertilisers) stated:-

> "I must apologise if I have given any impression that the future of inorganic fertiliser is not a grave issue. Various factors for its expansion will have to be determined. There is no doubt about it, but there is an equally important point that we have to address, namely, the issue of bio-fertiliser. The Department, in fact, is very keen to go in that direction.
>
> Recently, there were some set back as the subsidy on this, which was earlier given by the State Governments and because of their problems have withdrawn the subsidy. That is also causing problem in terms of its popular acceptance for use.
>
> Secondly, with regard to the promotion of bio-fertiliser, there is a Department, there is a division in the Ministry of Agriculture and we really have to work with them and produce more. I do concede that the kind of attention and sort of priority that deserves now to be given to bio-fertiliser, so that it gives a better rate of return, has to be given."

99. Asked further whether the existing PSUs be asked to examine the possibility of taking the diversified activities in the bio-fertiliser sector, the Secretary (Fertilisers) informed:-

> "There is a Working Group on long-term policy of fertilisers, which has been constituted under the chairmanship of Secretary, Fertilisers to address this issue. That report will address but I accept the observation that the existing PSUs should be asked immediately to look into the expansion of bio-fertilisers."

100. The Committee asked whether there is any subsidy on bio-fertiliser and if so, whether it should not be increased further so that there is more intensive use of bio-fertiliser. The Secretary (Ferilisers) informed:-

"My limited information is that there is no subsidy. On the distribution of subsidy, State Governments have been providing some subsidy, but most of the State Governments have withdrawn it. Though the bio-fertiliser, which is being manufactured in public sector like Madras Fertilisers, KRIBHCO, etc. is being produced but the usage has not been very wide and popular. There is a need to look from both sides i.e. production and usage. Our Department should also go into it and the major role will be of the Agriculture Ministry."

101. The Committee further enquired when some subsidy is given would it not help in popularising the bio-fertiliser, the Secretary (Fertilisers) informed:-

"Particularly, if it is given for usage by the farmers, it will definitely popularise."

102. The Committee find that bio-fertilisers play a major role for soil fertility. They also find that use of bio-fertiliser has to be promoted in a big way. The Secretary (Fertilisers) has informed that DOF is very keen to go in this direction. However, promotion of bio-fertiliser suffered a setback due to withdrawal of subsidy on it by different State Governments. The Secretary (Fertilisers) admitted that promotion of bio-fertiliser has to be prioritised. In this connection the Report on working Group on long term use of bio-fertilisers will be examined with a view to have diversification of different PSUs into bio-fertilisers. About introduction of subsidy, the Secretary (Fertilisers) confessed before the Committee that there is a need for incorporating introduction of subsidy on bio-fertilisers in the Draft Long Term Policy under finalisation at present. The Committee, therefore, recommend that subsidy on bio-fertilisers be introduced.

(Recommendation No. 22)

Major Head 4852/4855

(vi) Capital Outlay for North-East Area and Investment in PSUs

103. An amount of Rs. 28 crores has been proposed for capital outlay for North East area. An amount of Rs. 12.60 crore has been proposed for investment in public sectors and other undertakings. The details of the capital outlay for North East Area and investment for PSUs during 2000-2001 and 2001-2002 has been as under:-

(Rs. in crores)

Year	Capital Outlay for North East area	Investment in PSUs	Total

1	2	3	4
2000-2001 (Actuals)	NIL	36.60	36.60
2001-2002 (R.E.)	20.00	77.50	97.50
2001-2002 (R.E.)	20.00	77.50	97.50
2002-2003 (B.E.)	28.00	12.60	40.60

104. Regarding investment in PSUs, the Committee pointed out that as against the actuals of Rs. 36.60 crore under the head during 2000-2001 the likely expenditure is expected to be Rs. 97.50 crore during 2001-2002 whereas for 2002-2003 Rs. 40.60 crore has been proposed. The Committee wanted to know the reasons for higher expenditure during 2001-2002 as compared to previous year i.e. 2000-2001 previous year and the subsequent year i.e. 2002-2003. The DOF in a written note informed:-

> "The increase in the investment from Rs. 36.60 crore in 2000-01 to Rs. 97.50 crore in 2001-02 is mainly due to enhanced allocation of funds to HFC for its Namrup revamp approved at the revised estimated cost of Rs. 509.40 crore, which is under implementation w.e.f. 2.11.1998. The plan fund allocation of equity investment in HFC has been enhanced to Rs. 95 crore during 2001-02 from Rs. 20 crore in 2000-01. Although substantial funds have been allocated to HFC for this purpose in 2002-03 also, most of it will be given as debt and hence is not reflected under the head investment for PSUs."

105. The PSU-wise details of capital investment during 2000-2001 , 2001-2002 and 2002-2003 are as detailed below:-

(Rs. in crores)

	2000-2001 (Actuals)	**2001-2002 (B.E.)**	**2001-2002 (R.E.)**	**2002-2003 (B.E.**
1	**2**	**3**	**4**	**5**
FCI	10.00	10.00	10.00	9.00
HFC	20.00	80.00	80.00	0.00
PDIL	0.50	0.50	0.50	0.50
PPCL	0.00	0.00	0.00	0.10
PPL	6.00	7.00	7.00	3.00
Total	**36.50**	**97.50**	**97.50**	**12.60**

106. During the course of examination the Committee pointed out that major beneficiaries of capital investment are FCI, HFC and PPL during the last two years i.e. 2000-2001 and 2001-2002. For 2002-2003 out of Rs. 12.60 crore of outlay, FCI's share is Rs. 9.00 crore for renewal of Sindri and remaining Rs. 3.00 crore are proposed for PPL.

107. The Committee also wanted to know the reasons for proposed expenditure for 2002-2003 in FCI and PPL. The DOF in a written note informed:-

"During 2002-03, an investment of Rs.9 crore has been proposed for undertaking renewals & replacements in the Sindri unit of FCI which is in operation. An investment of Rs.3 crore has been earmarked for PPL. However, this amount will not be utilised as the company stands disinvested."

108. The Committee find that as against the amount of Rs.97.50crore for 2001-2002 a provision of Rs. 40.60 crore has been made for 2002-2003 investment in PSUs under DOF. Out of this Rs. 28 crore has been for capital outlay for North-East and Rs. 12.60 crore for investment in PSUs. The Committee have been informed that out of 12.60 crore a sum of Rs. 9 crore has been proposed for renewal of Sindri and Rs. 3 crore is proposed for PPL. While in regard to the Rs. 3 crore for PPL, DOF has informed that it would not be utilised as the company stands disinvested, the Committee trust that FCI would be able to utilise the Rs. 9 crore earmarked for the renewal of Sindri Plant.

(Recommendation No. 23)

Major Head 6855

(vii) Functioning of PSUs

109. This head is used for making loans to PSUs under Plan and Non-Plan expenditure. An amount of Rs. 468.60 crores has been proposed for 2002-2003, out of which Rs. 218.60 crore is under Plan loans and Rs. 250 crore for Non-Plan loans. DOF has stated that plan loans are given for carrying out capital restructure whereas non-plan loans are provided for payment of salaries etc. for four sick PSUs of HFC/FCI, PPCL and PDIL.

110. The following are details of actual for 2000-2001, Budget and Revised Estimate for 2001-2002 and Budget Estimates for 2002-2003.

(Rs. crores)

Year	Plan Loans	Non-Plan Loans	Total
1	2	3	4
2000-2001 (Actuals)	114.22	299.14	413.36
2001-2002 (B.E.)	84.00	200.00	284.00
2001-2002(R.E.)	91.00	360.00	451.00
2002-2003(B.E.)	218.60	250.00	468.60

(a) **Plan Loans**

111. Department of Fertilisers has informed that out of Rs. 218.60 crore as plan loans for 2002-2003, Rs. 172.00 crores will be utilised for rehabilitation of HFC Namrup and Rs. 9 crore to FCI for renewal in Sindri. Remaining amount is for other PSUs which are facing financial crunch like FACT (Rs. 19.00 crore), MFL (Rs. 15.00 crore), PPL (Rs. 3.00 crore) etc. It has also been stated that HFC is expected to produce 3.60 lakh tonnes and FCI is expected to produce 1.52 lakh tonnes of urea.

112. In this connection last year (2001-2002) also the Committee were informed that out of Rs. 97.50 crore major chunk i.e. Rs. 80 crore had been earmarked for HFC Namrup revamp. DOF also informed that the progress of revamp was 64.70% against the original target of 1.5.2001 and HFC has submitted a proposal for cost revision to Rs. 509.40 crore and time revision by 1.2.2002. The Committee had recommended for early completion of Namrup revamp. The Committee in their 19th Report have also reiterated for early revamp of Namrup. Now the DOF in their final action taken reply have informed as under:-

> "The Government on 27.8.2001 has approved the segregation of the Namrup units from Hindustan Fertilizer Corporation Ltd. and its formation into a new company with an authorised capital of Rs. 510 crore. The Namrup revamp project is already under implementation and is targetted to be completed by February, 2002. The Government have so far provided an amount of Rs. 211.69 crore for the implementation of the project."

113. DOF has informed that Rs. 211.69 crore has been made available to HFC Namrup whose completion cost is Rs. 525.47 crore. The Project is expected to be completed by 01.10.2002. Asked what steps have been taken to complete the entire revamp early, DOF in a written note informed:-

> "DOF is monitoring the progress of implementation of the Namrup Revamp Project of HFC periodically. As per progress of the project so far, it is expected to be completed by 1.10.2002. Budgetary support for the project in the year 2002-03 has also been arranged to ensure that adequate funds are available for its timely implementation."

114. It also came out during the course of examination that around Rs. 37.60 crore has been proposed for FACT, MFL, PPL, PPCL and PDIL which are facing financial crunch. The Committee wanted to know the PSUs-wise nature of their financial difficulties, the DOF in a written note informed:-

> "The main reason for poor financial performance of FACT, MFL, PPCL & PDIL are as under :

PSUs	Main reasons for poor financial performance
FACT	• High capital related costs of the new ammonia plant. • Inflationary trend in the prices of petroleum products (naphtha) • Lower sales realisation from its products factum-phos and caprolactum using ammonia from the new plant.
MFL	• Lower production due to extended shut down of plants from revamp hook-up & longer period of stabilisation. • Under recovery in respect of complex fertilizers due to increase in prices of petro-products and exchange rate variations.
PPCL	• Decontrol of phosphatic fertilizers in August, 1992. • Withdrawal of import substitution incentives for use of indigenous raw material in 1997-1998.
PDIL	• Unviable operations of Catalyst Divisions and Engineering & Consultancy Divisions. • Non-commercial nature of R&D Division at Sindri.

Plan loans are given to meet essential renewal and replacement requirement and are not designed to address long-term viability of the company."

115. The Committee find that as against the Revised Estimate of Rs. 91 crore for 2001-2002 Rs. 218 crore have been proposed as Plan loans to PSUs for 2002-03. Out of this Rs. 172 crore would be utilised for Namrup revamp of HFC and Rs. 9 crore for revival of FCI Sindri while the remaining amount is for other PSUs facing financial crunch. These PSUs are FACT (Rs. 19 crore), MFL (Rs. 15 crore) and PPL (Rs. 3 crore). About revamp of HFC Namrup the DOF has informed that it is under implementation w.e.f. 2.11.1998 and completion cost of project is Rs. 525.47 crore with completion date being 1.10.2002. DOF also has informed that Rs. 211.69 crore has been made available to HFC. The Committee are dismayed to note that revamp of HFC Namrup has not only been delayed considerably but there is cost escalation also since the original target of completion of revamp was February, 2002 and completion cost of the project was Rs. 509.40 crore. The Committee have been informed that 64.70% progress of revamp based on original schedule has been achieved. The Committee desire that DOF should not make all out efforts for completing the revamp within the revised time schedule and without any further cost escalation.

(Recommendation No. 24)

(b) Non-Plan Loans to PSUs pending their revival

116. As against the actuals of Rs. 299.14 crores for 2000-2001 the likely expenditure during 2001-2002 is expected to be Rs. 360.00 crore. For 2002-2003 Rs. 250 crores has been proposed for non-plan loans to PSUs i.e. HFC, FCI, PPCL and PDIL for meeting

their salary requirement pending their revival. Out of Rs. 250 crores, major share of Rs. 205 crores is proposed for HFC and FCI. Remaining Rs. 45 crore is for PPCL (Rs. 28.00 crore) and PDIL (Rs. 17.00 crore). The Committee wanted to know the reasons for keeping lower amount of Rs. 250 crore for 2002-2003 on non-plan loans to four sick PSUs particularly when the likely expenditure during 2001-2002 is Rs. 360 crores. The DOF in a written note informed:-

> "The non-plan budgetary support of Rs.250 crore for 2002-03 has been approved by the Government keeping in view the minimum requirement of salary & wages of the employees and preservation cost of the non-functioning unit as well as the working capital requirement of the functioning units of the four sick PSUs."

117. During the course of examination the Committee drew the attention of DOF to the fact that the question of revival of HFC/ FCI had been invariably discussed by the Standing Committee on Petroleum and Chemicals since 1993 onwards while examining Demands for Grants of DOF. During the examination of last year's Demands for Grants the Committee were informed that revival proposals for HFC, FCI, PDIL and PPCL had been finalised and were under submission to competent authority in Government. The Committee had recommended final decision on the issue with a view to end uncertainty in public sector. The Govt. in their action taken reply (24th July, 2001) had informed:-

> "The rehabilitation proposals for HFC, FCI, PDIL and PPCL were considered by the Government on 31.5.2001 and a Group of Ministers has been constituted to examine these proposals and submit its recommendations within a period of two months."

118. Thereafter the Committee in their 19th Action Taken Report (29th August, 2001) had recommended as under:-

> "….the Committee have learnt that BIFR, in its hearing dated 28.06.2001 has fixed a deadline of 90 days for the Government to submit a fully tied up, comprehensive, acceptable revival scheme, failing which BIFR would automatically wind up FCI, without holding any further hearing. The Committee feel that the stand of BIFR is contrary to the intention of the Government in constituting GoM. The Committee desire that DOF should correct the position immediately."

119. The DOF in their final action taken reply had further stated as under:-

> "The GOM considered the rehabilitation proposals for HFC, FCI, PDIL and PPCL in its meeting held on 6.9.2001 and sought some additional information for consideration in its next meeting. The BIFR has been apprised of the latest status of the rehabilitation proposals."

120. DOF has informed that BIFR in its order dated 2nd November 2001 has confirmed its opinion on winding up of FCI and FCI has appealed against the BIFR order in Appellate Authority.

121. In this context the Committee enquired as to how many times the Group of Ministers have held formal discussions on the issue of revival of four sick PSUs since 31st May, 2001 and how much progress in the issue has so far taken place, DOF in a written note informed:-

> "The Group of Ministers (GOM) has held three meetings on 06-09-2001, 21-11-2001 and 06-03-2002 to examine the rehabilitation/ restructuring proposals of four sick fertilizer PSUs, i.e. HFC, FCI, PDIL and PPCL. GOM has desired some more details to examine the proposals further."

122. During the course of evidence when the Committee wanted to know whether Government wanted to privatise the loss making units, the Secretary (Fertilisers) stated:-

> "It is now almost impossible to disinvest the closed units because these are being examined by the GOM of Cabinet. These units are of Fertiliser Corporation and the Hindustan Fertilisers. All of them, except Sindri which is functioning but at a loss, are closed: Gorakhpur, Barauni, Durgapur, Ramagundam and Talcher. They are before the BIFR also. They are already being examined. The direction including directions from the higher courts are that the Group of Ministers must take an early decision, about their fate, that is, closure of these units. So, they will be governed by a different act once the decision either for starting or closure is taken about these units."

123. The Committee find that as against last year's amount of Rs. 360 crore for non-Plan loans to PSUs, Rs. 250 crore has been provided for 2002-03 for meeting the salaries requirements of FCI, HFC, PPCL and PDIL pending their revival. Production in various sick units of PSUs has been discontinued for a variety of reasons. The DOF had informed the Committee last year that revival packages for these four PSUs have been finalised and are under submission to BIFR. The Committee have now been informed that these proposals were considered by the Government on 31.5.2001 and Group of Ministers has been constituted to examine these proposals and submit its report within two months. GOM had held three sittings on 6.9.2001, 21.11.2001 and 6.3.2002 and have sought some additional information. Thus no final decision in the matter has so far been taken. In this connection
Secretary (Fertilisers) informed the Committee that directions from BIFR are for early decision about their fate that is closure of these units. The Committee are in favour of making these PSUs economically viable and would like the Government to make concerted efforts in this direction. The Committee are not in favour of closing down these units as there is no Public Sector or Private Sector urea producing unit in West Bengal, Jharkhand, Bihar and Orissa. In the event of closure of these units, urea availability in these areas would be Nil with the result that farmers would have to depend

upon the supply of urea from other zones say North-Eastern or Western zone which would entail avoidable cost. The Government are contemplating the withdrawal of ECA allocation system and in that eventuality timely availability of urea cannot be ensured. Apart from this factor, the Committee would like to stress the need for providing more and more industries in Eastern zone as this area needs economic development. The Committee, therefore, are strongly in favour of not only reviving economically viable which would serve twin purpose, one of assuring timely availability means employment.

(Recommendation No. 25)

(c) Disinvestment of PSUs under DOF

124. DOF has informed that disinvestment of following PSUs under its administrative control is under consideration:-

1. National Fertilisers Limited.
2. Madras Fertilisers Limited.
3. Fertiliser & Chemicals Travancore Limited.
4. Rashtriya Chemicals & Fertiliser Limited.

(Paradeep Phosphate Limited (PPL) has already been disinvested.)

125. During the course of examination the DOF has informed that keeping in consideration disinvestment proposals, Expenditure Reforms Commission recommendation etc. the outlays for Tenth Plan (2002-2007) and Annual Plan (2002-03) have been discussed with Planning Commission. DOF has further informed after these discussions that though these figures have not been formally communicated to DOF by Planning Commission these are finalised at Rs. 5900 crore for 10th Plan and Rs. 899 crore for Annual Plan respectively.

(Rs. in crore)

Sl. No	**Name of PSU to be disinvested**	**Allocations finalised**					
		10th Plan (2002-2007)			**Annual Plan (2002-2003)**		
		Budget Support	**IEBR**	**Total**	**Budget Support**	**IEBR**	**Total**
1	NFL	NIL	160	160	NIL	35.00	35.00
2	MFL	41	7.00	48	15.00	2.50	17.50
** 3	PPL	52	NIL	52	6.00	NIL	6.00
4	FACT	300	100	400	19.00	NIL	19.00
5	RCF	NIL	1900	1900	NIL	125.00	125.00
	Total	**393**	**2167**	**2560**	**40.00**	**162.50**	**202.50**

*** Already disinvested.*

126. The Committee wanted to know the rationale for allocation of Rs. 1900 crore for RCF, Rs. 400 crore for FACT, Rs. 160 crore for NFL and Rs. 48.00 crore for MFL for 10th Plan period when these are likely to be disinvested. DOF in a written note informed:-

"The 10th Plan outlay of Rs. 1900 crore for RCF, Rs. 400 crore for FACT, Rs. 160 for NFL and Rs. 48 crore for MFL is subject to review from time to time, based on the progress of the process of disinvestment of these companies. The desirability of taking up new and long term projects by these companies in such circumstances will also be taken into account during this review."

127. As regards impact of disinvestment of PSUs on outlay for Annual Plan (2002-2003) the DOF has informed as under:-

"(i) Five companies viz. NFL, MFL, PPL, FACT & RCF are slated for disinvestment. In the first phase NFL, PPL and MFL are included and their outlays and projects have been considered and restricted keeping in view this fact in mind. Their outlays will be reconsidered after two years in case these companies are not disinvested till then.

(ii) PPL has since been disinvested."

128. On being further enquired as to what extent the uncertainty of disinvestment in various PSUs like RCF (Rs. 125 crore), NFL (Rs. 35 crore) and FACT (Rs. 19 crore), MFL (Rs. 17.50 crore) is likely to affect the utilisation of plan outlay for the annual plan 2002-03, DOF in a written note informed:-

"In case the disinvestment of RCF, NFL, FACT and MFL is completed during the year 2002-03, the utilisation of outlay for these companies in the year out of their internal resources would be left to the new management. In so far as the budgetary support is concerned, Government will discontinue further budgetary support to finance their outlay. Otherwise, in the normal course, the plan outlay earmarked for these companies in 2002-03 is expected to be fully utilised."

129. When the Committee further wanted to know the details of disinvestment of PSUs under DOF, the Secretary (Fertilisers) said:-

"It is a very relevant question. The disinvestment units are: No. 1 in the list is NFL. Therefore, the future investment there has almost been frozen except what they would invest from their own resources. The next is MFL. The third is FACT, Kochi. The fourth is RCF. Two of these are not efficient plants: Madras Fertilisers and FACT. RCF and NFL are our very successful plants. These are the four units at the moment on the road map of disinvestment."

130. At this, the Committee wanted to know the reasons for disinvestment of RCF for which Rs. 1900 crore have been proposed in the 10th Plan Outlay, the Secretary (Fertilisers) stated:-

"You are right. But actually, there is a very small amount, that is, as token provision, for RCF and also for NFL."

131. The Committee also enquired why out of the loss making PSUs under DOF, disinvestment of two PSUs viz. NFL and RCF is being done and whether the Ministry or Unit decides about disinvestment, the Secretary (Fertilisers) informed:-

"The decision is taken jointly."

132. On being asked on what consideration these decisions are taken and whether Government plans to disinvest the loss making or the profit making units, the Secretary (Fertilisers) informed:-

> "If I could just list out PPL that has been disinvested which is among those units which are making loss."

133. He further informed:-

> "It is now almost impossible to disinvest in the other units because these are under the GOM. These are under the Fertiliser Corporation and the Hindustan Fertilisers. All of them, except Sindri which is functioning but at a loss, are closed: Gorakhpur, Barauni, Durgapur, Ramagundam and Talcher. They are before the BIFR. In fact, they are already being examined. The directions are that the Group of Ministers must take a decision, including directions from the higher courts, about their fate, that is, closure of these units. So, they will follow a different Act once the decision either for starting or closure is taken about these units.
>
> Once we take out these two, then actually, we are left with four companies, namely, RCF,NFL, FACT and Madras Fertilisers. These four have already been placed on the road-map of disinvestment. When, of course, it will be decided is a matter of time."

134. The Committee wanted to know whether disinvestment is being done in a transparent manner and in the event of disinvestment of sick PSU what would happen to their huge investment and value of assets. The Committee also enquired whether the Government would not be a loser if it was disinvested in favour of private sector as guaranteed returns would have to be given to private sector in the form of subsidy, the Secretary (Fertilisers) clarified:-

> "Sir, there is a printed guideline and manual for disinvestment which has been already circulated by DOD. I could obtain it from the Department of Disinvestment and submit it for the perusal. It seeks to set the whole process extremely transparent. There can be difference of opinion about the reserved price. There are various methods that go into it, and there are well established financial parameters like discounted cash flow statement, replacement value assets

calculation. These are the issues that they go into. In the last disinvestment that took place of the Paradip Phosphates, that was also based on discounted cash flow and various considerations were made. There is an independent agency which gives the reserve price, and then bids are taken. There are inter-Ministerial meetings that contribute to the decision-making going right up to the Cabinet when a final decision is taken. The other issue is about the subsidy and parameters. In case the private sector comes up, I would only submit that this largely depends on the implementation of the recommendations of the Expenditure Reforms Committee. If the ERC Report is implemented, then, Sir, the Retention Price parameters of 12 per cent return on capital employed will not be there. There would be mostly a subject matter independent of this, and no unit-based subsidy will be possible. It will be based on group parameters while there would be a subsidy. I am not commenting on the unit-based subsidy. But there will be a subsidy but the flow is not likely to be more than what is anticipated earlier."

135. ***The Committee note that four companies viz. NFL, MFL,FACT and RCF are slated for disinvestment, out of which NFL and MFL are included in the first phase. In view of this, their outlays and projects have been restricted. The Committee find that during 10th Plan period (2002-07) outlay for Rs. 160 crore for NFL, Rs. 48 crore for MFL, Rs. 52 crore for PPL, Rs. 400 crore for FACT and Rs. 1900 crore for RCF have been earmarked. Similarly during Annual Plan 2002-03 Rs. 35 crore for NFL, Rs. 17.50 crore for MFL, R. 6 crore for PPL, Rs. 19 crore for FACT and Rs. 125 crore for RCF have been provided. DOF has informed that their outlays will be reconsidered after two years in case these companies ae not disinvested till then. Explaining the rationale of such huge allocation, the DOF has informed the Committee that these are subject to review from time to time based on progress of disinvestment in these companies. The desirability of taking up new long term projects by these companies in such circumstances will also be taken into account during this review. If disinvestment of RCF, NFL, FACT and MFL is completed during 2002-03 the utilisation of the outlay would be left with new management and in that case budgetary support to finance their outlay from Government would be discontinued thereafter. Otherwise the Outlay would be utilised in normal course. On the issue of transparency in disinvestment process the Secretary (Fertilisers) clarified that it was being done based on set guidelines and the process is completed after inter-Ministerial interaction. The Committee are not in favour of disinvestment of profit making fertiliser making PSUs and would like the Government to review their policy in this regard.***

(Recommendation No. 26)

136. On the issue of possible loss to Government by way of losing assured return guaranteed under the present scheme, if these PSUs are disinvested in favour of private sector, the Secretary (Fertilisers) informed that this point would largely depend on implementation of recommendations of Expenditure Reform Commission. If these recommendations are implemented the guaranteed return would not be available. The subsidy would be available on group parameters. In view of the above the Committee expect the DOF to soon finalise a clear view on implementation of ERC recommendations on disinvestment.

(Recommendation No. 27)

137. National Fertilisers Limited (NFL) has recently invested an amount of Rs. 135.13 crore to revamp its Nangal plant. This PSU has three plants in Haryana and Punjab and is catering satisfactorily the urea needs of the peasantry in these areas. The disinvestment in this PSU has direct bearing on the timely availability of urea in this area. In Committee's view NFL's operations in Punjab and Haryana are of strategic nature. Any disinvestment in NFL may harm the interests of agriculturists in this belt of Northern India. The Committee recommend that instead of making disinvestment in NFL, the company should be merged or handed over to KRIBHCO on nomination basis. In this way the Government's objective shall be achieved and KRIBHCO's surplus cash resource would be utilised.

(Recommendation No. 28)

New Delhi:
15 April, 2002
25 Chaitra, 1924 (Saka)

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

APPENDIX-I

STATEMENT OF RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Sl. No.	Page No.	Ref. to Para No. in the Report	Observations/Recommendations
1	7 & 8	16 & 17	The Committee are not convinced with the explanation regarding non-utilisation of Planned Outlay during 9th Plan (1997-2002). The Committee find that out of the approved Plan Outlay of Rs. 11013 crore, the actual plan expenditure was a meagre Rs. 3549.04 crore. This was 32.22% of the entire approved outlay. DOF has hoped that plan expenditure might pick up marginally during the remaining part of the plan when some expenditure on Namrup revamp and Indo-Oman Projects may be made. Delay in implementation of revival packages of Namrup Unit of HFC and delay in finalisation of four mega projects with an allocation estimated at Rs. 5922 crore were the reasons cited by DOF for non-utilisation of Plan Outlay. Secretary (Fertilisers) has cited two reasons for non-utilisation of Plan Outlay during Ninth Plan period viz. non-materialisation of projected demand and unwillingness of PSUs to set up capacities on costlier feedstock like Naphtha as cheaper feedstock like natural gas was not available. Besides, there was no clearcut policy on LNG, the future feedstock for fertiliser. Secretary (Fertilisers) hoped that possibly Hazira project of KRIBHCO with Plan Outlay of Rs. 1103 crore may materialise during 10th Plan on the basis of their decision on LNG availability. The Committee take note of the assertions made by DOF that targets set in the Planned Outlays are revised periodically at the time of finalisation of annual plan outlays, considering the actual trends of growth and development in the sector in previous years. But it is seen in the present case that even after revising outlay to Rs. 5145.70, the actual utilisation was Rs. 3549.04 crore (upto December, 2001). The Committee recommend that Department should set up a monitoring and evaluation cell to conduct a comprehensive review of Plan performance as per the guidelines of the Planning Commission.
2	11 & 12	20	The Committee note that production targets both for Nitrogen (for first four years) and Phosphates (for last two years) during Ninth Plan period (1997-2002) have not been achieved by DOF. For Nitrogen as against the target of 106.82 lakh tonnes, 110.67 lakh tonnes, 112.14 lakh tonnes and 116.59 lakh tonnes (estimated) during 1998-99, 1999-2000, 2000-01 and 2001-02, the actual production was as low as 104.79 lakh tonnes, 108.90 lakh tonnes, 109.61 lakh tonnes and 108.02 lakh tonnes respectively. Similarly, for Phosphate against the target of 39.93 lakh tonnes and 49.30 lakh tonnes during 2000-01 and 2001-02 the actual production was as low as 37.43 lakh tonnes and 39.45 lakh tonnes respectively. The Committee find that in the case of Nitrogen the reasons for not achieving the targets over the years were poor and inadequate supply of natural gas in gas based fertiliser plants of different PSUs and equipment problems in KRIBHCO, Hazira, SPIC Tuticorin, NFCL Kakinada, OCF Shahjahanpur plants. The Committee are glad to note that the Ministry of Petroleum & Natural Gas has

			already been approached by DOF for supply of good quality of gas to fertiliser plants and for also according highest priority in allocations of gas. Inspite of repeated pleadings, the fertiliser industry has not been able to procure adequate supply of quality gas. Non-availability of requisite quantity of gas has become a regular phenomenon. The Committee are aware that fertiliser industry is making efforts to look for other means to import or arrange gas. With the dismantling of APM in petroleum products, availability of these in the open market has become possible. The Committee recommend that Fertiliser PSUs should explore the possibility of procuring alternate feed stock than gas from the open market to achieve full capacity utilisation.
3	**12 & 13**	**21**	**As regards other reasons like equipment failure, power break down etc. responsible for non-achieving production targets, the Committee find that these are regularly monitored by DOF in Quarterly Review Meetings. The Committee feel that these problems are not being properly looked into by DOF since these problems have been figuring in 1998-99 and 1999-2000 both in PSUs and in private sector plants. The Committee desire that DOF should make all out efforts to stamp out these problems so that production is not hampered only because of these reasons.**
4	**15 & 16**	**28**	**The Committee find that finalisation of 10th Five Year Plan for the Department of Fertilisers has been delayed. Timely finalisation of plan and schemes under it is indication of sound planning and effective implementation resulting in cost effectiveness of projects. The Committee would like the Planning Commission to ensure finalisation of plan at the earliest and hope that DOF would start implementing the schemes thereunder in time.**
5	**16**	**29 & 30**	**The Committee find that DOF's goals for Tenth Plan (2002-2007) are phased decontrol of fertiliser industry, establishment of sustainable pricing policy for controlled and decontrolled fertilisers, dealing with closure and sickness on non-viable units and preparing the industry to face challenges of global competition. For achievement of these goals the DOF has prepared a Draft Policy which needs to be discussed with Planning Commission. Ministry of Agriculture and State Governments for the purpose of demand of different fertilisers during the 10th Plan periods.** **The Committee specifically take note of objectiveness of 10th Plan viz. phased decontrol of fertiliser industry and sustainable pricing policy. The Committee caution the Government with their objective of phased decontrol of industry as it has vast implications for Indian economy especially in agricultural sector. The Committee recommend that the Government should have wider consultations with States, agriculturists and other concerned agencies before initiating any step in this regard.**
6	**16**	**31**	**About continuation of schemes of Ninth Plan (1997-2002) during Tenth Plan (2002-2007) the Committee have been informed that left over schemes are not automatically carried over to next plan period. Only those which have continued relevance would be provided outlays in the 10th five year plan. The Committee desire that DOF should examine all these left over schemes on priority basis so**

			that plan allocation for such schemes/ projects be concretised.
7	18	35	The Committee find that an outlay of Rs. 899 crore has been provided for DOF Annual Plan 2002-2003. Out of this Rs. 781 crore has been earmarked for IFFCO (Rs.276 crore), HFC (Rs. 200 crores), KRIBHCO (Rs.180 crore) and RCF (Rs.125 crore). The Committee have been informed that final investment appraisal/approval for new schemes would be carried out during the year and for HFC Namrup no further approval is needed. The Plan Outlay for IFFCO and KRIBHCO is meant for Indo-Oman Fertiliser Project. About other allocation for RCF (Rs. 125 crore), NFL (Rs.35 crore), FACT (Rs.19 crore) and MFL (Rs.17.50 crore) the Committee have been informed that in the event of disinvestment the utilisation of outlay would be left to new management and budget support would be discontinued further. The Committee hope that DOF would soon obtain final investment approval on the different schemes for the Annual Plan 2002-2003 after getting clear picture from Deptt. of Disinvestment .
8	19	38	The Committee are happy to find that in pursuance of the recommendations of Expenditure Reform Commission, the DOF has been able to abolish 14 Group A&B posts in the Department as against the recommended figure of 29 posts. The Committee also hope that as assured by DOF more posts would soon be abolished during 2002-2003.
9	22	42	The Committee find that as against the revised estimate of Rs.4515 crore of last year a provision of Rs.4224 crore has been proposed for payment of indigenous as well as imported decontrolled fertiliser. Department of Fertilisers has informed that 5% revision in issue price of DAP and MOP and reduction in subsidy for SSP by Rs. 50 per tonne has been the reason for lowering the amount of payment of concession over the previous year. According to DOF the 5% hike in price of these would have a marginal impact on the NPK ratio. The Committee find that as against the ideal ratio of 4:2:1 of N:P:K (available during 1999-2000) ratio is 6.9:2.9:1. The Committee find that above 5% hike in price of DAP and MOP has increased the per tonne price from Rs. 8300 to Rs.9350 for DAP and from Rs.4255 to Rs.4455 for MOP. The Committee feel that in view of the already distorted NPK ratio the present hike in price will further affect the NPK ratio considerably. The Committee therefore feel that in order to bring NPK ratio to 4:2:1 DOF should make all out efforts for promotion of fertilisers among the farmers rather than resorting to hike in price of P&K fertilisers.
10	25 & 26	47 & 48	The Committee note that reportedly large number of fraudulent claims of concessions for P&K and Single Sulphur Phosphate (SSP) have been brought to attention of Govt. from the States of U.P.Bihar and Punjab. In the case of U.P., the DOF has informed that U.P. Govt. has already filed FIRs against 29 SSP units based on enquiry reports and 21 additional claims are under process. In case of Bihar on the report of alleged fraud of Rs.162.13 crores on fraudulent claims, the Secretary, Fertilisers informed that in 11 district the Director of Agriculture gave certificate about sale of phosphates to farmers without obtaining report from District Agriculture Officer. DOF has informed that the Central Govt. on February, 2000 had asked State Govt. to furnish factual position. The Govt. have decided

			to withhold further payment against final settlement of claims. State Government in turn has decided to refer the matter to CBI but the formal request from the former is awaited in DOF. In the case of complaints from Punjab the Committee find that State Vigilance Department had alleged involvement of some State officials in certification of bogus sales upto farmer level. Explaining further, Secretary (Fertilisers) informed that SSP and DAP claims are often questioned. About SSP the Committee were informed that there are around 200 units all over the country who submit the distribution and claim concession. The Committee feel that instead of tackling problems of individual States as and when these occur there is a need for uniform system for effectively checking the misuse of fraudulent claims of decontrolled fertilisers although according to DOF there is already a system of Technical Audit Inspection Cell (TAC). The Committee recommend that DOF should adopt an independent mechanism at Central level to sample test the suppliers claims and those found defaulters should be strongly punished so as to leave demonstrative impact on others.
11	27 & 28	52	The matter relating to investors money being unnecessarily blocked for want of certification of sales by State Governments, was examined by the Committee last year also and the Committee had recommended expediting the payments of such money amounting to Rs. 795 crore. DOF has informed that from October, 2000 the scheme was transferred to DOF from Department of Agriculture and Cooperation (DOAC). Thus DOF was in receipt of claims worth Rs. 347.67 crore pre-receipted by DOAC. Out of this claims worth Rs. 179.75 crore have been settled and claims worth Rs. 167.92 crore are under process by Fertilisers Industries Coordination Committee (FICC). Besides, claims worth Rs. 139.10 crore have been settled by DOAC. Balance claims worth Rs. 308.23 crore are yet to be settled. The Committee recommend that DOF should lay down a timeframe for settling claims and in the present case hope that DOF would expedite settlement of the pending claims worth Rs. 308.23 crore.
12	30	56	The Committee note that a provision of Rs. 948 crore has been proposed for 2002-2003 for import of 10 lakh tonne of urea. During the course of examination, Secretary (Fertilisers) informed that this figure was based on last year's preliminary estimates. It takes into account the likely import to be resorted to in case of huge demand increase. The Secretary (Fertilisers), however, assured the Committee that in the event of increase of huge demand of urea, the demand would be monitored and there would be 100% utilisation of domestic manufacturing before resorting to imports. The Committee feel that there is ample scope of increasing capacity utilisation of indigenous urea industry and any provision for import of urea is uncalled for. In Committee's opinion there should not be any budgetary provision for import of urea. In the present case, the Committee, however, hope that Government would utilise the domestic production of urea in full and resort to imports only in the event of urgent need.
13	34	66	The Committee find that reply of the Department regarding assured return to manufacturers as vague and rhetoric. It is reported

			that urea manufacturing units are not getting asssured return with the result that they have started incurring losses. The Committee would like the Department to identify the reasons for their losses and ensure that these are not due to faulty implementation of retention price-cum-subsidy scheme. For this purpose, the Committee recommend that the Department should constitute a Study Group comprising representatives from urea manufacturers and Department of Fertilisers.
14	**34**	**67**	**The Committee find that as against the revised estimate of Rs. 7370 crore for 2001-2002 a provision of Rs. 6499 crore has been proposed for fertiliser subsidy. Out of Rs. 6499 crore, an amount of Rs. 5675 crore has been provided for payment under Retention Price Scheme and another amount of Rs. 814 crore has been provided for freight subsidy. The Committee note that provisions for lowering the amount of subsidy to the tune of Rs. 871 crore is partially (about Rs. 460 crore) due to 5% upward revision in issue price of urea as per recommendations of the Expenditure Reform Commission. Whereas the balance of Rs. 411 crore is due to tightening of consumption norms and availability of liquid petroleum products like Naphtha, fuel oil and LSHS by Oil Companies to urea manufacturers based on import parity price. The Committee are constrained to note that the hike of 5% on the issue price of urea is not interim. DOF during the course of examination has informed that hike in pricing urea would not have major impact on the affordability of urea to farmers including the marginal one. However, the Committee do not share the perception of the Government that price increase was not going to have major impact on affordability of farmers. The Committee, therefore, recommend that price hike should be withdrawn forthwith.**
15	**37 & 38**	**75**	**The Committee feel that concept of fertiliser subsidy has to be viewed in the context of national priorities. In India, our economy is based on agriculture and this sector needs preferential treatment. The agriculturist has to be given his due remuneration if he has to sustain himself. For this he needs agricultural inputs at the rates which are within his reach. The Government is bound to provide him all this. It is said that the international price of urea is higher than the price in the country and the farmer is subsidised indirectly. However, the subsidy in India has to be compared with huge subsidies being given by developed countries. During the course of evidence Secretary (Fertilisers) opined before the Committee that ideal system would be that there should be uniform price for production as also for selling of urea and thereafter the Government should decide the subsidy to be given to farmers. The Committee feel that the farmers should be the direct beneficiary of subsidy but this concept has been debated time and again without concrete results. The Committee recommend that subsidy should not be viewed as a burden on exchequer and the existing level of subsidy should not be curtailed.**
16	**38**	**76**	**On the second issue of subsidising fertiliser at par with developed countries, the Secretary (Fertilisers) clarified that Subsidy in Europe and US is not the subsidy on fertiliser alone, but as per their agreement on agriculture in WTO, He, however, admitted that there is huge subsidy which is being disbursed by developed world for market support, infrastructure etc. However, subsidy in India on the contrary is not WTO related but is limited by Budget. 90% of subsidy is for resource poor. The Secretary (Fertilisers) opined that it**

			is a larger issue and as such Ministry of Finance could possibly clarify the same. The Committee have been informed that developed countries bring down the prices of primary commodities by giving subsidy and country like India is unable to export because of price competitiveness. The Committee would like the Government to perceive subsidy in the same manner as is being seen even in developed countries and adopt this perception as a matter of objective of the Department of Fertilisers.
17	**41 & 42**	**83**	**On the matter of subsidy being given to manufacturing units for their inefficient production. The DOF has admitted that there is need for improvement in efficiency. In this process in order to check the misuse of subsidy Secretary (Fertilisers) revealed before the Committee that DOF has put a check on the unintended profits to the manufacturers by taking various steps such as re-assessment of capacities of such manufacturing units and by tightening of consumption norms. The DOF further informed that in this exercise revision of capacity of 16 units on interim basis resulted in saving of Rs. 461 crore per annum. Further recoveries from 4 more units are expected. DOF also informed that revised consumption norms on interim basis based on 1999-2000 levels or existing levels whichever is lower w.e.f. 1.4.2000 resulted in saving of about Rs.769 crore per annum. DOF has informed that with retrospective from 1.7.1997 further tightening is proposed. The Committee find that as a result of efficiency measures, in subsidy management Government could save a considerable amount. The Committee hope that these measures are not one time or ad-hoc affair. The Committee recommend that there should be a regular institution to monitor the subsidy dispensation to manufacturers.**
18	**42**	**84**	**As regards payment of Rs. 1020 crore of IFFCO to be paid by FICC the DOF has informed that payment of Rs. 100 crore on account of review of salary and wages from 1.1.97 to 30.6.02 is being made by FICC. Other claims of Rs. 47 crore for cost escalation of Phulpur II are under process and claims of Rs. 137 crore for small percentage of retention prices withheld in respect of Expansion Projects of Aonla. Kalol and Phulpur have been approved by FICC. Claims on account of sales tax from 1991-92 to 2000-01 purchase tax are not admissible. The Committee have been informed that remaining claims would be decided as soon as the policy parameters for 7th and 8th pricing policy are decided. The Committee would like the Government would be able to announce these policy parameters soon so that ad-hocism prevailing in fertiliser sector is done away with once for all. This Committee feel that this would lessen the scope of any complaint of non-payment of dues by FICC.**
19	**45**	**91**	**The Committee are constrained to note that DOF has still not been able to finalise its much awaited long term Fertiliser Policy. They find that this has been the major reason for absence of investment in fertiliser sector. The DOF has informed that Draft Policy was already under discussion for quite long time among farmers organisations, different State Governments and various interest Groups and that pending completion of discussion the Government is getting approval of competent authority on issues like new pricing policy of urea units and feedstock availability. The DOF has further informed that Group of Ministers (GOM) has been constituted to examine the policy**

			parameters for VII and VIII pricing period and further action would depend on GOM's recommendation. The Committee regret to observe that most important issue of finalising pricing policy has not been taken by DOF in all seriousness over the last couple of years since 1997 onwards. The Committee recommend that Government should soon clear the proposed policy based on GOM's recommendations.
20	**45 & 46**	**96**	**The Committee find that in fertiliser subsidy a major portion of subsidy goes towards cost of feedstocks like Naphtha, fuel oil, LSHS used for production of fertilisers. As per Fertiliser Association of India estimates the increase in quantum of subsidy has been due to cost escalation of hydrocarbons which account for 79% of the total increase in subsidy between 1990-91 to 1999-2000. DOF informed the Committee that with the supply of feedstock to Urea units at import parity price w.e.f. 9th July, 2001 a saving of Rs. 500 crore is expected on this account. M/o Petroleum & Natural Gas has decided to dismantle Administered Price Mechanism (APM) w.e.f. 1st April, 2002 and has advised DOF to ask the fertiliser units to deal with oil companies directly since the Ministry has minimum control on the issue. The Secretary (Fertilisers) apprehend that price of gas might go up in decontrolled scenario and admitted that there is lot of scope for negotiation on price of gas and a strategy is being contemplated with FAI. The Committee see the deregulated market of petroleum products both as challenge and opportunity for Fertiliser Industry. What is needed is professionalism. The Committee recommend that Fertiliser Industry should collectively take decisions and assert its bargaining power.**
21	**48**	**97**	**Another area which needs a clear policy is Liquefied Natural Gas (LNG). Since M/o Petroleum & Natural Gas has set up facilities in Eastern and Western coast for catering the future demand, there is a need for coordination between M/o Petroleum & Natural Gas for firming up full demand of LNG for fertiliser sector. The Committee expect the DOF to be able to have proper coordination with M/o Petroleum & Natural Gas for firming up demand of LNG for fertiliser sector.**
22	**50**	**102**	**The Committee find that bio-fertilisers play a major role for soil fertility. They also find that use of bio-fertiliser has to be promoted in a big way. The Secretary (Fertilisers) has informed that DOF is very keen to go in this direction. However, promotion of bio-fertiliser suffered a setback due to withdrawal of subsidy on it by different State Governments. The Secretary (Fertilisers) admitted that promotion of bio-fertiliser has to be prioritised. In this connection the Report on working Group on long term use of bio-fertilisers will be examined with a view to have diversification of different PSUs into bio-fertilisers. About introduction of subsidy, the Secretary (Fertilisers) confessed before the Committee that there is a need for incorporating introduction of subsidy on bio-fertilisers in the Draft Long Term Policy under finalisation at present. The Committee, therefore, recommend that subsidy on bio-fertilisers be introduced.**
23	**52 & 53**	**108**	**The Committee find that as against the amount of Rs.97.50crore for 2001-2002 a provision of Rs. 40.60 crore has been made for 2002-2003 investment in PSUs under DOF. Out of this Rs. 28 crore has been for capital outlay for North-East and Rs. 12.60 crore for**

			investment in PSUs. The Committee have been informed that out of 12.60 crore a sum of Rs. 9 crore has been proposed for renewal of Sindri and Rs. 3 crore is proposed for PPL. While in regard to the Rs. 3 crore for PPL, DOF has informed that it would not be utilised as the company stands disinvested, the Committee trust that FCI would be able to utilise the Rs. 9 crore earmarked for the renewal of Sindri Plant.
24	55 & 56	115	The Committee find that as against the Revised Estimate of Rs. 91 crore for 2001-2002 Rs. 218 crore have been proposed as Plan loans to PSUs for 2002-03. Out of this Rs. 172 crore would be utilised for Namrup revamp of HFC and Rs. 9 crore for revival of FCI Sindri while the remaining amount is for other PSUs facing financial crunch. These PSUs are FACT (Rs. 19 crore), MFL (Rs. 15 crore) and PPL (Rs. 3 crore). About revamp of HFC Namrup the DOF has informed that it is under implementation w.e.f. 2.11.1998 and completion cost of project is Rs. 525.47 crore with completion date being 1.10.2002. DOF also has informed that Rs. 211.69 crore has been made available to HFC. The Committee are dismayed to note that revamp of HFC Namrup has not only been delayed considerably but there is cost escalation also since the original target of completion of revamp was February, 2002 and completion cost of the project was Rs. 509.40 crore. The Committee have been informed that 64.70% progress of revamp based on original schedule has been achieved. The Committee desire that DOF should not make all out efforts for completing the revamp within the revised time schedule and without any further cost escalation.
25	58 & 59	123	The Committee find that as against last year's amount of Rs. 360 crore for non-Plan loans to PSUs, Rs. 250 crore has been provided for 2002-03 for meeting the salaries requirements of FCI, HFC, PPCL and PDIL pending their revival. Production in various sick units of PSUs has been discontinued for a variety of reasons. The DOF had informed the Committee last year that revival packages for these four PSUs have been finalised and are under submission to BIFR. The Committee have now been informed that these proposals were considered by the Government on 31.5.2001 and Group of Ministers has been constituted to examine these proposals and submit its report within two months. GOM had held three sittings on 6.9.2001, 21.11.2001 and 6.3.2002 and have sought some additional information. Thus no final decision in the matter has so far been taken. In this connection Secretary (Fertilisers) informed the Committee that directions from BIFR are for early decision about their fate that is closure of these units. The Committee are in favour of making these PSUs economically viable and would like the Government to make concerted efforts in this direction. The Committee are not in favour of closing down these units as there is no Public Sector or Private Sector urea producing unit in West Bengal, Jharkhand, Bihar and Orissa. In the event of closure of these units, urea availability in these areas would be Nil with the result that farmers would have to depend upon the supply of urea from other zones say North-Eastern or Western zone which would entail avoidable cost. The Government are contemplating the withdrawal of ECA allocation system and in that eventuality timely availability of urea cannot be ensured. Apart from this factor, the Committee would like to stress the need for providing more and more industries in

			Eastern zone as this area needs economic development. The Committee, therefore, are strongly in favour of not only reviving economically viable which would serve twin purpose, one of assuring timely availability means employment.
26	**63**	**135**	**The Committee note that four companies <u>viz.</u> NFL, MFL,FACT and RCF are slated for disinvestment, out of which NFL and MFL are included in the first phase. In view of this, their outlays and projects have been restricted. The Committee find that during 10th Plan period (2002-07) outlay for Rs. 160 crore for NFL, Rs. 48 crore for MFL, Rs. 52 crore for PPL, Rs. 400 crore for FACT and Rs. 1900 crore for RCF have been earmarked. Similarly during Annual Plan 2002-03 Rs. 35 crore for NFL, Rs. 17.50 crore for MFL, R. 6 crore for PPL, Rs. 19 crore for FACT and Rs. 125 crore for RCF have been provided. DOF has informed that their outlays will be reconsidered after two years in case these companies ae not disinvested till then. Explaining the rationale of such huge allocation, the DOF has informed the Committee that these are subject to review from time to time based on progress of disinvestment in these companies. The desirability of taking up new long term projects by these companies in such circumstances will also be taken into account during this review. If disinvestment of RCF, NFL, FACT and MFL is completed during 2002-03 the utilisation of the outlay would be left with new management and in that case budgetary support to finance their outlay from Government would be discontinued thereafter. Otherwise the Outlay would be utilised in normal course. On the issue of transparency in disinvestment process the Secretary (Fertilisers) clarified that it was being done based on set guidelines and the process is completed after inter-Ministerial interaction. The Committee are not in favour of disinvestment of profit making fertiliser making PSUs and would like the Government to review their policy in this regard.**
27	**63 & 64**	**136**	**On the issue of possible loss to Government by way of losing assured return guaranteed under the present scheme, if these PSUs are disinvested in favour of private sector, the Secretary (Fertilisers) informed that this point would largely depend on implementation of recommendations of Expenditure Reform Commission. If these recommendations are implemented the guaranteed return would not be available. The subsidy would be available on group parameters. In view of the above the Committee expect the DOF to soon finalise a clear view on implementation of ERC recommendations on disinvestment.**
28	**64**	**137**	**National Fertilisers Limited (NFL) has recently invested an amount of Rs. 135.13 crore to revamp its Nangal plant. This PSU has three plants in Haryana and Punjab and is catering satisfactorily the urea needs of the peasantry in these areas. The disinvestment in this PSU has direct bearing on the timely availability of urea in this area. In Committee's view NFL's operations in Punjab and Haryana are of strategic nature. Any disinvestment in NFL may harm the interests of agriculturists in this belt of Northern India. The Committee recommend that instead of making disinvestment in NFL, the company should be merged or handed over to KRIBHCO on nomination basis. In this way the Government's objective shall be achieved and KRIBHCO's surplus cash resource would be utilised.**

APPENDIX-II

MINUTES

STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2002)

SECOND SITTING
02.04.2002

The Committee sat from 1100 hrs. to 1300 hrs.

PRESENT

Dr. Debendra Pradhan - In the Chair

MEMBERS

LOK SABHA

2. Shri Ashok Argal
3. Shri Ananda Mohan Biswas
4. Dr. Chellamella Suguna Kumari
5. Shri Padam Sen Choudhry
6. Prof. Kailasho Devi
7. Shri P.D. Elangovan
8. Smt. Sheela Gautam
9. Shri C. Kuppusami
10. Shri Jagannath Mallick
11. Shri Punnulal Mohale
12. Shri Ram Sajivan
13. Shri Mohan Rawale
14. Shri Shyama Charan Shukla
15. Dr. V. Saroja
16. Dr. Chhatrapal Singh
17. Shri Prabhunath Singh
18. Shri Ramjiwan Singh
19. Dr. Ram Lakhan Singh
20. Shri Ratilal Kalidas Varma
21. Dr. Girija Vyas

RAJYA SABHA

22. Shri Balkavi Bairagi
23. Shri Shyam Lal

24. Shri Bangaru Laxman
25. Shri Moolchand Meena
26. Shri Ahmed Patel
27. Shri Yadlapati Venkata Rao
28. Ms. Mabel Rebello
29. Shri P. Soundararajan
30. Shri Rajnath Singh 'Surya'
31. Prof. Ram Gopal Yadav

SECRETARIAT

1.	Shri K.V. Rao	-	Joint Secretary
2.	Shri P.K. Grover	-	Director
3.	Shri J.N. Oberoi	-	Under Secretary

Representatives of Department of Fertilisers

1. Shri Nripendra Mishra, Secretary
2. Shri Suresh Chandra, Joint Secretary & FA
3. Shri Sudhir Krishna, Joint Secretary (F)
4. Shri Balwinder Kumar, Joint Secretary (A&M)
5. Shri Tejinder Singh Laschar, Economic Adviser
6. Ms. Swatantra Kaur Sekhon, Executive Director, FICC

Representatives of the PSUs

1. Shri N.K. Borah, CMD, Hindustan Fertiliser Corporation Limited (HFC)
2. Shri U.S. Jha, CMD, Madras Fertilisers Limited (MFL)
3. Shri P.S. Grewal, CMD, National Fertilisers Limited (NFL)
4. Shri Girish Sharma, CMD , Pyrites, Phosphates & Chemicals Ltd. (PPCL)
5. Shri A.C. Saini, CMD, Project & Development India Limited (PDIL)
6. Shri D.K. Varma, CMD, Rashtriya Chemicals & fertilisers Limited (RCF)
7. Shri R.S. Shenoy, CMD, Fertiliser and Chemicals Travancrore Ltd. (FACT)
8. Shri U.S. Awasthi, M.D., Indian Farmers' Fertilisers Cooperative Ltd. (IFFCO)
9. Shri V.N. Rai, M.D., Krishak Bharati Cooperative Ltd. (KRIBHCO)

In the absence of the Chairman, the Committee chose Dr. Debendra Pradhan to act as Chairman for the sitting under Rule 258 (3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

At the outset, Hon'ble Chairman, welcomed the Members, officials of Departments of Fertilisers and representatives of Public Sector Undertakings.

2. The Committee took oral evidence of the representatives of Ministry of Chemicals & Fertilisers, Department of Fertilisers in connection with Demands for Grants for 2002-2003.

3. During the course of evidence, the main issues which came up for discussions included, failure of the Department to utilise 9th Plan (1997-2002) outlay, demand-supply position of fertilisers during the 10th Plan (2002-2007) period, impact of hike in price of urea on farmers, subsidy in India vis-à-vis other developed countries, need for mechanism for checking misuse of subsidy based on fraudulent claims of different fertilisers, introduction of subsidy on bio-fertiliser in final policy on fertilisers and present status of disinvestment in some of the PSUs.

4. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

APPENDIX – III

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2002)

FIFTH SITTING

(15.04.2002)

The Committee sat from 1600 hrs. to 1630 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Shri Ramchander Bainda
3. Prof. Kailasho Devi
4. Smt. Sheela Gautam
5. Shri Paban Singh Ghatowar
6. Shri P.Mohan
7. Shri Shyama Charan Shukla
8. Shri Prabhunath Singh
9. Shri Ratilal Kalidas Varma
10. Dr. Girija Vyas

Rajya Sabha

11. Shri Balkavi Bairagi
12. Shri Shyam Lal
13. Shri Rajiv Ranjan Singh 'Lalan'
14. Shri Dipankar Mukherjee
15. Shri Yadlapati Venkat Rao
16. Ms. Mabel Rebello
17. Prof. Ram Gopal Yadav

Secretariat

1.	Shri P.D.T. Achary	-	Additional Secretary
2.	Shri K.V. Rao	-	Joint Secretary
3.	Shri P.K. Grover	-	Director
4.	Shri J.N. Oberoi	-	Under Secretary

The Committee considered the following Draft Reports:-

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

(ii) Twenty-Sixth Report on Demands for Grants of Ministry of Chemicals & Fertilisers, Department of Fertilisers for 2002-03.

The Committee suggested that some recommendations contained in these Draft Reports be further elaborated. Thereafter, the Committee approved and adopted the Draft Reports.

2. The Committee placed on record their appreciation for the valuable assistance rendered to them by the staff and officers of the Lok Sabha Secretariat attached to the Committee.

3. The Committee also authorised the Chairman to finalise the Reports after factual verification by the concerned Ministries/Departments and present the same to the Parliament in the current Session.

The Committee then adjourned.

** Matters not related to the Report.

APPENDIX-IV

Actuals of gross revenue and capital expenditure for 2000-2001 and Budget and Revised Estimates for 2001-2002 and Budget Estimates for 2002-2003 of the Department of Fertilisers are as under:-

(Rs. in crores)

Sl. No.	Major Heads	Item of Expenditure	Actuals * 2000-2001	BE 2001-2002	RE 2001-2002	BE 2002-2003
I.		**NON-PLAN PROVISIONS**				
A.		REVENUE SECTION				
1.	3451	Secretariat Proper	5.36	5.77	5.70	5.82
2.	2852	Office of FICC	0.77	0.89	1.39	1.39
3.	2852	Subsidy on indigenous fertilizers	9480.00	7956.00	7370.00	6499.00
4.	2852	Subsidy on imported fertilizers				
		Gross	11.87	1017.00	159.00	948.00
		Recovery	-10.87	-517.00	-100.00	-443.00
		Net	**1.00**	**500.00**	**59.00**	**505.00**
5.	2852	**Payment to Manufacturers**/		5714.0	4515.00	4224.00
		Agencies for concessional sale of decontrolled fertilisers	*4319.00			
6.	2852	Grant to M.I.S. Studies	0.01	0.01	0.01	0.01
7.	2852	Productivity Award in the filed of Fertiliser Production	0.03	0.03	0.03	0.03
8.	2852	Write off of plan loans, interest and penal interest from HFC and PPL	-		356.62	
		TOTAL : (REVENUE SECTION)	**13806.17**	**14176.70**	**12307.75**	**11235.25**
B.		CAPITAL SECTION				
	6855	Non-Plan loans to PSUs				
		HFC	143.00	79.00	184.00	87.00
		FCI	118.70	96.00	130.00	118.00
		PPCL	28.28	19.0	28.00	28.00
		PDIL	9.16	6.0	18.00	17.00
		TOTAL (CAPITAL SECTION)	**299.14**	**200.0**	**360.00**	**250.00**
		TOTAL : NON-PLAN	**14105.31**	**14376.70**	**12661.75**	**11485.25**
II.		**PLAN PROVISIONS**				
A.		REVENUE SECTION				
1.	2852	Grant to KRIBHCO for RFP	7.36	12.20	15.00	15.00
2.	2852	Grant to PDIL for R&D	4.00	2.00	4.00	4.00
3.	2852	S&T Programme of Department	0.30	0.30	0.50	0.80
4.	2852	Grant in the field of Management Information Technology	1.03	1.00	1.00	1.00
5.	2852	Grants under Voluntary Retirement Scheme (VRS):	0.00	10.00	20.00	-
		TOTAL (REVENUE SECTION)	**12.39**	**25.50**	**40.50**	**20.80**
B.		**CAPITAL SECTION**				
	4855/6855	Investments in and loans to PSUs				
1.		FCI	20.00	20.00	20.00	18.00
2.		FACT	40.00	45.00	40.00	19.00
3.		HFC	57.00	80.00	80.00	200.00
4.		PDIL	00.50	1.00	1.00	1.00
5.		PPL	12.48	14.49	26.49	6.00
6.		MFL	20.24	21.00	21.00	15.00
7.		PPCL	0.00	0.01	0.01	0.20
		Total PSUs:	**150.22**	**181.50**	**188.50**	**259.20**
		TOTAL (CAPITAL SECTION)	**449.36**	**181.50**	**188.50**	**259.20**
		TOTAL PLAN:	**163.42**	**207.00**	**229.00**	**280.00**
		TOTAL-DEPARTMENT OF FERTILIZERS	**14268.73**	**14583.70**	**12896.75**	**11765.25**

**** Actuals for concessional of fertilizers not included in the detailed Demands for Grants as the expenditure was made by DAC.***

APPENDIX-V

ACTUAL EXPENDITURE AND PLAN OUTLAY DURING IXth PLAN (1997-2002)

Sl. No.	Name of the undertaking/ item	9th Plan 1997-2002	1997-98 Actual	1998-99 Actual	1999-2000 Actual	2000-01 Actual	2001-02 BE	2001-02 RE
1	2	3	4	5	6	7	8	9
1.	FCI	132.00	55.00	48.00	10.00	20.00	20.00	20.00
2.	FACT	294.00	178.61	55.92	35.00	40.00	45.00	40.00
3.	HFC	390.00	41.00	35.00	60.19	119.02	159.73	47.73
4.	NFL	1118.00	75.24	53.25	61.02	119.02	159.73	47.73
5.	RCF	2700.00	163.67	177.28	157.52	85.13	170.30	60.18
6.	PDIL	12.00	2.00	0.08	0.89	1.00	1.00	1.00
7.	PPL	80.00	49.50	10.00	10.00	12.48	14.49	26.49
8.	PPCL	10.00	6.00	1.69	-	-	0.01	0.01
9.	MFL	209.00	81.69	62.48	21.50	20.24	21.00	21.00
10.	KRIBHCO	2720.00	33.56	29.56	41.44	76.62	400.00	182.75
11.	IFFCO	3253.00	629.34	313.86	193.82	141.40	212.00	212.00
12.	Misc. schemes Under the Deptt.	95.00	9.77	14.08	12.87	12.70	25.50	40.50
	Total	**11013.00**	**1324.38**	**801.30**	**604.25**	**586.49**	**1149.03**	**731.66**

APPENDIX-VI

PSUs-WISE TENTH FIVE YEAR PLAN OUTLAYS (2002-07)

(Rs. in crores)

Sl. No.	Name of PSUs	Budgetary Support	I.E.B.R.	Total Outlays
1	FCI	190.00	190.00	380.00
2	FACT	300.00	100.00	400.00
3	HFC	211.00	….	211.00
4	PPCL	1.00	….	1.00
5	PPL	52.00	….	52.00
6	MFL	41.00	7.00	48.00
7	PDIL	5.00	3.00	8.00
8	RCF	….	1900.00	1900.00
9	NFL	….	160.00	160.00
10	IFFCO	….	810.00	810.00
11	KRIBHCO	….	1680.00	1680.00
12	Deptt. Schemes	100.00	….	100.00
13	VRS	150.00	….	150.00
	Total Gross	**1050.00**	**4850.00**	**5900.00**
	External Aid	**73.00**	**….**	**73.00**
	Net	**977.00**	**4850.00**	**5827.00**

APPENDIX-VII

PSUs-WISE ANNUAL PLAN OUTLAYS (2002-03)

(Rs. in crores)

Sl. No.	Name of PSUs	Budgetary Support	I.E.B.R.	Total Outlays
1	FCI	18.00	….	18.00
2	FACT	19.00	….	19.00
3	HFC	200.00	….	200.00
4	PPCL	0.20	….	0.20
5	PPL	6.00	….	6.00
6	MFL	15.00	2.50	17.50
7	PDIL	1.00	0.50	1.50
8	RCF	….	125.00	125.00
9	NFL	….	35.00	35.00
10	IFFCO	….	276.00	276.00
11	KRIBHCO	….	180.00	180.00
12	Deptt. Schemes	20.80	….	20.80
	Total Gross	**280.00**	**619.00**	**899.00**
	Net	**280.00**	**619.00**	**899.00**