THIRD REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

(THIRTEENTH LOK SABHA)

DEMANDS FOR GRANTS (1999-2000)

MINISTRY OF CHEMICALS & FERTILISERS (DEPARTMENT OF FERTILISERS)

[Action taken by Government on the recommendations contained in the 12th Report of the Standing Committee on Petroleum & Chemicals (1998-99) on Demands for Grants (1999-2000) of the Ministry of Chemicals and Fertilisers, Department of Fertilisers]

Presented to Lok Sabha on..10.03.2000
Laid in Rajya Sabha on ...10.03.2000

LOK SABHA SECRETARIAT
NEW DELHI

February, 2000/Phalguna, 1921 (Saka)

t.

CONTENTS

i.

COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Ramchander Bainda
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Dr. (Smt.) C. Suguna Kumari
7. Shri Padam Sen Choudhary
8. Shri T.T.V. Dhinakaran
9. Shri Dilipkumar Mansukhlal Gandhi
10. Shrimati Sheela Gautam
11. Shri Pawan Singh Ghatowar
12. Shri Shriprakash Jaiswal
13. Shrimati Nivedita Mane
14. Shri Punnulal Mohale
15. Sri P. Mohan

*16. Shri B.K. Handique

17. Shri Ashok Pradhan
18. Shri Mohan Rawale
19. Shri Arjun Sethi
20. Shri Shyama Charan Shukla
21. Shrimati Kanti Singh
22. Shri Prabhunath Singh
23. Shri D.C. Srikantappa

---

*Nominated w.e.f. 24.1.2000 *vice* Shri Vilas Muttemwar who was nominated to Standing Committee on Transport & Tourism.

24. Dr. Ramesh Chand Tomar
25. Shri Tarlochan Singh Tur
26. Shri Shankersinh Vaghela
27. Shri Ratilal Kalidas Varma
28. Shri B. Venkateshwarlu
29. Shri Rajesh Verma
30. Dr. Girija Vyas

Rajya Sabha

31. Shri Ahmed Patel
32. Miss Saroj Khaparde
33. Shrimati Basanti Sarma
34. Shri H. Hanumanthappa
35. Shri Kanak Mal Katara
36. Shrimati Malti Sharma
37. Shri Ram Nath Kovind
38. Shri Dipankar Mukherjee
39. Shri K. Kalavenkata Rao
40. Shri Anil Kumar
41. Shri P. Soundararajan
42. Shri Mukesh R. Patel
43. Shri Gaya Singh
44. Prof. Ram Gopal Yadav
45. Dr. (Smt.) Joyasree Goswami Mahanta

Secretariat

1.	Dr. A.K. Pandey	*Additional Secretary*
2.	Shri John Joseph	*Joint Secretary*
3.	Shri Brahm Dutt	*Deputy Secretary*
4.	Shri J.N. Oberoi	*Under Secretary*
5.	Shri A.K. Shah	*Committee Officer*

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (1999-2000) having been authorised by the Committee to submit the Report on their behalf present this Third Report on Action Taken by Government on the recommendations contained in Twelfth Report of the Standing Committee on Petroleum and Chemicals (1998-99) (Twelfth Lok Sabha) on Demands for Grants of the Ministry of Chemicals and Fertilisers, Department of Fertilisers for the year 1999-2000.

2. The Twelfth Report of the Committee was presented to Lok Sabha on 22nd April, 1999. Replies of Government to all the recommendations contained in the Twelfth Report were received on 24th August, 1999.

3. The replies of the Government were considered by the Committee on 28th February, 2000. The Committee considered and adopted the Report at their sitting held on 28th February, 2000.

4. An Analysis of action taken by Government on the recommendations contained in the Twelfth Report (1998-99) of the Committee is given in Appendix IV.

NEW DELHI;
29 *February*, 2000
10 *Phalguna*, 1921 *(Saka)*

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

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in Twelfth Report (Twelfth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (1998-99) on Demands for Grants relating to Ministry of Chemicals and Fertilisers, Department of Fertilisers for the year 1999-2000 which was presented to Lok Sabha on 22nd April, 1999.

2. The Action Taken notes have been received from the Government in respect of all the 20 recommendations contained in the Report. These have been categorised as follows:—

(i) Recommendations/Observations that have been accepted by the Government:

Sl. Nos. 1 to 6, 8, 16 and 19.

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Sl. Nos. 7, 11, 12, 17 and 18.

(iii) Recommendation/Observation in respect of which reply of the Government has not been accepted by the Committee:

Sl. No. 9.

(iv) Recommendations in respect of which final replies of the Government are still awaited:

Sl. Nos. 10, 13 to 15 and 20.

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

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

Demand and availability of Fertilisers
Fertiliser Projects.

Recommendation (Sl. No. 1, Para No. 29)

5. The Committee had noted that due to casual approach of various agencies of the Government, the simple issue of difference in perception of demand/supply of fertiliser in the country had not been sorted out. The Working Group in fertilisers for the IXth Plan had submitted its projection for the demand for fertiliser wayback in August, 1996. These demand estimates were subject of discussion among the various departments. And despite several meetings, departments had not been able to resolve the issue although two years of the plan period were over. Due to this reason various projects in fertilisers sector could not be initiated which resulted in not only in the cost escalation of fertiliser projects but also defeated the very purpose of planning. The Committee were informed that there has been a shortfall in expenditure of over Rs. 400 crore during the first year of 1997-98 from approved outlay of Rs. 1228 crore. The Committee had noted that for the reasons of non-performance, the outlay for the second year *i.e.* for 1998-99 was revised drastically from Rs. 2249 crore to Rs. 989 crore, totalling shortfall of over Rs. 1660 crores in two years. The Committee while appreciated Government's difficulties in finalising the Indo-Oman/Indo-Iran projects but did not find any justification for prolonging the decision on projects like Nellore, Hazira Ammonia-Urea Expansion Project and KRIBHCO's Gorakhpur project. The only reason advanced was difference of perception in demand and supply. The Committee did not agree with this reasoning and took a serious view of the lackadaisical approach adopted by DOF and other concerned agencies. The Committee recommended that the Cabinet Secretary should appoint a High Powered Authority to evaluate the performance of officials involved in deciding the issue of Demand and Supply. In Committee's view, this was not an issue which warranted a period of two years to conclude a decision. The Committee also desired that present difference in perception of Demand and Supply was resolved within the next three months and expansion projects held up were cleared immediately thereafter.

6. The Government, in their reply have stated that as per the Allocation of Business Rules, assessment of demand of fertilisers is the responsibility of the Department of Agriculture & Cooperation (DAC). The delay took place on account of differences in perception among

the Department of Fertilisers, Department of Agriculture and Cooperation and the Planning Commission. The Deptt. of Fertilisers tried to play a proactive role but the differences could not be sorted out. In order to remove the impasse, the matter was placed before the CCEA. CCEA discussed these issues in its meeting held in April, 99 and on the basis of demand projections made in the 9th Plan and consequent demand supply gap has given its 'in principle' approval to the following four projects for additional urea capacities subject to investment appraisal by PIB. These four projects have been submitted to the PIB for investment appraisal.

(i) Hazira expansion project of KRIBHCO;

(ii) Thal expansion project of RCF;

(iii) Gorakhpur project of KRIBHCO at the site of FCI's old plant; and

(iv) Nellore grassroots project of IFFCO.

As regards the question of appointing a High Powered Committee to look into the delay, the matter has been taken up with the Cabinet Secretariat.

7. The Committee appreciate the efforts of Department of Fertilisers in resolving the differences of perception in demand and supply of fertilisers and are glad that Cabinet Committee on Economic Affairs (C.C.E.A.) has given its 'in principle' approval for the four fertiliser projects (*viz.*, Hazira expansion project of KRIBHCO, expansion project of RCF, Gorakhpur Project of KRIBHCO at the site of FCI's old plant and Nellore grassroots project of IFFCO) for additional Urea capacities, subject to investment appraisal by PIB. The 'in principle' approval is based on demand projections made in the 9th Plan and consequent demand supply gap.

8. The Government (The Ministry of Chemicals and Fertilisers) in response to Starred Question No. 323 dated December 21, 1999 (Appendix I) in Lok Sabha has stated that PIB in its meeting held on July 9, 1999, considered the above mentioned projects, after taking into account their implications on the quantum of subsidy as well as the larger issue of food security, recommended limited additions to indigenous capacity through phased implementation. Further, Govt. has stated that these recommendations are under its examination in the context of Government's policy relating to food security and the need to contain the outgo on account of subsidy.

The Committee feel that PIB's concern is more for containing the outgo on account of subsidy than for attaining self-sufficiency in fertilisers. The Committee would like to caution the Government that as per a note prepared by the Planning Commission, the Chemical fertiliser consumption requirement would be 45.48 million tonnes in 2011-12 as against the present availability of about 21 million tonnes. Perhaps, CCEA kept this fact in view while according 'in principle' approval which is based on demand projections made in the 9th Plan and consequent demand supply gap. The Committee were earlier informed that reason for shortfall in expenditure to the tune of Rs. 1660/- crore in two years *viz.* during 1997-99 was due to delayed decision on resolving the differences in perception of demand and supply and for this reason only the above mentioned projects could not be cleared finally. Now, when this perception has been made clear, PIB has introduced another factor of containing expenditure on subsidy which in Committee's view is secondary than self-reliance in fertilisers. The Committee have genuine concern over the likely cost escalation of the pending projects and therefore reiterate their earlier recommendation that these projects be cleared absolutely and immediately.

9. Regarding appointment of the High Powered Committee to look into the delay in deciding the issue of Demand and Supply, the Committee would await the conclusive action taken by the Government in the matter.

Fertiliser Subsidy issues related with under-statement of capacity by Fertiliser Units

Recommendation (Sl. Nos. 9 & 10, Para Nos. 47 to 49)

10. The Committee had regretted to note that inspite of their earlier recommendations on the menace of manipulation of capacities and undue benefits taken by some of the fertiliser units, Government had not concretised any final decision/action in the matter. The Committee were informed that the Fertiliser Association of India (FAI), the apex body representing the industry had referred to various under recoveries suffered by their units as a result of which the units with high level of capacity utilisation were barely able to earn 12% post tax return on net worth assured under the Retention Price Scheme. Further, the Industry had a feeling that certain other factors such as delay in recognition of escalation claims, sales tax, purchase tax and turnover affected the assured return adversely. At the assessed level of

production of 80% to 90%, these units, according to FAI would not have earned the assured 12% post tax return on net worth. The Committee were also informed that a Technical Committee appointed by the Government had looked into the possible under statement of capacities by some of the urea manufacturing units. Since the Technical Committee had studied only the selected gas-based plants, Government thought it appropriate to consider the factual position of all ammonia/urea plants irrespective of feedstock which had high capacity utilisation. Accordingly, Government constituted another Expert Group to carry out reassessment of capacity of all urea manufacturing units reporting high capacity utilisation. The Expert Group was required to submit its report within three months.

The Committee had also felt that issue of post tax return on net worth assured under the Retention Price Scheme (RPS) was an independent one and should not be allowed to be linked with the main issue. In the opinion of the Committee, the Government was at liberty to revise post tax return as per their wisdom. The Committee had sought a categorical reply from the Government that manipulation of capacity utilisation was an offence and had to be treated as an offence without any scope for compromise or negotiation. The Committee had cautioned the Government that in the name of new pricing policy, irregularities committed should not be regularised. The Committee had sought an assurance from the Government that excess amount paid so far, which reportedly runs into crores of rupees would be recovered from the concerned fertiliser units.

11. The Committee had also recommended that the Government should examine from the legal point of view the practice of manipulation of production capacity as a criminal offence punishable under law.

12. The Government, in their reply have informed the Committee that an Expert Group was being constituted to carry out reassessment of capacity of all urea manufacturing units reporting high capacity utilisation since the Technical Committee had studied only the selected gas based plants. The Expert Group has accordingly been set up on 28th April, 1999. The Expert Group is required to submit the report within three months of its constitution. While making recommendation about the reassessed capacity, the Committee will also work out the financial implications of the various dates from which the final reassessed capacity be implemented. Final decision about the extent of reassessment and the date of effect will be taken after the report of the Expert Group is available.

13. The Ministry have also stated that a proposal has been formulated for regulating payment of subsidy on urea in respect of production in excess of 110% of the capacity utilisation. Approval of the Government is awaited.

A reference has been made to the Ministry of Law, Justice and Company Affairs (Department of Legal Affairs) for advice as to whether under-statement/manipulation of capacity by some of the urea manufacturing units is a criminal offence punishable under the process of law. Further action will be taken on receipt of the advice from that Ministry.

14. The Committee wish to recall that menace of manipulation of capacities resulting in undue benefits to some of the fertiliser units is not a matter of recent origin but was brought to the notice of the Government as back as 1992 when JPC on Fertiliser Pricing examined it thoroughly. This matter is pending with the Government for final decision since then. The Committee are not at all satisfied with the evasive reply of the Government on this issue. The Committee view the role of the Technical Committee as mere piece-meal work. Now, when the Expert Group has finally given its report on 19.11.1999, as stated in response to Unstarred Question No. 1684 answered in Rajya Sabha on 17.12.1999, (Appendix II) the Committee hope that Government would decide the issue finally without any further delay. The Committee reiterate their earlier recommendation that excess amount paid so, far, which runs into crores of rupees should be recovered from the concerned fertiliser units.

15. The Committee find that the Government has initiated a proposal for regulating payment of subsidy on urea in respect of production in excess of 110% of the capacity utilisation. The Committee would await the final outcome on this as well as on other aspects regarding treating manipulation of capacity as a criminal offence punishable under the process of law.

Finalisation of revival packages for FCI and HFC Units

Recommendation (Sl. No. 13, Para No. 76)

16. The Committee had noted with dismay that Government had almost decided to hive-off Haldia and Gorakhpur projects but the final decision to close them or not was to be taken at the highest level. The Committee had been recommending since 1993 that sick units of HFC and FCI in fertiliser sector be revived at the earliest but regretfully the Government had not come out with any positive and workable proposal. Although during this period, these companies had incurred huge losses to the tune of Rs. 6930 crores, the Government had been citing paucity of funds as one of the reason for non-revival of the sick units. The Committee had viewed this approach as lack of will. If these units had become sick, the fault was not of these units alone but the administrative Ministry also had failed to monitor their performance well in time and take corrective action. The DoF had itself admitted that the sick units had an inherent problem due to technology and feed stock related constraints. Surely, the Government could not abdicate its responsibility and should have tackled both these issues. It was, therefore, for the Government to resolve these issues now and make the units functional.

17. The Government in their reply have informed that the revival packages for the functional units of HFC and FCI approved, in principal, by the Government on 20.4.95 could not be implemented for want of funding arrangement requiring an investment of Rs. 2201 crore (Rs. 465 crore for HFC and Rs. 1736 crore FCI at 1994 price level).

During the exercise to mobilise funds for the revamp of HFC and FCI from the financial institutions (FIs) certain reservations on the technical viability of the packages were expressed by ICICI the lead FI. As such it was decided that the revival packages be reformulated from the standpoint of funding by the FIs. An Expert Group led by ICICI comprising IDBI, HFC and FCI as its members was constituted. The FIs insisted on a fresh technical appraisal of the package, including a health study of the plant by an independent agency. The Group appointed FACT Engineering and Design Organisation (FEDO) as Consultant to undertake this study.

Based on the report of FEDO, ICICI indicated that the revamp would entail a fresh capital investment of Rs. 3507 crore (Rs. 869 crore for HFC and Rs. 2638 crore for. FCI.) Accordingly, the rehabilitation proposals for HFC and FCI were reformulated in August '97. The Government approved only the revamp proposals for Namrup Units at a fresh estimated investment of Rs. 350 crore and deferred its decision in respect of the other units of HFC and FCI.

Taking into consideration the techno economic viability, comprehensive rehabilitation proposals in respect of the remaining units of HFC and FCI on stand alone basis have been finalised and submitted to the competent authority in the Government for approval and final sanction of BIFR.

18. The Committee find the reply of the Government satisfactory to the extent that comprehensive rehabilitation proposals in respect of remaining units of HFC and FCI have been finalised on stand alone basis and submitted to the competent authority for approval and for final sanction of BIFR. The Committee, however feel that mere finalisation of above proposals will not satisfy in full their recommendation to make these units functional. In this context the Committee would like to invite the Government's attention over the fact that on two earlier occasions the Government had also finalised these proposals, once in April, 1995 and other in August, 1997 envisaging an investment of Rs. 2201 crore and Rs. 3507 crore respectively. However, these finalised proposals could not make the sick units functional for two reasons *viz.* failure of the Government in tying up requisite funds of Rs. 2201 crore and objection made by lead Financial Institution ICICI on technical viability of the proposal of Rs. 3507 crore. The Committee want the Government to pursue these proposals diligently with the sole objective that these units are made functional/viable at the earliest.

D. Revival of Sick Units

Recommendation (Sl. No. 15, Para No. 78)

19. In the context of the announcement of special economic packages in steel or heavy Engineering Industry where financial institutions like IDBI would give financial assistance to sick units, the Committee had urged the Govt. to extend the same treatment to fertiliser sector also. The Committee had hoped that Govt. will respond to the strong feelings of the Committee. In this regard, the Committee had taken note of the package for Bengal announced by the Union Information & Broadcasting Minister in Calcutta in the 2nd week of February, 1999 which included the revival of HFC under BIFR. The Committee had desired that DoF should approach the PMO and other concerned agencies for obtaining special revival package.

20. The Government in their reply had informed that the financial institutions participate in company/unit specific revival packages and offer such reliefs/concessions as may be considered commercially viable. In the case of HFC, ICICI as the Operating Agency was closely involved with the drawl of revival package of the various units of the company.

21. The Committee regret to note that the reply of the Government is ambiguous in nature. The Committee had specifically referred to package of Bengal announced by the then Union Information and Broadcasting Minister in Calcutta in the 2nd week of February, 1999 and had desired that Department of Fertilisers, in context of this announcement should approach the PMO and other concerned agencies for obtaining special revival package. Whatever has been stated in reply to the recommendation of the Committee, is the reiteration of the version of the Government on this issue which is already known to the Committee.

The Committee gather the impression that Deptt. of Fertilisers has not even approached the PMO even after specific advice by the Committee. In this context the Committee would like to draw Government's attention over Secretary, (Fertilisers) deposition (23rd March, 1999) before the Committee that Deptt. of Fertilisers had received some proposals from Government of West Bengal and that Secretary (Fertilisers) had held meeting with Chief Secretary, Government of West Bengal and some proposals were awaited from the State Government about Durgapur, Haldia and others.

The Committee term the action taken reply of the Government as incomplete as it does not link the scheme of events deposed before the Committee during evidence of Secretary (Fertilisers) with that of what actually happened thereafter. Therefore the Committee feel that specific steps as recommended by the Committee were not taken by the Government. Accordingly the Committee urge the Government to clearly spell out the steps taken by them under package of Bengal as mentioned above.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1, Para No. 29)

Economic Planning is a very vital factor in country's total development and project planning is a strategic component of economic planning. It has to be more scientific and realistic so that the very objective of Planning is achieved. The Committee regret to note that due to casual approach of various agencies of the Government, the simple issue of difference in perception of demand/supply of fertiliser in the country has not been sorted out. The Working Group on fertilisers for the 9th Plan had submitted its projection for the demand for fertiliser way back in August, 1996. These demand estimates were subject of discussion among the various departments., and despite several meetings, Departments have not been able to resolve the issue although two years of the plan period are over. Due to this reason various projects in fertilisers sector could not be initiated which resulted in not only in the cost escalation of projects but also defeated the very purpose of planning. The Committee were informed that there has been a shortfall in expenditure of over Rs. 400 crores during the first year of 1997-98 from approved outlay of Rs. 1728 crores. The Committee note that for the reasons of non-performance, the outlay for the second year *i.e.* for 1998-99 was revised drastically from Rs. 2249 crores to Rs. 989 crores, totalling shortfall of over Rs. 1660 crores in two years. The Committee tend to appreciate Government's difficulties in finalising the Indo-Oman/Indo-Iran projects but do not find any justification of for prolonging the decision on projects like Nellore, Hazira Ammonia-Urea Expansion Project and KRIBHCO's Gorakhpur project. The only reason advanced is difference of perception in demand and supply. The Committee do not agree with this reasoning and take a serious view of the lackadaisical approach adopted by DoF and other concerned agencies. The Committee recommend that the Cabinet Secretary should appoint a High Powered Authority to evaluate the performance of officials involved in deciding the issue of Demand and Supply. In Committee's view, this is not an issue which warrant a period of two years to conclude a decision. The purpose of suggesting the constitution of independent authority is to measure the performance of officials involved in the present hold up and also to adopt corrective measures for future planning activities. The Committee also hope that present difference in perception of demand and supply are resolved within the next three months and expansion projects held up are cleared immediately thereafter.

Reply of the Government

As per the Allocation of Business Rules, assessment of demand for fertilizers is the responsibility of the Department of Agriculture & Cooperation (DAC). The delay took place on account of differences in perception among the Department of Fertilizers, Department of Agriculture & Cooperation and the Planning Commission. The Deptt. of Fertilizers tried to play a pro-active role but the differences could not be sorted out. In order to remove the impasse, the matter was placed before the CCEA. CCEA discussed these issues in its meeting held in April, 99 and on the basis of demand projections made in the 9th Plan and consequent demand supply gap has given its 'in principle' approval to following four projects for additional urea capacities subject to investment appraisal by PIB. These four projects have been submitted to the PIB for investment appraisal.

(i) Hazira expansion project of KRIBHCO;

(ii) Thal expansion project of RCF;

(iii) Gorakhpur project of KRIBHCO at the site of FCI's old plant; and

(iv) Nellore grassroots project of IFFCO.

As regards the question of appointing a High Powered Committee to look into the delay, the matter has been taken up with the Cabinet Secretariat.

Comments of the Committee

(Please *see* Para Nos. 7 to 9 of Chapter I of the Report.)

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II dated 24th August, 1999]

Recommendation (Sl. No. 2, Para No. 30)

The Committee regret to note that in regard to setting up of Oman India Fertiliser Project—there has been considerable delay. The Committee have now been informed that negotiations for finalisation of the project are at critical juncture. The Committee were apprised that Banks and Export Credit Agency indicated requirement of Government guarantees for the projects and also imposed certain stringent conditions on Sponsors. These were not found to be acceptable, and sponsors felt that changes in project parameters are required to improve the project viability. At present sponsors are working out alternative project parameters to make the project more viable and bankable. The Committee hope that Government will take judicious and transparent decision keeping the national interest in mind expeditiously.

Reply of the Government

The restructuring proposal of the project is under negotiations/ discussions between Government of India & Oman and the project sponsors and the arranging banks. The Government will take a balanced and judicious decision in the matter keeping the overall national interest in mind.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, dated 24th August, 1999]

Recommendation (Sl. No. 3, Para No. 31)

The Committee find that apart from Oman joint venture project, the planning process of Iran Joint Venture (in which IFFCO and KRIBHCO will be partners from Indian side) has also been very tardy. Even though MoU between two sides was singed way back in 1994, it is not yet certain as to when the actual project will take off. The Committee have now been informed that like Oman project, this project is also facing difficulty in arranging finance. Due to single bid received for Engineering Procurement Construction (EPC), fresh bids have been invited in January, 1999 for submission by May, 1999. The Committee desire that evaluation of these bids should be transparent and judiciously done leaving no room for representations and counter representations as in the case of Oman Project. They also hope that the project will be taken up for implementation in a time bound manner.

Reply of the Government

The last date for submission of bids for the Iran Joint Venture was 24th May, 1999. However, in view of recent positive development with respect to project financing indicated by Qeshm Free Area Authority and requests from some of the bidders the last date for submission of bids has been extended to 26th July, 1999. The observations of the Committee regarding evaluation of the bids have been communicated to the project authorities.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 4, Para No. 32)

Nellore Fertilizer Project, has also not been cleared due to unresolved issue of demand-supply estimates by the end of Ninth Plan (1997-2002). During the course of evidence the Secretary (Fertilizers) informed that after the issue is resolved the prioritisation of fertilizer projects pending for approval would be taken up. According to the Ministry the whole process is likely to take two months time. The Committee hope that as assured the project will be prioritised for investment decision at the earliest.

Reply of the Government

The issue of demand supply gap of urea in the terminal year of the ninth Plan *i.e.* 2001-02, and prioritisation of projects in the pipeline for investment approval based on the demand supply gap of urea, was considered by the Government in April, 1999. After considering the issues involved, four project proposals for urea capacity creation were prioritised and given Government's 'in principle' approval subject to investment appraisal by PIB. These proposals which also included Indian Farmers Fertiliser Cooperative Ltd. (IFFCO) grassroots ammonia urea project at Nellore in Andhra Pradesh have since been submitted to the PIB for investment appraisal.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 5, Para No. 33)

It also transpired during the course of examination that acquisition of Mangalore Chemicals & Fertilizers Ltd. (MCFL) has been dropped since Government of Karnataka did not agree to terms and conditions of KRIBHCO for the waiver of sales tax, turnover tax etc. The project was conceived in July, 1996 and dropped in May, 1998 and during this period, the Committee were informed that Rs. 7 lakh had been spent on this exercise. However, the Ministry in reply to a question relating to examination of KRIBHCO has stated that a sum of Rs. 38.8 lakh has been spent on this project as whole. The Committee view this expenditure as infructuous. The Committee strongly desire the judicious use of Public money and Ministry should issue strict guidelines accordingly for compliance.

Reply of the Government

As regards discrepancy in figure the expenditure of Rs. 7.0 lakh only pertained to 1997-98 while Rs. 38.80 lakh is the total expenditure. The expenditure of Rs. 38.8 lakh was incurred on preparation of rehabilitation package as a part of the due diligence exercise conducted by KRIBHCO to evaluate the cost benefit of the decision to acquire MCFL. As a result of this exercise, it was felt that unless certain concessions are granted by Government of Karnataka and Government of India, the proposal would not be commercially viable. As these concessions were not granted, KRIBHCO decided not to continue with this proposal.

Expenditure on such due diligence and pre-project activities, though they appear to be infructuous, if project is not undertaken, are unavoidable in order to enable proper investment decision. However, PSUs are being advised to ensure that such expenditure is made prudently.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 6, Para No. 34)

The Committee feel that information system in KRIBHCO lacks accuracy. Apart from the financial inaccuracy pointed out in preceding paragraph in another case, an incorrect information was furnished to Lok Sabha. It related to Unstarred Question No. 3971 dated 14th July, 1998 regarding Tours of KRIBHCO officials. Its reply was subsequently corrected bv the Minister of State for Chemicals & Fertilizers on 16th

March, 1999. This mistake came to the notice of KRIBHCO only when this Standing Committee shought certain information on the subject. It does not reflect well on the working of the organisation like KRIBHCO. The Committee desire that DOF should look into the matter and suggest corrective measures to make information system accurate.

Reply of the Government

The matter has been examined in consultation with KRIBHCO. KRIBHCO has system of cross-checking information before forwarding it to the Department. However, while furnishing information to this Department for giving reply to Lok Sabha question, an inadvertent error occurred at the time of consolidation of information from various annexures which could not be detected. The management of KRIBHCO has instructed its officers to be careful and before sending information cross-check the details without fail.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 8, Para No. 46)

The Committee find that as against the budget estimates of Rs. 6000 crores for payment under Retention Price Scheme and freight subsidy for 1998-99 a sum of Rs. 8000 crores has been proposed for 1999-2000. The Committee also find that budget estimates of Rs. 6000 crores have been revised to Rs. 7360 crores during 1998-99. The Committee have been informed that this quantum enhancement of Rs. 1360 crores was necessitated due to withdrawal of hike in price of Urea by Rs. 1000 per tonne. The Department of Fertilizers has informed that Government has increased farmgate price of Urea from Rs. 3660 to Rs. 4000 per tonne effecting an increase of Rs. 340 per tonne *w.e.f.* 29th January, 1999. Elaborating the reasons for a provision of Rs. 8000 crores for 1999-2000, the DOF has informed that since the present hike in prices of Urea will only get Rs. 700 crore in full year as the price were effective only from January, 1999 a provision of Rs. 1000 crores for payment of pending claims was to be made in next year's budget. The Committee hope that the budget provision of Rs. 8000 crores for 1999-2000 would be enough for the full year. The Committee, however, would like the Government to ensure that this huge amount is utilised in a manner where the full benefits of the Government Scheme reach the farming community of the country.

Reply of the Government

The final allocation for the year 1998-99 was Rs. 7572.32 crores. This amount was not sufficient to meet all the liabilities of 1998-99. Liabilities estimated at Rs. 1000 crores (approximately) were carried forward to 1999-2000. The budget estimate of Rs. 8000 crores for 1999-2000 is expected to clear the current and arrear liabilities.

So far as the benefit of Government Scheme reaching the farmers of the country is concerned, the Retention Price-cum-Subsidy scheme itself was introduced with the twin objectives of ensuring a reasonable return on investment and to facilitate healthy development and growth of the fertilizer industry. Although the subsidy is paid directly to the urea manufacturing units, it reaches the consumers in the form of low farm gate price, as the consumer price of urea is controlled by the Government.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 16, Para No. 79)

The Committee regret to note that out of Rs. 70 crores made available for implementation of revival programme of HFC Namrup units during 1998-99, a meagre outlay of Rs. 15 crores has been spent and another Rs. 15 crores was likely to be spent during the last few days of the year. In this connection, the CMD, HFC also informed the Committee that had they not delayed the execution of revival package for a month, they could have utilised the full amount. The Committee are anguished over this delay which resulted in non-utilisation of Rs. 40 crores for a fertiliser unit in North East which badly needs special attention. The Committee once again recommend that Government should ensure timely implementation of the revival programme so that the Namrup unit starts production as per schedule *i.e.*, by May, 2002.

Reply of the Government

The revamp proposals of the Namrup units of Hindustan Fertilizer Corporation Ltd. (HFC) were approved by the Government in October '97 with a fresh investment of Rs. 350 crores. Thereafter, a Consultant (FEDO) was appointed to detail the scope of work and prepare bid ocuments for selecting an Engineering, procurement and Construction EPC) contractor. This was followed by negotiations and finalisation ontract with PDIL for construction and execution of the revamp project on single point responsibility basis. The pre-project activities were completed by October'98. Thus the project took off on 2.11.98. As a result, only Rs. 15 crore could be spent against a provision of Rs. 70 crore provided in the Budget for the year 1998-99. During 1999-2000, a provision of Rs. 78.64 crore for revamp of Namrup unit has been made.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 19, Para No. 82)

The Committee are satisfied that Government take sympathetic view in waiving of Government loans and interest thereon for fertilisers PSUs. The Committee recommend that such of the PSUs as are economically viable but are unable to find resources for the replacement of machinery to reduce sulphur content in fertiliser production in compliance with Supreme Court order or/and are incurring heavy expenditure on interests may be given sympathetic treatment in waiving-off their loans/interests.

Reply of the Government

In order to enable the loss making fertilizer PSUs to implement the pollution control schemes, including those directed by the Hon'ble Supreme Court, DOF have provided necessary budgetary support to HFC, FCI & PPL. The necessary measures have either been already implemented or are under implementation.

2. To improve the financial viability of PSUs, the Government have considered on merits proposals for waiver of Government loans and interest thereon as a part of capital restructuring so as to ensure their operational viability. The Government would examine each case on erits.

Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II. Dated 24th August, 1999]

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

Recommendation (Sl. No. 7, Para No. 38A)

The Committee note that Government has increased the price of Urea per tonne from Rs. 3660 to Rs. 4000 *w.e.f.* 29th January, 1999. The Committee feel that this price hike is unwarranted and against the interest of farming community. Hence, it should be withdrawn henceforth.

Reply of the Government

The price of urea was increased from Rs. 3660/- per metric tonne to Rs. 4000/- per metric tonne *w.e.f.* 29th January, 1999. Since the increase was warranted both from the point of view of fiscal sustainability and balanced nutrient application, it is not proposed to withdraw the increase in price of urea.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 11, Para No. 56)

The Committee finds that for the year 1999-2000, a provision of Rs. 750 crores has been made for subsidy on imported urea. The Committee feels that Government should give top priority to increasing indigenous production irrespective of the fact whether the international prices of urea are cheaper than domestic prices. The international prices cannot remain stable for all times and the country cannot rely upon the assured availability of fertilizer abroad at critical times. The Committee appreciates the view of the Government that import of fertilizer is avoidable drain on foreign exchange besides causing logistics problems. The Committee hope that with the likely clearance of pending projects, indigenous production will increase and dependence on import will be reduced to minimum.

Government of India's policy objective has been achievement of maximum degree of self-sufficiency in Nitrogen production leaving only marginal quantities to be met through imports. The role of imports in the over all supply planning is essentially "residual" and only marginal quantities of demand are met through imports.

A statement on production, imports and consumption of urea in the last 3 years given below will show that increase in consumption is being met mainly from increase in production.

Production, Imports and Consumption of Urea in the Last Three years

(In lakh MT)

Year	Production	Imports	Consumption
1996-97	156.20	23.03	190.25
1997-98	185.96	23.89	196.16
1998-99	192.91	5.57	207.97 (Estt.)

Recommendation (Sl. No. 12, Para No. 57)

The Committee find that there is a wide gap between the projected demand and supply in fertiliser sector over the next 10-12 years. According to a note prepared by the Planning Commission, the chemical fertiliser consumption requirement will be 45.48 million tonnes in 2011-12 as against the present availability of about 21 million tonnes. The Committee desire that a working group should go into this matter and suggest measures to increase indigenous production uniformly with a policy objective that dependence on import of urea is bare minimum.

Reply of the Government

It may not be appropriate to envisage that there is a wide gap between the projected demand and supply in fertilizer sector over the next 10-12 years. In 1998-99, an approximate production of 192.9 lakh tonnes by domestic fertilizer companies met almost 97% of the demand, leaving a gap of only 3% to be met from imports. Estimated production in 2002-03 is 213 lakh tonnes of urea which is as per projects in pipeline, leaving a balance of only 15 lakh tonnes of demand to be met from imports. The projected 45.48 lakh tonnes requirement in 2011-12 is based on perspective planning. Investment decisions for creation of indigenous additional urea production facilities are made on Five Yearly demand-supply projections. As on date, there is sufficient indigenous production capacity to meet the objective of food security and maximisation of indigenous urea production till 2003-2004. Working Groups for Xth & XIth Plan will estimate five yearly projections of demand and supply for 10 years beyond 2002-03 which will be the basis for further capacity accretion in indigenous urea production.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No. 17, Para No. 80)

It transpired during evidence of the representatives of DOF that HFC's unspent amount of Rs. 40 crore was diverted to another fertilizer company viz., Madras Fertilizers Ltd. The Committee have time and again emphasised that this should be done in case of IFFCO and KRIBHCO which have surplus funds and can be of much help of sick units of FCI and HFC. The Committee would await Government's specific decision in this regard.

Reply of the Government

The budget provision in favour of HFC was Rs. 75 crore, of which Rs. 70 crore was earmarked for the revamp of Namrup Unit. The company could not utilise the funds fully because of the delay in executing the revival scheme. The unutilised funds of Rs. 40 crore were fruitfully utilized by another PSU, MFL which could not be earlier allocated the required resources due to budgetary constraints. The funds would have had to be surrendered but for the diversion to MFL. this does not, in any way, affect the implementation of the revival scheme of Namrup unit, which has been provided for adequately (Rs. 84 crore) during 1999-2000.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Recommendation (Sl. No 18, Para No. 81)

The Committee have been informed that DOF regularly monitors performance of PSUs/Cooperatives through periodical reports. The Committee urge that the Department should initiate a system through which all PSUs/Cooperatives are updated with the technological advancement made in fertiliser industry so that they do not suffer for want of latest technical know-how. This may go a long way in ensuring health of the plants.

Reply of the Government

The fertilizer companies in the public sector, cooperative sector and private sector have the freedom to choose the technology, based on their own commercial decision. Projects & Development India Limited (PDIL), a public sector undertaking, has the expertise in design, engineering, procurement and inspection. It also has the Consultancy Division which handles market research, project planning, non-destructive testing services, technical and inspection services. The choice of technology decisions are taken in the Board of the PSUs where the Government nominees are represented. In the Quarterly Review Meetings of the PSUs and Cooperatives, performance of the companies is reviewed and all important matters including that relating to technology are discussed at the level of the Ministry. Fertilizer industry is not suffering for want of latest technical know-how. Fertilizer Association of India provides a forum for interaction of various interests in the fertilizer industry to know the latest technological advancement in the sector.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

CHAPTER IV

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

Recommendation (Sl. No. 9, Para Nos. 47 & 48)

The Committee regret to note that inspite of their earlier recommendations on the menace of manipulation of capacities and undue benefits taken by some of the fertiliser units, Government have not concretised any final decision/action in the matter. The Committee were informed that the Fertiliser Association of India (FAI), the apex body representing the industry has referred to various under recoveries suffered by their units as a result of which the units with high level of capacity utilisation are barely able to earn 12% post tax return on net worth assured under the Retention Price Scheme. Further, the industry has a feeling that certain other factors such as delay in recognition of escalation claims, sales tax, purchase tax and turnover affect the assured return adversely. At the assessed level of production of 80% to 90%, these units, according to FAI, would not have earned the assured 12% post tax return on net worth. The Committee were also informed that a Technical Committee appointed by the Government have looked into the possible under statement of capacities by some of the urea manufacturing units. Since the Technical Committee had studied only the selected gas-based plants, Government thought it appropriate to consider the factual position of all ammonia/urea plants irrespective of feedstock which had high capacity utilisation. Accordingly, Government is constituting another Expert Group to carry out reassessment of capacity of all urea manufacturing units reporting high capacity utilization. The Expert Group is required to submit its report within three months.

The Committee feel that issue of post tax return on net worth assured under the Retention Price Scheme (RPS) is an independent one and should not be allowed to be linked with the main issue. In the opinion of the Committee, the Government is at liberty to revise post tax return as per their wisdom. The Committee would await a categorical reply from the Government that manipulation of capacity utilisation is an offence and has to be treated as an offence without any scope for compromise or negotiation. The Committee caution the Government that in the name of new pricing policy, irregularities committee should not be regularised. The Committee would like an assurance from the Government that excess amount paid so far, which reportedly runs into crores of rupees would be recovered from the concerned fertilizer units.

Reply of the Government

It was stated in the reply to the question Nos. 15 and 16 of the questionnaire circulated by Standing Committee on Petroleum and Chemicals in connection with the scrutiny of the Demands for Grants for 1999-2000, that an Expert Group was being constituted to carry out reassessment of capacity of all urea manufacturing units reporting high capacity utilisatioin since the Technical Committee had studied only the selected gas based plants. The Expert Group has accordingly been set up on 28th April, 1999. The Expert Group is required to submit the report within three months of its constitution. While making recommendation about the reassessed capacity, the Committee will also work out the financial implications of the various dates from which the final reassessed capacity can be implemented. Final decision about the extent of reassessment and the date of effect will be taken after the report of the Expert Group is available.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Comments of the Committee

(Please *see* Para Nos. 14 and 15 of Chapter I of the Report.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation (Sl. No. 10, Para No. 49)

As an interim measure, the Committee agree with the proposal of the Government to impose a cap on production above a certain cut-off point. Secondly, the Government should examine from legal point of view the practice of manipulation as a criminal offence punishable under the process of law.

Reply of the Government

A proposal has been formulated for regulating payment of subsidy on urea in respect of production in excess of 110% of the capacity utilisation. Approval of the Government is awaited.

2. A reference has been made to the Ministry of Law, Justice & Company Affairs (Department of Legal Affairs) for advice as to whether under-statement/manipulation of capacity by some of the urea manufacturing units is a criminal offence punishable under the process of law. Further action will be taken on receipt of the advice from that Ministry.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, Dated 24th August, 1999]

Comments of the Committee

(Please *see* Para Nos. 15 of Chapter I of the Report)

Recommendation (Sl. No. 13, Para No. 76)

The Committee note with dismay that Government has almost decided to hive-off Haldia and Gorakhpur projects but the final decision to close them or not is to be taken at the highest level. The Committee have been recommending since 1993 that sick units of HFC & FCI in fertiliser sector be revived at the earliest but regretfully the Govt. have not come out with any positive and workable proposal. Although during this period, these companies have incurred huge losses to the tune of Rs. 6930 crores, the Govt. have been citing paucity of funds as one of the reason for non-revival of the sick units. The Committee view this approach as lack of will. If these units have become sick, the fault is not of these units alone but the Administrative Ministry also has failed to monitor their performance well in time and take corrective action. The DOF has itself admitted that the sick units have an inherent problem due to technology and feed stock related constraints. Surely, the Government cannot abdicate its responsibility and should have tackled both these issues. It is, therefore, for the Government to resolve these issues now and make the units functional.

Reply of the Government

The revival packages for the functional units of HFC and FCI approved, in principle, by the Government on 20.4.95 could not be implemented for want of funding arrangement requiring an investment of Rs. 2201 crore (Rs. 465 crore for HFC and Rs. 1736 crore for FCI at 1994 price level).

2. During the exercise to mobilise funds for the revamp of HFC & FCI from the financial institutions (FIs), certain reservations on the technical viability of the packages were expressed by ICICI the lead FI. As such it was decided that the revival packages be reformulated from the standpoint of funding by the FIs. An Expert Group led by ICICI comprising IDBI, HFC and FCI as its members was constituted. The FIs insisted on a fresh technical appraisal of the package, including a health study of the plants by an independent agency. The Group appointed FACT Engineering & Design Organisation (FEDO) as Consultant to undertake this study.

3. Based on the report of FEDO, ICICI indicated that the revamp would entail a fresh capital investment of Rs. 3507 crore (Rs. 869 crore for HFC and Rs. 2638 crore for FCI). Accordingly, the rehabilitation proposals for HFC and FCI were reformulated in August '97 which were considered by the Government in October '97. The Government approved only the revamp proposals for Namrup Units at a fresh estimated investment of Rs. 350 crore and deferred its decision in respect of the other units of HFC and FCI.

4. Taking into consideration the techno economic viability, comprehensive rehabilitation proposals in respect of the remaining units of HFC and FCI on stand alone basis have been finalised and submitted to the competent authority in the Government for approval and final sanction of BIFR.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, dated 24th August, 1999]

Comments of the Committee

(Please *see* Para No. 18 of Chapter 1 of the Report.)

Recommendation (Sl. No. 14, Para No. 77)

The Committee would like to emphasise once again the importance of Public Sector in the national economy and especially of the fertiliser industry which cannot be left to the whims of Private Sector or remain dependent on foreign markets. HFC/FCI units were referred to BIFR in 1992 with the hope that shortcomings would be identified and remedial measures initiated to revive them.

Reply of the Government

Unfortunately, there has been a series of techno-economic problems with regard to the performance of HFC and FCI. This is mainly because of deterioration in their plant condition which was aggravated by inherent design deficiencies, equipment imbalances, and other factors such as power shortages, industrial relations problem, surplus manpower and resource constraints, etc.

2. Despite the above, a concerted effort has been made to sustain the production operations of HFC and FCI even at a very high cost by extending budgetary support. The following budgetary support has been extended by the Government to HFC and FCI during the last five years:

(Rs. in Crore)

	1994-95	1995-96	1996-97	1997-98	1998-99
HFC	127.00	108.60	152.34	184.34	
	124.50	217.60	316.00	318.15	305.00

3. The proposals of HFC and FCI were considered by the Government in October '97. The Government approved revamp proposals only of the Namrup units at a fresh estimated investment of Rs. 350 crore and deferred its decision in respect of the other units of HFC and FCI.

4. Comprehensive proposals in respect of the remaining units of HFC and FCI with updated financial parameters and unitwise viability have been finalised and submitted to the competent authority in the Government for approval and final sanction of BIFR.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, dated 24th August, 1999]

Recommendation (Sl. No. 15, Para No. 78)

The Committee appreciate the announcement of special economic packages in steel or heavy Engineering Industry where financial institutions like IDBI will give financial assistance to sick units but urge the Government to extend the same treatment to fertiliser sector also. The Committee hope that Government will respond to the strong feelings of the Committee. In this regard, the Committee took note of the package for Bengal announced by the Union Information & Broadcasting Minister in Calcutta in the 2nd week of February, 1999 which included the revival of HFC under BIFR. The Committee desire that DOF should approach the PMO and other concerned agencies for obtaining special revival package.

Reply of the Government

The financial institutions participate in company/unit specific revival packages and offer such reliefs/concessions as may be considered commercially viable. In the case of HFC, ICICI as the Operating Agency was closely involved with the drawal of revival package of the various units of the company.

2. After evaluation of various alternatives, a revival package for HFC was formulated which envisaged the limited revamp of Durgapur, Barauni and Namrup units. The revival package envisaged hiving off of Haldia project since its revamp was not found to be techno-economically feasible. In principle approval to the revival package was given by the competent authority in the Government on 20.4.95 with the stipulation that the possibility of mobilising fresh funds of the order of Rs. 464.93 crore required for revamp from financial institutions and/or cooperatives in the fertilizer sector should be explored. However, the revival package could not be implemented as requisite funds could not be tied up. The revival package of HFC was accordingly reformulated on the basis of a fresh technical appraisal by an expert group led by ICICI from the stand point of the financial institutions which was considered by the Government on 1.10.97. The Government has approved the proposal for the revamp of Namrup units at an estimated fresh investment of Rs. 350 crore. The revival package in respect of the remaining units of HFC have been reviewed from the angle of unit-wise viability and tie up of funding arrangements and is awaiting approval of the competent authority.

3. It would be seen from the above that the financial institutions have been closely associated with the drawal of revival package and appropriate action has been taken by the Department of Fertilizers to expedite finalisation of the revival package of the company.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, dated 24th August, 1999]

Comments of the Committee

(Please *see* Para No. 21 of Chapter I of the Report)

Recommendation (Sl. No. 20, Para No. 90)

The Committee are glad that Department of Fertilizers has initiated a positive and progressive proposal for the import of LNG. The Committee hope that Government will process the recommendations of the Core Group and take concrete decision expeditiously. The Committee recommend that a task group led by the Secretary of Department of Fertilizers may be constituted to process the recommendations and interact with various Ministries involved in the decision making including Planning Commission. The Committee urge the Department of Fertilizers to examine and act conclusively on the recommendation of the Core Group and carry out the pre-budget activities with an estimated budget of Rs. 25 crores to achieve its financial closure. If the Government feel any difficulty to provide this amount during the current financial year (1999-2000), the DoF should organise and arrange this amount from internal and extra budgetary resources of organisations like IFFCO and KRIBHCO etc. The Committee would like to be apprised of the progress of the project at the regular interval of three months.

Reply of the Government

A note seeking the approval of the Committee of the Public Investment Board for authorising the Core Group for preparation of the Detailed Feasibility Report for import of LNG at a cost of Rs. 25 crores has been already submitted.

The Core Group has proposed an organisational structure as an unincorporated joint venture promoted by urea producers in public, cooperative and private sectors. The companies assessed by rating agencies for potentially available equity funds were IFFCO, KRIBHCO, NFL, Indo-Gulf, Duncan Industries, GAIL and Shipping Corporation of India. Approval has been sought from the Committee for funding the pre-project activities costing Rs. 25 crores by pooling in Rs. 8.33 crores from each of the three sectors.

The decision of the Committee on the proposal of the Core Group is awaited.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers O.M. No. 7/4/99/Fin. II, dated 24th August, 1999]

NEW DELHI;
29 February, 2000
10 *Phalguna*, 1921 (*Saka*)

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

APPENDIX I

(Enclosure to Comments of the Committee in Respect of Recommendation Sl. No. 1)

LOK SABHA

STARRED QUESTION NO. 323
TO BE ANSWERED ON 21.12.99

Fertilizer Projects

*323. SHRI T.M. SELEVAGANPATHI : Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

(a) whether the Public Investment Board has asked the Government to reconsider its decision to set up four mega fertilizer projects;

(b) if so, the details thereof; and

(c) the final decision taken by the Government in this regard?

ANSWER

THE MINISTER OF CHEMICALS AND FERTILIZERS (SHRI SURESH P. PRABHU) :

(a) to (c) A statement is laid on the Table of the House.

Statement

(a) to (c) On 10.4.99, Government had given 'in principle' approval to the following four urea projects of Public Sector Undertakings/ Cooperative Societies, subject to investment appraisal of these projects by the Public Investment Board (PIB):—

(i) Expansion of Hazira plant of KRIBHCO in Gujarat.

(ii) A new urea plant to be set up by KRIBHCO at the existing site of FCI's Gorakhpur Plant in Uttar Pradesh.

APPENDIX II

(Enclosure to Comments of the Committee in respect of Recommendation Sl. No. 9 & 10)

GOVERNMENT OF INDIA
MINISTRY OF CHEMICALS AND FERTILIZERS

RAJYA SABHA

UNSTARRED QUESTION NO. 1684
TO BE ANSWERED ON 17.12.99

Understatement of Capacities in Urea Manufacturing Units

1684. SHRI MD. SALIM :
SHRI NILOTPAL BASU

Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

(a) whether a Technical Committee appointed by Government had looked into the understatement of capacities by some urea manufacturing units;

(b) if so, the names of the units where understatement of capacities were identified;

(c) the estimated overdrawal of subsidies because of the understatement;

(d) whether another expert group has been constituted for the same purpose? If so, the terms of reference and findings thereof; and

(e) the details of Government's time-bound action plan to recover the overdrawn subsidies with retrospective effect?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF CHEMICALS AND FERTILIZERS (SHRI RAMESH BAIS):

(a) Yes, Sir.

(b) The Technical Committee had examined the installed capacity of 7 gas based urea manufacturing units namely, Chambal Fertilizers and Chemicals Ltd., Gadepan Oswal Chemicals and Fertilizers Ltd., Shahajhanpur, National Fertilizers Ltd., Vijaipur-I, Indo Gulf Fertilizers and Chemicals Corporation Ltd., Jagdispur, Indian Fermers Fertilizer Cooperative Ltd., Aonla-I, Tata Chemicals Ltd., Babrala and Nagarjuna Fertilizers and Chemicals Ltd., Kakinada.

(c) to (e) The report of the Technical Committee was discussed in the Fertilizer Industry Coordination Committee (FICC). Since the Technical Committee had recommended to reassess the capacity of only seven gas based urea manufacturing units, it was decided by FICC that there was need for working out the reassessed capacity of all urea manufacturing units irrespective of their feedstock and decided that an Expert Group be constituted to carry out such reassesment. Terms of Reference of Expert Committee were, *inter alia,* to identify all high capacity utilisation ammonia and urea units; assessment of their production capacity based upon different methods; recomputation of retention price based upon the revised capacities with financial implications thereof. The Committee was to further go into the pros and cons of different methods of reassessing capacity. The Committee was to work out the financial implications of the different dates from which the final reassessed capacity could be implemented and the financial implication of each method of capacity assessment unitwise. The Expert Committee was required to carry out its work by visiting or calling the units to hold presentations and submit data and also to give priority to study those units having higher capacity utilisation *viz.,* M/s. Nagarjuna Fertilizers Ltd., M/s Tata Chemicals Ltd., M/s Chambal Fertilizers Ltd., M/s Oswal Chemicals and Fertilizers Ltd., IFFCO Aonla Expansion, NFL Vijaipur Expansion, etc. The report of the said Expert Group has been received only on 19.11.99 and will be examined in FICC with a view to take decision on reassessment of capacity and consequent follow up action.

APPENDIX III

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Fourth Sitting 28.02.2000

The Committee sat from 1000 hrs. to 1100 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Padam Sen Choudhary
4. Shri Dilip Kumar Mansukhlal Gandhi
5. Smt. Sheela Gautam
6. Shri Shriprakash Jaiswal

Shri P. Mohan

8. Shri Ashok Pradhan
9. Shri Ramesh Chand Tomar
10. Shri Ratilal Lakidas Varma
11. Shri B. Venkateshwarlu

Rajya Sabha

12. Shri Ahmed Patel
13. Smt. Basanti Sharma
14. Shri H. Hanumanthappa

15. Shri Kanak Mal Katara

16. Shri Dipankar Mukherjee

17. Shri Gaya Singh

SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Shri Brahm Dutt — *Deputy Secretary*
3. Shri J.N. Oberoi — *Under Secretary*

The Committee considered and adopted the following Draft Reports:—

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

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

(iii) Draft Report on Action Taken by the Government on the recommendations contained in the 12th Report of the Committee on 'Demands for Grants 1999-2000 of Ministry of Chemicals and Fertilisers, Department of Fertilisers'

2. Some Members of the Committee desired that the Committee should undertake a study tour of oil exploration sites such as Bombay High. the Chairman observed that this may be done later.

3. The Committee also authorised Chairman to finalise the reports after factual verification from the concerned Ministries and present them to the Parliament.

The Committee then adjourned

APPENDIX IV

(*Vide* Para 4 of the Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the Twelfth Report of the Standing Committee on Petroleum and Chemicals (1998-99) (Twelfth Lok Sabha) on 'Demands for Grants-1999-2000 relating to Ministry of Chemicals & Fertilizers, Department of Fertilizers'

I.	Total number of recommendations	20
II.	Recommendations that have been accepted by the Government (*vide* Recommendation at Sl. Nos. 1 to 6, 8, 16 and 19)	9
	Percentage to total	45
III.	Recommendations which the Committee do not desire to persue in view of Government's reply (*vide* recommendation at Sl. Nos. 7, 11, 12, 17, and 18)	5
	Percentage to total	25
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*vide* Recommendation at Sl. No. 9)	1
	Percentage to total	5
V.	Recommendations in respect of which final replies of Government are still awaited (*vide* Recommendation at Sl. Nos. 10, 13 to 15 and 20)	5
	Percentage to Total	25

(iii) Expansion of Thal Plant of RCF in Maharashtra.

(iv) A grassroot urea plant to be set by IFFCO at Nellore in Andhra Pradesh.

The PIB in its meeting held on 9.7.99 considered the above mentioned projects after taking into account their implications on the quantum of subsidy as well as the larger issue of food security of the country and recommended limited additions to indigenous capacity through phased implementation. The recommendations of the PIB are under Government's examination, in the context of Government's policy relating to food security and the need to contain the outgo on account of subsidy.