STANDING COMMITTEE ON PETROLEUM & CHEMICALS

(2003)

(THIRTEENTH LOK SABHA)

FORTY-FIRST REPORT

MINISTRY OF CHEMICALS & FERTILISERS
(DEPARTMENT OF FERTILISERS)

DEMANDS FOR GRANTS

(2003-2004)

Presented to Lok Sabha on 08.04.2003

Laid on Rajya Sabha on 08.04.2003

LOK SABHA SECRETARIAT
NEW DELHI

April, 2003/Chaitra, 1925 (Saka)

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STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2003)

SHRI MULAYAM SINGH YADAV - Chairman

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27	Shri Rathilal Kalidas Varma
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29	Dr. Girija Vyas
30	Shri Dinesh Chandra Yadav

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* *Nominated w.e.f. 21st February, 2003.*
** *Nominated w.e.f. 26th February, 2003.*

RAJYA SABHA

31 Shri Balkavi Bairagi
32 Shri Ram Nath Kovind
33 Shri Anil Kumar
34 Shri Rajiv Ranjan Singh 'Lalan'
35 Shri Moolchand Meena
36 Shri Dipankar Mukherjee
37 Shri Pritish Nandy
38 Shri Kripal Parmar
39 Shri Ahmed Patel
40 Shri Keshubhai S. Patel
41 Shri V.V. Raghavan
42 Ms. Mabel Rebello
43 Shri Yadlapati Venkat Rao
44 Shri Thanga Tamilselvan
45 Prof. Ram Gopal Yadav

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2.	Shri P.K. Grover	-	*Director*
3.	Shri R.K. Saxena	-	*Under Secretary*
4	Shri A.K. Shah	-	*Assistant Director*

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (2003) having been authorised by the Committee to submit the Report on their behalf present this Forty-First Report on Demands for Grants of the Ministry of Chemicals & Fertilisers (Department of Fertilisers) for the year 2003-2004.

2. The Committee examined/scrutinised the Demands for Grants pertaining to the Ministry of Chemicals & Fertilisers (Department of Fertilisers) for the year 2003-04 which were laid on the Table of the House on 11th March, 2003.

3. The Committee took evidence of the representatives of the Ministry of Chemicals & Fertilisers (Department of Fertilisers) at their sitting held on 26th March, 2003.

4. The Committee considered and adopted the Report at their sitting held on 4th April, 2003.

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 2003-04 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:
April 7, 2003
Chaitra 17, 1925 (Saka)

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

REPORT

A. INTRODUCTORY

The Department of Fertilisers (DOF) is entrusted with the following responsibilities:-

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

2. Allocation and supply linkages for movement and distribution of Urea in terms of assessment made by Department of Agriculture & 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 except such projects as are specifically allotted to any other Ministry or Department.

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

8. Administrative responsibility for the Indian Potash Ltd.

9. All attached or subordinate offices or other organisations concerned with any of the subjects specified for this Department.

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

Public Sector Undertakings

1. Fertilisers & Chemicals Travancore Limited (FACT)
2* Fertilisers Corporation of India Limited (FCI)
3. National Fertilisers Limited (NFL)
4. Rashtriya Chemicals & Fertilisers Ltd. (RCF)
5*** Pyrites, Phosphates & Chemicals Limited (PPCL)

6. Madras Fertilisers Limited (MFL)
7. Projects & Development India Limited (PDIL)
8** Hindustan Fertilisers Corporation Limited (HFC)
9. Brahmaputra Valley Fertiliser Corporation Limited (BVFCL)

Cooperative Sector

1. Indian Farmers Fertiliser Cooperative Limited (IFFCO)
2. Krishak Bharati Cooperative Limited (KRIBHCO)

Joint Sector Undertakings

Indian Potash Limited (IPL)

Present Status of PSUs

3. Out of the above nine PSUs, only NFL is profit earning. Namrup Units I, II, III which were earlier plants of HFC have been segregated into a new company viz. Brahmaputra Valley Fertiliser Corporation Ltd. (BVFCL) w.e.f. April, 2002. The Government in on July, 2002 decided to close/hive off Dehradun and Saladipura units of PPCL. The final decision on rehabilitation of PDIL is yet to be taken by Government.

*** All units of FCI except Jodhpur Mining Organisation (JMO) have been closed down. The JMO after hiving off from FCI has recently been incorporated as a PSU viz. FCI Aravali Gypsum and Minerals India Ltd.**

**** All units of HFC except for the Namrup units have been closed down. The Namrup Units have been seggregated from HFC and incorporated into new company viz. the Brahmputra Valley Fertiliser Corporation Ltd.**

***** All the units of PPCL except Amjhore unit have been closed down.**

An Overview of Demands for Grants of Deptt. of Fertilisers for 2003-2004

4. The Detailed Demands for Grants of Department of Fertilisers (Demand No.8) laid on the Table of Lok Sabha on 11th March, 2003 make provisions of Rs. 13844.20 crore. The item-wise details are given in Appendix IV. The main items are as under:

	Item-wise details	**Rs. in crores**
(i)	Subsidy on indigenous fertilisers	7555
(ii)	Concessions for decontrolled fertilisers	4,456
(iii)	Net Subsidy on imported fertilisers	709
(iv)	Non-Plan loans to 5 PSUs of HFC, FCI, PPCL, PDIL and BVFCL	217
(v)	Revival of HFC Namrup	134

5. Demands for Grants of Deptt. of Fertilisers for the year 2003-2004 (Demand No. 8) provide for the following gross provisions in Revenue Section and Capital Sections:-

(Rs. in crores)

	Plan	**Non-Plan**	**Total**
Revenue Section	26.50	13429.48	13455.98
Capital Section	170.50	217.72	388.22
Total	197.00	13647.20	13844.20

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

6. The net budgetary provisions for 2003-04 after adjusting recoveries on account of import of fertilisers (Rs. 701.50 crore) is as under:

(Rs. in crores)

	Plan	**Non-Plan**	**Total**
Revenue Section	26.50	12727.98	12754.48
Capital Section	170.50	217.72	388.22
Total	197.00	12945.70	13142.70

B. OBJECTIVES DURING IXTH PLAN (1997-2002) AND XTH PLAN (2002-07) PERIODS

(a) Objectives for Ninth Plan Period (1997-2002)

7. The following were some of the areas identified for urgent Government attention for formulating the Ninth Plan (1997-2002):

- (i) Disinvestment
- (ii) Closure of non-viable sick PSUs
- (iii) Removal of regional imbalances in industrial developments
- (iv) Feedstock and pricing policy for fertilisers

8. The Committee wanted to know as to how far the above objectives were achieved. The DOF in a written note informed:-

> "Pricing policy for fertilizers is a major responsibility of this Department. Under the prevailing policy of retention price, the price is fixed unit-wise, based on parameters approved for a three year pricing period. The last pricing period was valid upto 30.6.1997. The fixation of the pricing parameters for the period beyond 1.7.1997 were approved by the Government last year….
>
> A new pricing policy for urea units has also been formulated. The new policy will come into effect from 1.4.2003 and will be implemented in stages till 31.3.2006. The modalities for the period thereafter will be decided after reviewing the implementation of policy till 2006. The new policy aims at greater transparency, uniformity, operational efficiency and efficiency in subsidy disbursements to urea units. The Tariff Commission has also submitted its report on pricing mechanism and other related aspects of DAP industry. The Department is examining this report critically so as to improve efficiency and the ways to reduce subsidy burden.
>
> On closure of non-viable PSUs, there has been considerable progress in resolving the outstanding issues. The accumulated loss of the four sick PSUs viz. HFC, FCI, PPCL and PDIL as on 31.3.2002 was about Rs. 15282 crore. Most of the units of these PSUs were lying closed for a long time. The total urea produced by units of these PSUs in 2001-02 was 0.76 LMT only. The revival of the individual units of these PSUs was examined by various committees in the past but was not found workable. The issue of revival of the above four PSUs was recently examined once again by the Group of Ministers (GOM). After detailed examination, GOM found that revival of these PSUs was techno-economically not viable. Government have now taken a decision to close down HFC and FCI excepting its Jodhpur Mining Organisation which has been hived off into a new company in the name of FCI Aravali Gypsum and Mineral India Ltd.; Dehradun and Saladipura Units of Pyrites Phosphates and Chemicals Ltd.

The decision regarding revival of Projects and Development India Ltd. (PDIL) and Amjhore unit of PPCL has been deferred. In taking this decision, the Government have protected the interest of the workers by extending the Voluntary Separation Scheme (VSS) to all the workers of the closed units. The total outflow of the Government for VSS alone is estimated at about Rs. 720 crore.

The subject of disinvestment of GOI held equity in the Central Public Sector Undertakings is primarily handled by the Ministry of Disinvestment (MODI). During the Ninth Plan period, 74% of GOI held equity in Paradeep Phosphates Limited was divested. The disinvestment process of GOI held equity in FACT and MFL is in progress and that of NFL is at an advanced stage."

Objectives for 10th Five Year Plan (2002-2007)

9. The following are the major objectives for fertiliser sector during 10th Plan;

(a) To achieve phased decontrol of fertiliser industry
(b) To establish a sustainable pricing policy for controlled and decontrolled fertilisers
(c) To deal with closure and sickness of non-viable units
(d) To concurrently prepare the industry to face the challenges of global competition.

10. On being asked by the Committee about the steps initiated to achieve the objectives of 10th Plan, the Department of Fertilisers in a written note informed:-

"The Department of Fertilizers had examined the report of the Expenditure Reforms Commission (ERC), with a view to formulate a new pricing policy for urea units for replacing the Retention Price Scheme, after receiving views of the State Governments, fertilizer industry and concerned Ministries/ Departments of Government of India. Some economists had also given their suggestions on pricing policy for urea units. Many of the State Governments had been in favour of continuation of subsidy on urea for encouraging its use by farmers and some had opposed decontrol apprehending that it may lead to insufficient availability of key fertilizers in tribal/ hilly/ remote areas. Some of the State Governments had not favoured introduction of scheme of dual pricing of fertilizers as proposed by ERC as they felt that such a scheme was neither practicable nor enforceable…...

Based on the recommendations of GOM, Government approved the new pricing scheme for urea units which has been notified on 30.1.2003. The new scheme will come into existence w.e.f. 1.4.2003 and will be implemented in stages. Stage-I would be of one year duration, from 1.4.2003 to 31.3.2004. Stage-II would be of two years duration from, 1.4.2004 to 31.3.2006. The modalities of Stage-III would be decided by the Department of Fertilizers after review of the implementation of Stage- I and Stage-II.

The new scheme aims at greater transparency, uniformity and efficiency in subsidy disbursements to urea units and at inducing the urea manufacturing units to take cost reduction measures and be competitive.

The new scheme envisages 25% decontrol over movement and distribution of urea during Kharif 2003, and 50% during Rabi 2003-04 and full decontrol thereafter, but after a review during 2003-04."

11. In reply to a query as to whether 25% decontrol over distribution of urea will not affect availability of urea particularly in tribal, hilly, remote and far flung areas of the country, DOF in a written note informed as under:-

"Under the new pricing policy of urea for the year 2003-04, the Government of India will be allocating the entire requirement of urea for Kharif season in tribal, hilly, remote and far flung areas like the North and Eastern states, Jammu and Kashmir and Himachal Pradesh as per the assessment made by Department of Agriculture and Cooperation (DAC) in consultation with the States. In the case of Eastern States, namely Bihar, Jharkhand, Orissa and West Bengal, as against their assessed demand, the ECA allocations varies from 75% to 88%. The remaining quantity is expected to be available from the deregulated urea and unsold stocks available with manufacturers as on 1.4.2003. Within the States , the State Governments will continue to ensure adequate availability of urea in remote and inaccessible areas. The indigenous availability (production and opening stocks) in the country is estimated at 107 to 108 lakh MT as against the requirement of 106 lakh MT assessed for Kharif 2003 season by the DAC in addition to about 5 lakh MT stock with State institutional agencies. In any case, the Government of India will continue to monitor the availability of urea in the country and in case of any problem in availability and any request received from the State Governments, the Government will be issuing Special Movement Orders to manufacturers to see that adequate availability of urea is ensured in all the States at the prices determined by the Government (MRP).

The availability of other major decontrolled fertilisers namely DAP and MOP are dependent on market forces of demand and supply. The Department of fertilisers monitors the availability of these fertilisers for ensuring adequate availability at the State level."

12. The Committee find that objectives for fertiliser sector during 9th Plan period (1997-2002) largely range from disinvestment, closure of non-viable sick PSUs feedstock and pricing policy for fertilisers to removal of regional imbalances in industrial development etc. whereas objectives during 10th Plan period (2002-07)

range from phased decontrol of fertilisers industry to preparing the industry to face the challenges of global competition. The Committee find that except for closure of non-viable sick PSUs the Government have not achieved any other objective of 9th Plan namely disinvestments, removal of regional imbalances in industrial development and feed stock and pricing policy for fertilizers. Evaluating the objective of 10th Plan, the Committee note that the objective of closure of sick and non-viable fertilizer units is a continuation of the previous plan and as such cannot be termed as contributing to laudable objectives of planning for development. The Government appear to have initiated measures to achieve the other objectives namely phased de-control of fertilizer industry and establishing pricing policy for controlled and de-controlled fertilizers but their success would depend upon the implementation of the schemes and their acceptability with the masses. The Committee do not find the Government to have done something tangible to prepare the industry to face the challenges of global competition. They regret to note that an important objective of 9th Plan namely removal of regional imbalances in industrial development has been ignored in the 9th as well as 10th Plan. The Committee recommend that this objective be included in objectives of the 10th Plan also and concrete action initiated to achieve the same. Regarding the other objectives of 10th Plan, the Committee recommend that a Committee of experts consisting of representatives of farmers, State Governments and economists be constituted to simultaneously study the impact of phased de-control over movement of urea. The success of implementation/achievement of this objective depends upon acceptability by the public and to assess the same the expert's committee should be asked to study this aspect also and report its findings to the Government. If need be, the Government should make mid-term appraisal of this objective.

(Recommendation No. 1)

13. The Committee are afraid that due to de-control of movement of urea, the worst affected would be far flung, hilly and tribal areas. Although Department of Fertilizers has assured that certain percentage of urea would be made available in these areas in the next one or two years, the Committee would like that a regular system should be established through which availability of urea and other fertilizers can be assured across the country at affordable prices. The Committee, therefore, recommend that the Government should review this policy of de-control of movement of fertilizers.

(Recommendation No. 2)

C. FIVE YEAR PLANS

(i) Review of 9th Plan (1997-2002)

14. The approved outlay for 9th Plan for PSUs and cooperatives under DOF was Rs. 11,013 crore 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 crore only. The balance was proposed to be funded by concerned PSUs/ cooperatives through their own resources. Out of total approved outlay of Rs. 11013 crore major share of Rs. 9791 crores 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

Plan outlays, vis-à-vis actual expenditure as also the Budget support and % utilisation with respect to plan outlays during Ninth Plan (1997-2002) :-

(Rs. in crores)

Year	**Plan Outlay**	**Actual Exp.**	**Budget Support**	**Utilisation In %age**
1997-98 (First Year)	1728.38	1324.38	239.78	77
1998-99 (Second Year)	989.00	801.30	209.20	36
1999-2000 (Third Year)	888.84	604.25	165	33
2000-2001 (Fourth Year)	807.87	586.49	197	31
2001-2002 (Fifth Year)	731.61	408.19	207	35.5
Total	8771,41	3724.71	927	42.4

(PSUs-wise details of actual expenditure and Plan outlays during Ninth Plan period is given in Appendix VI).

15. Thus overall utilisation rate of plan funds is only 42.4% and the reasons for not achieving the 9th Plan outlay have been stated to be (a) non-execution of mega projects (b) delay in implementation of Revival Packages of Namrup Units (HFC) and (c) non-approval to certain new schemes/ expansions/ joint ventures. In this connection, the Committee wanted to know the present status of schemes/ expansions/ joint ventures which could not be finalised during Ninth Plan as also of mega projects. The Department in a note clarified:-

"The details of major schemes/ expansion/ joint venture proposals which spilled over from the 9th Plan and have been provided outlay during the 10th Plan along with their present status are given below:-

1. OMIFCO Project of IFFCO and KRIBHCO in Oman

Investment decision on the joint venture project of IFFCO and KRIBHCO in Oman viz. OMIFCO which could not be finalised during the 9th Plan has been concluded during 2002-03. Equity contribution by the Indian sponsors in this project amounts to US $ 160 million amounting to 50% of total equity. The project envisages US $649 million as debt to be funded by international banks/ financing agencies. The project has achieved financial close and has been taken up for implementation w.e.f. 15.8.2002 and is provided outlay during the 10th Plan.

2. KRIBHCO's Hazira Expansion Project

Following recently reported discovery of natural gas reserves, KRIBHCO has revived the proposal and is preparing a detailed feasibility report for the project.

3. RCF's Thal Expansion Project

Outlay has been provided for this proposal for being taken up during the 10th Plan. RCF is examining the viability of the project in the new pricing policy environment.

4. IFFCO's Nellore Project

Following the recently reported discovery of natural gas reserves, IFFCO contemplates reviving the proposal. Token outlay for the project has been provided in the 10th Plan.

Out of the four major projects envisaged during the 9th Plan period, three, namely those at Hazira, Thal and Nellore, have been retained in the 10th Plan, as explained above. As for the Gorakhpur Project, KRIBHCO's Board has decided against the investment."

16. During the course of evidence of the DOF the Committee pointed out that Government has been changing decision so often on the issue of expansion/ commissioning of new plants, the Secretary (Fertilisers) stated:-

"Two companies are seriously considering for expansion. One is KRIBHCO which has already come with the proposal that they want to expand their capacity . The other application, which has also come, is from Jagdishpur unit of Birlas in Sultanpur district. They also want to expand their capacity. The critical issue is that both these units are asking what is the policy of the Government, whether the Government will buy if they produce and whether the Government will give subsidy concession. That is the issue which is being debated. There are two views before the Government. One is to allow them to sell it at import parity principle and the other is to buy their stock and inject that in the supply system. Two proposals could easily come up, if allowed, in 36 months. They have not been mooted till recently due to uncertainty in feedstock and concession scheme. For the last two years, KRIBHCO has not been coming with the investment proposal for the reason that there was no certainty about pricing policy and feedstock policy.'

17. Another issue relating to urea that was discussed during the course of evidence of the DOF was stagnation in consumption of urea in the country during the last three years. In this connection the Committee wanted to know the reasons for this stagnation the Secretary(Fertilisers) clarified:-

"I shall now come to the demand-supply position. I shall read out the figures of two years only. The production in 2000-01 was 19.6 million tonnes and the consumption was 19.1 million tonnes. In 2001-02, the production was 19.2 million tonnes and the consumption was 19.9 million tonnes. Here, one may say that the production is less than the consumption but there was a huge carry over stock. In fact, there is a huge inventory even today with most urea units, largely as you have observed, because of the drought conditions and also because the consumption has not really gone up as anticipated. But the fact is that today, in the country, without imports, the urea stock position in silos and in warehouses is more than satisfactory and the inventory carry over of the companies is piling up. The question would naturally arise what is our position if we produce to 100 per cent capacity. Our position is that we can produce approx. 21 million tonnes and our present estimates are that this is adequate for demand. Even this year we are anticipating that a good crop season will not generate demand for more than 19.8 to 20 million tonnes of urea – though it is not a happy picture. In fact, we are going to request the Agriculture Ministry that they may kindly look into this `no growth' pattern which has come about in the urea consumption. But that is the real picture."

(ii) **Outlay for 10th Plan (2002-07)**

18. As against the approved outlay of Rs. 11013 crore and plan outlay of Rs. 8777.41 crore of 9th Plan, a plan outlay of Rs. 5900 crore has been fixed for 10th Plan (2002-2007) period. Out of this, major share of Rs. 4390 crore is for RCF (Rs. 1900 crore), KRIBHCO (Rs. 1680 crore) and IFFCO (Rs. 810 crore), DOF had earlier justified these outlays as under;

> "Five companies viz. NFL, MFL, PPL, FACT and RCF are slated for disinvestment. In the first phase NFL, PPL and MFL are included. Outlays for NFL and MFL have been 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. As PPL has been disinvested, no outlay for this company included in the 10th Plan Outlays."

19. In this connection the Committee wanted to know as to whether the schemes for which outlays have been finalised have been finally approved by competent authorities and if not, by what time approval for the same is likely be obtained, the DOF in a written note informed:-

> "A total outlay of Rs. 519 crore has been provided for IFFCO and KRIBHCO together for the joint venture Oman India Fertilizer project during the 10th Plan. This proposal has been finally approved by the Government and is under implementation. As on 31.1.2003, IFFCO and KRIBHCO together have remitted a total cumulative amount of US $ 137.40 million as part of equity. For the remaining plan outlay in 2003-04 of all PSUs/ cooperative societies, for the schemes/ projects which are continuing schemes already approved by the competent authority earlier, no fresh approval is required. Projects/ schemes to be taken up during each year of the 10th Plan according to annual plan outlays would be approved by the competent authorities as per delegation of financial powers before commencing implementation."

20. During the course of evidence the Committee observed that gas was available in Tripura in abundance which could be utilised for producing urea. So the Government should set up urea plant in Tripura instead of in Oman. The DOF in a written note clarified as under:-

> "Though setting up of fertilizer plants is not subject to any licencing requirements, in pursuance of various references from the State Government and Members of Parliament from Tripura, IFFCO/ KRIBHCO were asked to ascertain feasibility of setting up a fertilizer plant in Tripura. After discussions with the Chief Minister and senior government officials of the State, the preliminary study report prepared by them indicated that setting up a grass-root fertilizer project in Tripura is not viable."

21. The Committee wanted to know whether a fertiliser plant was being set up in Tripura during 10th Plan period, the DOF in a written note informed as under:-

> "In the meantime; a private sector company M/s. Oswal Chemicals and Fertilisers Ltd. (OCFL) evinced interest in setting up a fertilizer plant in the State. The request of OCFL for allocation of gas for setting up a fertilizer plant has been agreed to by the Ministry of Petroleum and Natural Gas. OCFL have commenced discussions with M/o P&NG and GAIL for long term gas supply contract and finalisation of terms and conditions of gas supply for the project. OCFL proposes to appoint a consultant for preparation of DPR etc. for the project and to take other project related activities after signing of gas supply contract."

(iii) Review of Annual Plan of 2002-2003

22. As against the budget estimates of Rs. 899 crore for 2002-03 the revised estimates have been Rs. 770.62 crore indicating a decrease of Rs. 128.38 crore. The following is the PSU-wise comparison between Budget and Revised Estimates:-

Rs. in crores

Sl.No.	**Name of PSUs**	**BE 2002-2003**	**RE 2002-03**
1.	FCI	18.00	3.00
2.	FACT	19.00	19.00
3.	HFC(BVFCL)	200.00	150.00
4.	PPCL	0.20	0.20
5.	PPL	6.00	-
6.	MFL	17.50	15.00
7.	PDIL	1.50	1.00
8.	RCF	125.00	70.00
9.	NFL	35.00	33.62
10.	IFFCO	276.00	267.00
11.	KRIBHCO	180.00	191.00
12.	Deptt. schemes	20.80	20.80
	Total	899.00	770.62

Note:

1. All the units of FCI except the Jodhpur Mining Organisation have been closed down.
2. All the units of HFC except Namrup Units have been closed down. The Namrup Units of HFC have been segregated and incorporated into new company viz. the Brahamputra Valley Fertilisers Corporation Ltd. (BVFCL).
3. All the units of PPCL except Amjhore have been closed down.
4. PPL has been disinvested.

23. On being pointed out by the Committee that outlays in respect of RCF, HFC, FCI, NFL and IFFCO have been reduced whereas outlay for KRIBHCO has increased, the Committee wanted to know PSU-wise reasons for reduction in outlays during RE 2002-03, the DOF in a written note informed:-

"The plan outlay in respect of FCI in 2002-03 has been reduced as a decision to close down the units of the company except its Jodhpur Mining Organisation had been taken and no fresh capital investment was considered prudent in such a situation. In the case of HFC/ BVFCL, the outlay was reduced from Rs. 200 crore to Rs. 150 crore as implementation of the Namrup Revamp Project for which this outlay was meant was delayed and outlay for this project had to be carried forward to 2003-04. In the case of NFL and MFL, the reduction of plan outlay in 2002-03 has been marginal and based on companies' assessment of their requirement. The reduction of outlay in respect of IFFCO and RCF has been mainly on account of reduced expenditure on renewal and replacement of plant and machinery and some diversification proposals planned during 2002-03."

24. Asked about the reasons for increase in outlay for KRIBHCO in RE 2002-03, DOF in a written note informed:-

> "The increase of outlay of Rs. 11 crore for KRIBHCO in 2002-03 was due to inclusion of expenditure incurred on renewal/ replacement in the outlay which was left out during finalisation of budget estimates."

(iv) Annual Plan 2003-04

25. Rs. 1059.75 crore have been provided for the year 2003-04. Out of this major share of Rs. 882 crore has been given to IFFCO, KRIBHCO (Rs. 374 crores each) and to Brahmaputra Valley Fertiliser Corporation Limited (BVFCL) of Rs. 134 crores.

26. On being asked the reasons for increase in Budget Estimates 92003-04) of IFFCO and KRIBHCO over the Revised Estimates 2002-03 , DOF in a written note informed:-

> "The increase in plan outlay for IFFCO and KRIBHCO during 2003-04 over the revised estimates 2002-03 has been mainly on account of requirement of funds for the joint venture project in Oman. In the case of KRIBHCO proposed outlay of Rs. 144 crore for the Hazira Expansion Project compared to Rs. 1 crore in 2002-03, has also contributed to the increased outlay."

27. The Committee find with dismay that progress of utilisation of plan outlay during 9th Plan (1997-2002) has been far from satisfactory and prospects for 10th Plan period (2002-07) are not encouraging. The Committee find that as against the total 9th Plan outlay of Rs. 8771.41 crore, the actual expenditure was only Rs. 3724.71 crore representing a utilisation rate of 42.4%. The Committee also note that the original approved outlay of Rs. 11013 crore for the plan period was curtailed due to non- materialisation of four mega urea projects of Thal of RCF, Hazira Expansion and Gorakhpur Plants of KRIBHCO and Nellore of IFFCO. The Committee learn that execution of these projects could not take off as the Government could not decide the economic viability of these projects. However, now with the discovery of gas in Krishna Godavari basin and with the announcement of new pricing policy, the promoters of these projects have shown interest in reviving these projects except the project at Gorakhpur. The Committee would like the Government to end the uncertainty over the economic viability of these projects and accord investment approval for the projects during the current financial year itself.

(Recommendation No. 3)

28. The Committee find that only one Oman India Fertilisers Project has been finally approved and is under implementation by IFFCO and KRIBHCO during the 10th Plan period. In this connection, the Committee have been informed that the project has achieved financial closure on 15.8.2002 and work has since commenced. A provision of Rs. 519 crore has been made for contributing towards funding this joint project. The Committee have been assured earlier that the project would be completed within 36 months of its financial closure. The Committee expect the Department of Fertilizers to monitor the execution of the project and to see that there is no time and cost overrun.

(Recommendation No. 4)

29. The Committee find with dismay that DOF has failed in utilising available gas within the country in State like Tripura. Instead it is going ahead with its Oman India Fertiliser Project in Oman for which an agreement has already been signed. The Committee have been informed by the Department of Fertilisers that the possibility of setting up a fertiliser plant in Tripura was explored earlier also. But IFFCO, KRIBHCO after carrying out feasibility report did not find the proposal viable. However, now private company M/s. Oswal Chemicals and Fertilisers Ltd. (OCFL) has already evinced interest in the matter and their request for allocation of gas for the proposed plant has already been agreed to by Ministry of Petroleum and Natural Gas. OCFL has commenced discussions with concerned authorities for finalisation of gas supply agreement. OCFL proposes to appoint a consultant for preparing a DPR etc. for project related activities after signing of gas supply contract. The Committee hope that DOF would monitor the progress of the proposed project and pursue it to finality.

(Recommendation No. 5)

D. HEAD-WISE ANALYSIS OF DEMANDS

REVENUE SECTION

Major Head 3451
Secretariat/Economic Services (Budget Estimate Rs. 5.78 crores)

30. This 'Head' is mainly for salaries of the Ministry officials and other office expenses like OTA, traveling and office expenses, etc. etc. The following table indicates details of actuals of 2001-02, BE and RE for 2002-03 and BE for 2003-04.

(Rs. In lakhs)

	Actuals (2001-02)	**Budget Estimate (2002-03)**	**Revised Estimate (2002-03)**	**Budget Estimate (2003-04)**
Salaries	399.00	418.00	410.00	410.00
Wages	1.61	3.00	2.50	3.00
OTA	6.80	7.00	7.00	7.00
Domestic Travel Expenses	9.84	13.00	12.00	13.00
Foreign Travel Expenses	9.70	11.00	10.00	10.00
Office Expenses	99.89	117.80	117.80	120.00
Rents, Rates Taxes	-5.74	4.50	3.70	-
Publications	7.06	3.00	2.50	5.00
Other Administrative Expenses	2.23	3.00	3.00	3.00
Advertising and Publicity	0.29	0.50	0.50	3.00
Professional Service	0.68	1.20	3.00	3.00
Total	**543.53**	**582.00**	**572.00**	**578.00**

31. During the course of examination, the Committee wanted to know whether the recommendations of Expenditure Reforms Commission (ERC) have been fully implemented in the Department on various items of expenditure, the DOF in a written note informed:-

> "ERC in its report titled "Rationalization of the functions, activities and structure of the Department of Fertilizers," recommended to abolish 29 posts of Group `A' and `B' out of their total strength of 59. These recommendations are based on two most important assumption; first, the Government is disinvesting fertilizer public sector undertakings except the sick PSUs which would eventually be closed down and secondly, Retention Price-cum-Subsidy Scheme (RPS) for urea units would be replaced by group concession scheme on the pattern of decontrolled fertilizers.

The Government has so far been able to disinvest only one PSU namely Paradeep Phosphate Limited (PPL) and disinvestment process in respect of NFL, RCF, FACT and MFL is still in the process. With regard to replacement of RPS, Government has announced Phase-I and II of group concession schemes for urea units to be applicable from 1.4.2003. The Department is fully conscious of the need to rationalise its manpower and would be able to downsize its staff strength as far as possible once these two assumptions on the basis of which ERC had recommended drastic reduction of manpower are materialised. In the meanwhile, the Department critically reviewed the strength of its manpower and decided to abolish 17 posts of group `A' and `B' against 29 posts recommended by ERC. Another 8 posts of group `C' and `D' have also been abolished by this Department."

32. The Committee treat the Government reply as interim when it says that recommending abolition of 29 posts in the Deptt. of Fertilisers by ERC was based on possible disinvestment in certain PSUs and replacement of existing Retention Price. The Committee find that as against recommended abolition of 29 posts DOF has decided to abolish 17 posts in Group `A' and `B' and 8 posts in Group `C' and `D'. The Committee hope that with the abolition of 25 posts the activities of DOF would not be adversely affected and it would soon be able to rationalise its manpower.

(Recommendation No. 6)

Major Head 2401

PAYMENT FOR CONCESSIONAL SALE OF DECONTROLLED FERTILISERS

33. The object of the scheme is to encourage the farmers to optimise the use of three plant nutrients viz. N:P:K. 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 (except SSP) are adjusted on quarterly basis according to fluctuations in prices of raw material/ intermediates (ammonia and phosphoric acid) and foreign exchange rate as well as prices of DAP in the international market. 85% (90% on Bank Guarantee) of concession amount is paid as on account payment' of base rate which is further adjusted with differential amount subsequent to announcement of quarterly final rate and the balance 15% (10% in case of BG) is paid after certification of sales from States. The following are the per tonne Base Rates for decontrolled fertilisers 2002-03 effective from 1.1.2003 announced by the Deptt. of Fertilisers:-

	Decontrolled Fertilsiers	Amount/ Rs. per tonne
(1)	DAP (Indigenous)	2425
(2)	DAP (Imported)	1330
(3)	MOP	3093

(4)	SSP	650
(5)	complexes	Ranging from 563 to 3756

34. The concession scheme was started on 25.8.1992 with a view to cushion the impact of increase in prices of P&K fertilisers consequent upon their decontrol and to balance the distorted N:P:K ratio against the ideal ratio of 4:2:1 in soil. The following statement shows the fertilisers concessions provided during 2001-2002 , 2002-2003 and proposed for 2003-04.

(Rs. in crores)

Year	**Payment for concessional sale of indigenous decontrolled fertilisers**	**Payment for concessional sale of imported decontrolled fertilisers**	**Total**
2001-02 (Actuals)	3759.52	744.00	4503.52
2002-03 (B.E.)	3249.00	975.00	4224.00
2002-03 (R.E.)	2713.00	787.00	3500.00
2003-04 (B.E.)	3366.00	1090.00	4456.00

(a) Trends for payment of concessional sale of indigenous and imported decontrolled fertilisers

35. During the course of examination, it came out that as against the likely expenditure of Rs. 3500 crore for 2002-2003 an amount of Rs. 4456 crore has been proposed for 2003-2004 showing upward increase of about Rs. 956 crore. The Committee wanted to know the reasons for increase in budget estimates. The DOF in a written note explained the position as under:-

> "The actual payment of concession figure for 2001-2002 corresponds to the consumption of 51.48 lakh MT of indigenous DAP and 49.63 lakh MT of complex fertilizers and 26.05 lakh MT of SSP. The Budgeted estimate for 2002-03 was prepared projecting the increased consumption of fertilizer, to the tune of 53.63 lakh MT of indigenous DAP, 52.66 lakh MT of complexes and 30 lakh MT of SSP. However, due to severe drought conditions in most of the states throughout the country specially during the Kharif season, the actual consumption was not only short of estimated consumption but also lower than the actual consumption of 2001-2002. The consumption figures for the current year will be DAP 48.58 lakh MT, complexes 45.39 lakh MT and SSP 20 lakh MT. However, for the year 2003-04 the projected consumption level for indigenous DAP has been assessed as 62 lakh MT, complexes 56 lakh MT and SSP as 30 lakh MT and this is based on the assessment made by Department of agriculture and Cooperation (DAC) in consultation with State Governments during zonal conferences held recently. Moreover, the assessment of fertilizer consumption is

made on the basis of ideal monsoon conditions. As is evident from this, the increased budget provision for concession for decontrolled fertilizers is mainly due to increase in the assessed demand/ requirement for the next year."

36. Explaining the reasons for lesser import of decontrolled fertilisers, the DOF in a written note stated:-

"The increase in the budget provision for concession of imported decontrolled fertilizers in the year 2003-04 is on account of assessed consumption of these decontrolled fertilizers and also to cater to variation in Dollar Rupee exchange rate and variation in international prices. Although in the revised estimate the provision for payment of concession for the year 2002-03 has been reduced from Rs. 975 crore to Rs. 787 crore and further actual expenditure is likely to be Rs. 737 crore only. This lower expenditure due to lesser import of DAP during the year 2002-03 is on account of severe drought conditions that prevailed in most of the States in the country . The import of DAP will merely be 3.70 lakh MT in 2002-03 as against the import of 9.33 lakh MT during the year 2001-2002. Similarly, the import of MOP in the current year will be around 25 lakh MT as against 28.34 lakh MT in the previous year .

The budget provision of Rs. 1090 crore for 2003-04 is now based, inter-alia on the consideration of optimum monsoon conditions throughout the country and thereby likely increase in the estimated consumption level of decontrolled fertilizer over and above the consumption achieved during 2001-02 and the import of DAP at 10 lakh MT and MOP of 25 lakh MT has been estimated to meet the total demand in the country."

37. The Committee note that payment of concessions on indigenous decontrolled fertilisers is based on level of consumption of fertilisers. The Committee were informed that actual payment of concession for 2001-02 corresponded to the level of consumption of 51.48 lakh tonnes of indigenous DAP and 49.63 lakh tonnes of complex fertilisers and 26.05 lakh tonnes of SSP. For subsequent year 2002-03 the Committee found that due to severe draught in various State during kharif season there was a fall in consumption which slipped even lower than 2001-02. For 2003-04 DOF has stated that increased budget provision is due to increase in projected consumption based on assessment made by Ministry of Agriculture.

38. As regards figures for payment of concessions for decontrolled fertilisers the Committee's examination has revealed that it is based on assessed consumption of these fertilisers and also to cater variation in Dollar Rupee exchange rate and variation in international prices. The Committee have been informed that due to severe draught conditions in almost all parts of the country during 2002-03 the likely imports of DAP was 3.70 lakh tonne and that of MOP of 28.34 lakh tonnes and corresponding amount is likely to be Rs. 737 crores only. For 2003-04 Rs. 1090 crore have been proposed based on ideal monsoon conditions anticipating import of 10 lakh of DAP and 25 lakh tonnes of MOP.

39. The Committee do not completely disagree with the explanation of the Department of Fertilizers that decrease in consumption of de-controlled fertilizers was due to drought conditions in some parts of the country. At the same time they would like to point out that it has been reported to the Committee that the main reason for decreasing consumption of the de-controlled fertilizers is higher prices even after concessions. The Committee would like the Department to conduct an independent study to ascertain the facts and if found correct, devise ways and means to make the prices of these fertilizers affordable.

(Recommendation No. 7)

(b) **<u>Rationalisation of Maximum Retail Prices of complex fertilisers</u>**

40. The Inter-Ministerial Group (IMG) has been constituted by the Governments to look into the rationalisation the maximum Retail Prices of complex Fertilisers so as to remove their inter-se distortions based on the recommendations of the Tariff Commission on complex fertilisers and ensure a level playing field for the industry and to improve efficiency. The broad recommendations of the Tariff Commission on cost price study report on DAP and MOP were informed to the Committee as under:-

> "Tariff Commission has submitted a report on cost price study of Di-ammonium Phosphate (indigenous and imported) and Muriate of Potash. The main recommendations of Tariff Commission are as follows: -

- Indigenous DAP manufacturers have been divided in two groups. Group-I consists of three units, Oswal Chemicals & Fertilizers Ltd.(OCFL), Indo Gulf Corporation Ltd.(IGCL) and Gujarat State Fertilizers & Chemicals Limited (Baroda Unit) based on their manufacture of phosphoric acid indigenously using rock phosphate and sulphuric acid. Group-II has the balance eight manufacturers of DAP using imported phosphoric acid for manufacturing DAP.

- The Tariff Commission has worked out normative cost of production for all the eleven DAP manufacturers based on their actual cost of production and has accordingly worked out normated group average cost. The normated group average cost has been worked out Rs.10,162 per MT for Group-I and Rs.11,128 per MT for Group-II. For the two new units of Group-I, OCFL and IGCL, the normated cost has been worked out based on Long Run Marginal Cost.

- Tariff Commission has accordingly given separate escalation formula for two Groups to adjust future cost of indigenous DAP based on the variation in the cost of raw material and exchange rate.

- For imported DAP, the Tariff Commission has worked out normated handling and distribution cost of imported DAP based on the actual handling and distribution cost and recommended Rs.1347 per tonne as the normated handling and distribution cost.

- For MOP, the Tariff Commission has worked out normated handling and distribution cost based on the actual handling and distribution cost and recommended Rs.1114 per tonne as the normated handling and distribution cost.

The Government is presently examining the cost price study report of DAP and MOP in consultation with Tariff Commission and the fertilizer industry not only with a view to make optimum use of subsidy/concession provided under Concession Scheme to manufacturers but also to create a competitive environment for the industry and at the same time achieve balanced fertilization of soil. The scientific approach based on various parameters and efficiency norms for working out normative cost of production as recommended by the Tariff Commission would ensure a level playing field for the industry and hence induce efficiency in the DAP industry. The Department after examining various aspects of Tariff Commission Report and the issues relating to Concession Scheme will shortly formulate a draft proposal for inter-ministerial consultations before approaching the competent authority of the Government for final decision."

41. The Committee further wanted to know the magnitude of inter-se distortions in Maximum Retail Prices (MRPs) of complex fertilizers within the industry and how DOF is planning to rationalize the MRPs of these fertilizers, the DOF in a written note explained as under:-

"The MRPs of complexes were being adjusted every time since April 1997 when the MRPs of DAP and MOP were revised on adhoc basis after adjusting the concession rates of various grades of complex fertilizers. The concession rates of complex fertilizers itself were derived from the concession rates of DAP and MOP till the Department implemented Tariff Commission Report with effect from 1.4.2002. Now the concession rates of complexes are being worked out on the basis of normative cost of production. The earlier system of working out of MRPs of complex fertilizers introduced inter se distortion amongst the various grades is as shown below: -

Complex Grades			Present MRP	Concession Rate	Concession Plus MRP	Normated cost as per Tariff Commission	Difference
N	P	K					
10	26	26	8360	3053	11413	11135	278
12	32	16	8480	2903	11383	11347	36
14	28	14	8300	2704	11004	10711	293
14	35	14	8660	3032	11692	11887	-195
15	15	15	6980	2194	9174	8753	421

16	20	0	7100	1688	8788	8155	633
17	17	17	8100	2486	10586	9541	1045
19	19	19	8300	2779	11079	10329	750
20	20	0	7280	1875	9155	8643	512
23	23	0	8000	2156	10156	9513	643
28	28	0	9080	2625	11705	10963	742

As seen from the table that there was no correlation between the MRPs, rate of concession and normated cost of production of various grades as worked out by Tariff Commission.

An Inter-Ministerial Group (IMG) has been constituted with the approval of the Government on 19.12.2002 to look into the issue of rationalization of MRPs with a view to remove inter se distortion. The IMG has examined various alternatives for adopting a scientific and rational methodology for working out MRPs for various grades of complexes. The IMG Report is expected shortly. "

42. The Committee note that there are wide variations among maximum Retail Prices of different grades of N:P:K complex fertilisers ranging between Rs. 6980 per tonne to Rs. 9080 per tonne. Not only that the Committee find that there is no correlation between MRPs and rate of concessions. The Committee have been informed that DOF is rationalising the maximum retail price of these complex fertilisers based on Tariff Commission Report. The Committee have also been informed that Tariff Commission has dealt with Di-Ammonium Phosphate (indigenous and imported) (DAP) and Muriate of Potash (MOP) and has worked out normative as also distribution cost of these fertilisers. The Committee have been informed that inter-Ministerial Group (IMG) is already examining the issue of rationalisation of Maximum Retail Prices of these complex fertilisers and its report is expected shortly. The Committee feel that things are moving in right direction and hope that IMG would be able to submit its report early. The Committee trust that issue relating to wide variation among maximum retail prices of different grades of NPK complex fertilisers, correlation between MRPs and rate of concessions and distribution cost and of these fertilisers should be sorted out soon.

(Recommendation No. 8)

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

43. The Committee had last year recommended that a uniform and credible system be developed to check bogus/ fraudulent claims claimed on sale of decontrolled fertilisers. In this connection the Committee enquired whether the Government have conducted an independent study to ascertain to what extent the Government has succeeded in minimising this menace and in how many cases of fraudulent claims have been reported during the last year and how these have been disposed of DOF informed as under:-

"In the past, complaints/ reports of fraudulent concession claims and manufacturing of sub-standard fertilizer had generally been received relating to sales of Single Super Phosphate (SSP). To curb such malpractice, the DOF constituted a Technical Audit and Inspection Cell under the aegis of Projects and Development India Ltd. (PDIL), a public sector undertaking under the administrative control of DOF and primarily engaged in providing engineering and consultancy services to the fertilizer industry. The TAC has conducted first time and six-monthly inspections of SSP manufacturers. The SSP manufacturers are eligible to avail concession subject to the recommendations of TAC based on six monthly inspections. Subsequent to the TAC inspections, only 66 SSP companies have been notified to be eligible for concession out of about 100 SSP manufacturers listed originally. The TAC has also been entrusted to conduct techno-commercial audit of DAP and NPK plants in the country. The reports submitted by TAC in this regard are under scrutiny by DOF.

The Department has received complaints regarding alleged fraudulent claims in respect of certain SSP companies, viz. Tedco Granite, Shreeji Phosphates and Rama Phosphates Ltd. during the year 2002-03. These complaints have been referred to TAC for investigation. As a result of techno-commercial audit by TAC, the Department has noted that in case of DMCC, Rashi Fertilisers Ltd. and Revati Chemicals Ltd., the companies seem to have claimed concession on higher quantity than as reported by TAC. In the first instance, DOF has taken action to recover the alleged excess claim; further clarifications have been sought from these companies on these discrepanices. During the financial year 2001-02, the Government of Uttar Pradesh has brought to the notice of DOF doubts relating to 1st Point sales of DAP in the State of U.P. by M/s. Oswal Chemicals and Fertilizers Ltd. (OCFL). The Government of U.P., which had submitted initial report in respect of sales to the dealers in only three districts, has been requested to furnish report/ comments on total sales for the said period also taking into account the clarifications furnished by OCFL in this regard."

44. The Committee find that the practice of submitting fraudulent claims is still persisting. The Committee in their 26th Report had dealt with this practice and recommended certain measures to check this menace. The Committee note that the Department of Fertilizers has made recoveries from fertilizer manufacturers after technical audit of these units. The Committee appreciate that the Department has constituted Technical Audit and Inspection Cell (TAC) who shall make inspections of SSP manufacturers. The Committee note that subsequent to TAC's inspections, only 66 SSP companies have been notified to be eligible for concessions out of 100 companies listed originally. TAC has also been asked to conduct Techno Commercial Audit of DAP and NPK Plants in the country. The Committee find that at initial stage itself one third of SSP manufacturers have been found indulging in putting up fraudulent claims. While viewing this very seriously, the Committee recommend that TAC should be further strengthened to make its job more effective. The Committee also recommend that cases of fraudulent claims be dealt with strongly by awarding exemplary punishment in order to have effect on others.

(Recommendation No. 9)

(d) Progress on Payment on outstanding dues due to non-certification of sales

45. The Committee pointed out that crores of rupees of manufacturers' money was blocked due to non-certification of sales. The Committee had earlier recommended to lay a time-frame for settling such claims.

46. New Guidelines to deal with such cases were stated to have been laid down by the Department. New Guidelines to deal with such cases were stated to have been laid down by the Department. The Committee wanted to know the broad features of comprehensive guidelines on procedure for submission of bills for payment / recoveries for sales of the decontrolled fertilisers under Concession Scheme and how these are different from the earlier one, the DOF in a written note informed as under:-

> "The Department of fertilizers (DOF) after interaction with the fertilizer industry as well as the State Governments brought out the comprehensive guidelines applicable from 1.8.2002 on procedure for submission of bills for payment/ recoveries for sales of decontrolled fertilizers under the Concession Scheme and the same were issued. The important features of these guidelines and the major changes as compared to earlier guidelines are broadly summarised hereunder:-
>
> In the case of Single Super Phosphate (SSP), the earlier guidelines provided the facility of on account payments to those manufacturers who used specified grades of rock phosphates as notified by DOF, although the 100% payment of concession based on sales certification was allowed to the manufacturers not using specified grades. However, in the revised Guidelines, the use of specified grades of rock phosphate for manufacture of SSP, as well as periodical inspections by Technical Audit & Inspection Cell (TAC), have been made mandatory to be eligible to claim concession on sales of SSP.
>
> In the revised guidelines, the manufacturers/ importers of decontrolled fertilizers are required to submit `On account' claim within 60 days of the calender month of sales. Claims submitted after expiry of the said deadlines are to be processed after receipt of certification of sales from the concerned State government, The earlier guidelines did not provide for the above outer limit/ deadline for submission of claims for `On account' payment.
>
> In the revised guidelines, the roles and responsibilities of the State Governments and importers/ manufacturers have been stipulated. The State Governments are now required to furnish sales certification to DOF within 90 days after the receipt of information from the suppliers (manufacturers/ importers). In the event of general delay beyond five months by a State, the DOF would take up the matter with the concerned State for expediting certification of sales. The guidelines also provide 100% payment of concession only after receipt of certification of sales in case the State/ states are defaulting generally in making verification for more than 180 days. Similar provision has been made in respect of importers/manufacturers for delay in receipt of certification of sales beyond 180 days. In case such a delay is on account of any reason other than the above said general delay in the State. These provisions have now specifically

been made to impress upon the States and suppliers, regarding the need for expediting certification of sales as also to keep at the minimum level of unadjusted `On account' concession payment pending for want of sales certifications.

In the revised guidelines, the eligible claimants of concession are required to take prior permission of DOF for marketing arrangements through another manufacturer/ importer. The provision has been made to keep a counter-check on the possibility of any duplicate claims. This provision did not exist in the earlier guidelines."

47. On being asked about the State-wise outstanding dues of manufacturers and the period of pendency, DOF in a written reply informed as under:-

"The state-wise approximate amount of outstanding concession claims in respect of manufacturers of P&K fertilizers which is pending settlement for want of certification of sales from the major States is given below:-

Rs./crore

S.No.	**State**	**Pending certification (1.10.2000 to 31.3.2002)**	**Pending certification (1.4.02 to 31.1.03)**	**Total pending certification (1.10.2000 to 31.1.03)**
1.	Andhra Pradesh	47.33	24.13	71.46
2.	Bihar	47.71	5.62	53.33
3	Chattisgarh	8.22	5.83	14.05
4	Gujarat	9.06	14.73	23.79
5	Haryana	13.75	17.09	30.84
6	Himachal Pradesh	0.69	0.64	1.33
7	Jammu & Kashmir	0.67	0.64	1.31
8	Jharkhand	11.09	5.32	16.41
9	Kerala	3.67	4.69	8.36
10	Karnataka	4.98	24.88	29.86
11	Maharashtra	24.80	40.51	65.31
12	Madhya Pradesh	12.79	27.00	39.79
13	Orissa	9.28	5.77	15.05
14	Punjab	20.51	22.40	42.91
15	Rajasthan	7.40	11.45	18.85
16	Tamil Nadu	12.60	19.04	31.64
17	Uttaranchal	2.44	2.60	5.04
18	Uttar Pradesh	120.67	52.29	172.96
19	West Bengal	17.17	27.36	44.53
	Total	374.83	312.08	686.84

48. The Committee are pained to note that crores of rupees of manufacturer's money have been blocked for want of certification of sales by State Governments. These claims are pending since October, 2002. As many as 19 States have not certified the sales resulting in blocking of a huge amount of Rs. 686.84 crores since 1.10.2000 (when the concession scheme for extending financial support of decontrolled P&K fertilisers on sales was introduced) upto 31.3.2003. In this context, the Committee in their 26th Report had recommended that DOF should lay

a time-frame for settling the claims. In response Deptt. of Fertilisers has informed that they have brought out comprehensive revised guidelines for implementation of the Concession Scheme, especially laying stress for timely certification of sales. These guidelines emphasise on early certification of sales by States besides seeking of prior permission of DOF for marketing arrangements with a view to settle claim of concession early. The Committee hope that revised guidelines would be implemented in letter and spirit leaving no room for any complaint in future.

(Recommendation No. 10)

49. As regards the magnitude amount of blocked money to be certified by the different States the Committee find that biggest defaulter in this regard is the State of Uttar Pradesh followed by Andhra Pradesh, Bihar, Punjab, Madhya Pradesh etc. etc. The Committee recommend that the Deptt. of Fertilisers should periodically hold meetings with concerned State Governments to expedite the certification process.

(Recommendation No. 11)

(iii) Sub-Head Subsidy on Import of Urea

50. The following table shows the amount earmarked for import of urea and recoveries made on this account for the year 2001-2002, 2002-2003 and proposed for 2003-04:-

Year	Imports	Recoveries (Rs. in crores)	Net Subsidy	Import of urea (in lakh tonnes)
2001-2002 (Actuals)	147.50	100.16	47.34	2.20
2002-2003 (B.E.)	948	443	505	10
2002-2003 (R.E.)	18	8	10	0.60 (estimated)
2003-2004 (B.E.)	1410.75	701.50	709.25	15

51. The Department of Fertilisers has stated that a net provision of Rs. 709.25 crore has been proposed for subsidy on import of 15 lakh tonnes of urea for 2003-04. The recovery on sale of imported urea is estimated at Rs. 701.50 crores. During the course of examination the Committee wanted to know the logic in making substantial budgetary provision for import of urea when practically there is negligible import of this, DOF in a written note informed as under:-

> "At present, urea is the only fertiliser, which is under price and distribution control of Government of India. Urea imports are made on Government account through State Trading Enterprises (STEs) to bridge the gap between demand and indigenous availability in the country. The actual imports of

urea depends on the trends of domestic production and the evaluation of demand, which in turn, is related, inter-alia, to the progress and spread of the monsoon and distribution of rainfall. These factors are periodically reviewed by the Steering Committee of Secretaries of the Fertiliser Sector (SCOS) consisting of representatives of Department of Fertilisers, Department of Agriculture & Cooperation (DAC), Ministry of Finance etc. which decides on the quantum of import.

During the year 2001-02 as against the assessment of 213 lakh MT of urea made by the DAC in consultation with State Governments, the actual consumption was only 199.2 lakh MT mainly because of drought like conditions in many of the States like Andhra Pradesh, Karnataka, Maharashtra, West Bengal, Gujarat, Madhya Pradesh and Orissa. On the other hand, the production during the year was 191.73 lakh MT. However, to keep the pipeline stock at reasonable level the Government had to import only 2.2 lakh MTs of urea so as to ensure that no local shortages are felt in any State/UT. Similarly, during 2002-03, as against the assessment of about 214 lakh MT urea for the country, the total sales of urea is estimated only to the extent of 188 lakh MT. Drastic shortfall in consumption of urea is primarily attributed to the fact that the country had suffered severe drought in most of the states in the Kharif season. Thus, there is no import of urea during 2002-03.

It is clear from the above that the Government has to make provision for ensuring the adequate availability of urea prior to the year and for that import requirement is also projected on the basis of assessed demand of urea, which is generally higher than the actual consumption level achieved during the year. Moreover, demand assessment by each of the state is projected keeping in view mainly the optimum monsoon conditions.

<u>Progress of Investigations on Import of Urea by National Fertilisers Ltd. (NFL)</u>

52. During the course of examination the issue of recovery of Rs. 133 crore of National Fertilisers Ltd. (NFL) for import of urea way back in 1995 also came up for discussions. In this connection the Committee wanted to know the present status of the case of import of urea by NFL where the country was defrauded of Rs. 133 crores, the DOF in a written note informed:-

"M/s. National Fertilizers Ltd. (NFL) signed a contract with M/s. Karsan Ltd. Ankara for supply of 2 lakh MT of bagged urea at a price of US$ 190 per MT on C&F basis on 9th November, 1995. The total value of the contract was US$ 38 million for which US $ 0.38 million was released towards insurance premium on 2.11.95 and balance US$ 37.62 million to the bank account of M/s. Karsan Ltd. on 14.11.95. The funds were finally remitted to their account on 29.11.95. According to the terms of the contract, seller promised counter-guarantee for 100% cash pre-payment by 1st class Lloyd's insurance policy, which it was stated, would cover the risk of seller's, non-delivery and non-performance. However, the party did not deliver any supply during the period despite repeatedly assuring that they would fulfill the contract. The persistent efforts made by NFL to secure the deliveries did not yield results and the contracted quantity of urea had not reached India. The Llyolds insurance policy secured was only for marine perils and did not cover NFL against non-delivery and non-performance of the seller.

For recovery of the advance of Rs. 133 crore paid for import of 2 lakh MT of urea to M/s. Karsan Ltd., NFL had initiated arbitration proceeding in accordance with the contractual provision of the agreement with the International chamber of Commerce, Paris. The International Court of Arbitration (ICA) had delivered the Award on 3rd December' 98 directing M/s Karsan Ltd. to pay nearly us$ 41 million to NFL. The Central Bureau of Investigation (CBI) had also frozen the bank accounts of the accused persons in different countries. NFL had already initiated criminal as well as civil proceedings for enforcement of the arbitration award against the assets frozen by CBI.

A Special Court has been constituted w.e.f. 18.8.2002 for the expeditious trial of the accused in the matter. The trial on a day-today bsis against the accused persons is in progress in the Court of Shri A.K. Garg, Special Judge, Tis Hazari, new Delhi. NFL is actively monitoring the court cases/ recovery proceedings in India as well as abroad."

53. The Committee noticed that the Insurance Policy covered only marine perils and did not cover NFL against non-delivery and non performance. During evidence the Committee wanted to know reasons for this discrepancy. The CMD, NFL deposed before the Committee:-

"The insurance policy was supposed to be for non-delivery and non-performance by the seller. But when the policy was actually received, it was only for marine perils and that is where the actual fraud took place and the party did not deliver the material. That is exactly for which the Managing Director, Marketing Director and three persons from the Karsan are being tried under criminal charges in the court. It was a fraud with the company."

54. At this the Committee wanted to know what the NFL was doing all these years for getting the money back or urea. The CMD, NFL clarified:-

"We are in the process of recovering the money to execute the award that we got from the International Arbitration Court."

55. Asked by when NFL would be able to recover the amount, the CMD , NFL informed:-

"The first one we expect from Monaco within this year the amount is 5 million dollar plus interest.'

56. The Committee note that a net provision of Rs. 709.25 crore has been proposed for import of 15 lakh tonnes of Urea. The Committee's examination has revealed that import of Urea is done to bridge the gap between demand and indigenous availability in the country. Similarly, the actual import of Urea depends upon the trends of domestic production and evaluation of demand based on progress of monsoon and distribution of rainfall. Year-wise analysis of imports of Urea indicate that due to severe drought like situation in most part of the country the import of Urea during 2001-02 were 2.2 lakh tonnes only to keep pipeline stock at reasonable level. During 2002-03, there were no imports at all. The Committee feel that draught like condition as experienced during 2001-02 and 2002-03 are not usual phenomenon and as such the Committee view it as an exception. The Committee feel that as recommended by them last year all out efforts should be made to optimise the maximum level of indigenous production before resorting to imports.

(Recommendation No. 12)

57. National Fertilisers Limited was defrauded or Rs. 133 crores in 1995 and since then the company is pursuing their case either for recovery of amount or for import of urea. The Committee find that the case has now reached its logical conclusion. The Committee recommend that the Department of Fertilisers and NFL should put in joint efforts to get the case processed speedily in the Delhi Court.

(Recommendation No. 13)

MAJOR HEAD 2852

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

58. Fertiliser Subsidy both for indigenous and imported urea is provided in Demands for Grants of Department of Fertilisers. The following statement shows the fertiliser subsidy provided during 2001-02, 2002-03 and 2003-04 :-

(Rs. in crores)

Year	N (RPS)	Payment under Fertiliser Freight Subsidy Scheme	Payment 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
2001-02 (Actuals)	7121.17	917.27	0.80	4.76	8044.00
2002-03 (B.E.)	5675.00	814.00	--	10.00	6499.00
2002-03 (R.E.)	6750.00	724.00	--	25.00	7499.00
2003-04 (B.E.)	6582.00	923.00	--	50.00	7555.00

Note: The provisions for subsidies on indigenous fertiliser in B.E. 2003-04 has been prepared on the basis of existing retention price scheme.

59. As against the actuals of Rs. 8044 crore during 2001-02 and the likely expenditure of Rs. 6499 crore for 2002-2003 for subsidy on indigenous urea Rs. 7555 crore has been proposed for 2003-2004. Out of this Rs. 6582 crore is for subsidy under RPS and Rs. 923 crore for Freight subsidy. A reduction of Rs. 489 crore in 2003-2004 over 2001-2002 level has been proposed in view of likely increase in naptha and gas feedstock. On 11th March, 2003 the Government announced in Lok Sabha roll back of prices of Urea maintaining status-quo on the situation.

Different aspects relating to Fertiliser subsidy are discussed in succeeding paragraphs.

(a) <u>Impact of war in Iraq over subsidy</u>

60. The issue of impact of war in Iraq over subsidy was one of the issue that came up for discussion during the course of examination. The Committee came across Press reports that war fears in Persian Gulf might push the global urea prices from $130 per tonne to $ 160-170 per tonne and the prices may go up further in case the situation in the Gulf worsened. In this connection during evidence the Committee wanted to know the impact of war on prices and production of fertilisers. The Secretary (Fertilisers) first dealt on production side and deposed as under:-

> "Iraq war has many implications. In the last five days alone, ammonia prices have gone up. Because of soaring ammonia prices and since many units import ammonia for producing DAP or NPK, the impact will be on subsidy. So, it will have a budgetary impact. The prices of sulphur have also gone up. Again, it is an import item. Urea prices have gone up. Urea prices, which were hovering around 125 to 130 dollar, are today reported to be 160 dollars. That is the price when India has not gone into the market. Very often, when India goes into the market, the prices go further up. If the prices get pushed up, then our units may be cheaper compared to the import prices."

61. Explaining impact of war on prices , the witness further added:-

> "Then, two other things are also happening because of the Iraq war. The freight cost has gone up. We will have to pay higher freight for whatever we have to import for producing various fertiliser complexes. Our units will have to pay higher freight and then, also comes the element of subsidy. The insurance charges have also gone up. These factors are going to have lot of impact on the budgetary provision of subsidy which already is more than Rs. 12,000 crore. It will further increase. The price of naphtha has increased in the last eight months by Rs. 5000 per tonne. Its impact in terms of subsidy is Rs. 1000 crore. There is a fear that naphtha prices will further go up from Rs. 17000 to 19000 in the next

three or four days. This is broadly the impact of Iraq war, which we are monitoring. In fact day after tomorrow, I have requested the hon. Cabinet Secretary to convene a small meeting only on the aspect of fertiliser because it has a budgetary implications."

62. The Committee note with concern that war in Iraq might have a cascading effect over the prices and production of fertilisers. The prices of ammonia has already risen which will have a budgetary implications for DAP and NPK production. Similarly the prices of sulphur, naphtha and urea have gone up . The Committee appreciate that Secretary (Fertilisers) is taking up the matter with Cabinet Secretary. The Committee view the fall out of war on production and prices of urea as serious and urge Government to initiate steps to secure the interests of fertiliser, industry and in turn the farmers.

(Recommendation No. 14)

(b) Need for targeting subsidy to farmers

63. It is reported that subsidy actually meant for farmers does not reach them. In this connection, the Committee wanted to know whether the Government are examining this issue to ensure that benefits of subsidy reach the farmers and if so what is the action plan of the Government in this regard, the DOF in a written note informed:-

"Since urea is made available to all farmers including marginal ones at the statutorily notified maximum retail price (MRP) and the cost of production is generally much higher than the notified sale price, the benefit of subsidy is passed on to the farmers in the form of low sale price in comparison to cost of production of urea. Payment of subsidy to urea units is a mechanism for compensating them for the difference between the retention price (cost of production plus12% post tax return on networth and the statutorily notified sale price. Parameters governing the computation of cost of production of urea units are reviewed periodically to ensure that neither the urea units made unintended benefits nor do they suffer undue losses.

It may also be appreciated that the international price of urea today is around US$ 160 per MT (C&F) which translates to about Rs. 7800 per MT. The difference between this figure and the MRP of Rs. 4830, which is about Rs. 2970 per MT, is the subsidy to the farmers. The average retention price is about Rs. 8500 (as on 1.4.2002) and the difference between this figure and the international price of urea is the compensation to the urea industry, largely for the higher cost of raw materials such as naphtha used in the manufacturing of the urea."

64. In this connection the Secretary(Fertilisers) during the course of evidence stated:-

"For Farmer subsidy is an important question. Hon'ble Committee may tell us some method. Ministry of Agriculture and Deptt. of Fertiliser have examined this issue i.e. to give subsidy directly to farmers instead of giving it to manufacturers. I am placing Before you the statistics. In a bag of 50 kg. Urea, a subsidy of Rs. 170 is being given. If 10 crore farmers purchase per bag of urea how Rs. 170 is to be given to each farmers. Such a proposition will lead to corruption as has been concluded by every Committee since it is not impracticable."

65. The Secretary (DOF) provided statistics given in the form of a table shown below to prove that the benefits of subsidy reach the farmers. For the purpose of ascertaining whether the benefit of subsidy goes to industry or to the farmers it is estimated how much price farmer has to pay for purchase of fertilisers assuming that import of fertilisers is open. It is in this parlance it concludes how much subsidy the farmer is receiving . It is believed that in India the subsidy estimates are influenced by domestic cost of fertilisers vis-à-vis what farmer actually pays. The following table shows the percentage of share of farmers on subsidy of N:P:K fertilisers from 1983-84 to 1999-2000.

Year	**Farmer's share in fertiliser subsidy(%)**
1983-84	24.54
1986-87	43.97
1989-90	53.95
1992-93	75.62
1995-96	131.80
1998-99	90.96
1999-2000	45.85
Average	66.54

66. It may be seen that the share of farmer in subsidy which was 24.54% in 1983-84 rose to 131.80% in 1995-96. This is because the import parity prices were so high that equating this with domestic price would have meant large profits to fertiliser industry. This did not happen since price paid to industry was weighted average retention price plant-wise which was far below the import parity price.

67. Another area linked with fertiliser subsidy is efficiency of urea plants, under Retention Price Scheme (RPS) . As on 1.1.99 there were 35 urea plants. 56.24% gas based. 26.46% naphtha based, and 12.29% FO/LSHS. To find out how efficient the fertiliser industry is in open economy the cost of production of urea is compared with imports. The price in international market fluctuates between US$ 70/MT to US $ 200/MT. If low import parity price of urea is allowed the entire industry will become unviable.

68. In order to ascertain what are the components of subsidy under retention price scheme and what is not available under new Pricing Policy to industry, a clear view will emerge about the entire spertrum as shown in details placed below.

Composition of Retention Price Scheme (RPS) say old policy (prior to 1.4.03)	**Share in RPS**	**New Policy w.e.f. 1.4.03**
1. Variable costs comprising feedstocks and	56%	Unit with 20% high or low

utilities . These are worked out on normative basis while their rates are actual		deviation in their group will be excluded and thereafter final weightage avaerage group retention period computed.
2. Capital Related charges (CRC). These include interest, depreciation and return on networth. Interest is calculated on actual basis and depreciation is calculated on normative basis.	30%	Not allowed
3. Conversion costs. These include salaries and wages margin and contract labour repairs etc.	2%	Not allowed
4. Selling Expenses including bonus	11%	-

69. On the issue of whether the fertiliser subsidy reaches to the farmers or not the Government, contended that farmers are getting subsidy in the form of low sale price of urea as compared to higher cost of its production within the country. The international price of urea influences subsidy which in term of Rs. is 7800 per tonne whereas the sale price of urea is Rs. 4830 per tonnes . The difference between international price of urea and sale price of urea of Rs. 2970 per tonne is subsidy to farmers. The average retention price is Rs. 8500 per tonne as on (1.4.2002) and difference between this figure and price of urea is compensated to urea industry for higher cost of raw materials such as naphtha. During the course of evidence on the issue of giving subsidy directly to farmers rather than through urea industry, the Secretary (Fertilisers) has stated that Ministry of Agriculture has examined the issue and various Committees had found this preposition impractical and had feared rampant corruption if implemented.

The Committee find that from 2003-04 the Government has already brought out New Pricing Policy for urea units with the result a huge amount is expected to be saved. Coming to main point of devising a model for reaching the subsidy to farmers, the Committee feel that Government should bear in mind that end user of subsidy is none other than farmers of the country. The Committee find that as per Fertiliser Association of India estimates nearly 65% of the total fertiliser consumption in the country is shared by small and marginal farmers who do not have cash surplus for purchase of fertilisers. Experience has shown that there is no crop loan available to these farmers on time. The Committee therefore urge the Govt. to examine the issue of targeting the subsidy to these farmers after identifying their number State –wise although the Govt. has already inform the Committee that subsidy of urea is available to all farmers including marginal one.

(Recommendation No. 15)

(c) **Progress of Payment of outstanding dues for 7th and 8th Pricing period**

70. Department of Fertilisers has stated that under the prevailing policy of retention price the price is fixed unit-wise based on parameters approved for a three year pricing period. The last pricing period was valid upto 30.6.1997.

71. The fixation of pricing parameters for the period beyond 1.7.1997 were approved by the Government last year. These were 7th and 8th Pricing Periods covering the time from 1.7.1997 to 31.3.2000 and 1.4.200 to 31.3.2003 and retention prices of all the 32 urea units have been notified on 4.6.2002. In this connection the Committee wanted to know how much amount the Government released after notification of pricing policy of 7th and 8th period and whether some dues are still outstanding, if so, by when Government proposes to settle all DOF in a written note informed:-

> "As per the retention prices notified due to implementation of 7th and 8th Policy parameters, estimates of payments to be made to urea units worked out to Rs. 2417.20 crore, of which, as on 15.3.2003, an amount of Rs. 1646.32 crore have already been released to the urea units. The remaining claims will be settled in the next financial year's budget."

72. The Committee further invited the attention of the Government that a huge amount of Rs. 770.88 crore is to be paid to manufacturers, the Committee wanted to know the company-wise break up of remaining amount of Rs. 770.88 crore and since when these are pending, the DOF in a written note furnished the following information:-

> "Unit-wise breakup of the outstanding payments arising from implementation of policy parameters for 7th and 8th pricing periods is as follows:

S. No.	Name of the unit	Outstanding amount of payment (Rs. in crore)
1	SPIC-Tuticorin	21.11
2	IFFCO-Aonla-I	43.85
3	IFFCO-Phulpur-I	59.06
4	IFFCO-Kalol	92.25
5	SFC-Kota	29.45
6	DIL-Kanpur	26.82
7	NFL-Bhatinda	55.64
8	NFL-Panipat	42.99
9	NFL-Nangal	132.47
10	NFL-Vijaipur I	14.87
11	NFL-Vijaipur II	32.01
12	FCI-Sindri	68.40
13	NLC-Neyveli	56.70
14	NFCL-Kakinada-II	94.41
15	BVFCL-Namrup III	0.85

	Total	770.88

The installments could not be paid from December, 2002 onwards due to paucity of funds."

73. The Committee find that a staggering amount of Rs. 770.88 crore is still oustanding by the FICC under Deptt. of Fertilisers to be paid to various urea units. The Committee's examination has revealed that out of Rs. 770.88 crore amount to be paid to NFL (Rs. 277.98 crore) and IFFCO (Rs. 195.16 crore) followed by NFCL. Kakinada II (Rs. 94.41 crore), NLC Neyveli (Rs. 56.70 crore) etc. The Deptt. of Fertilisers has informed the Committee that installments could not be paid from December 2002 onwards due to paucity of funds. The Committee are not convinced with the argument as it is Government's obligation to arrange funds. The Committee desire that the DOF should ensure expeditious payment of these pending dues to urea units.

(Recommendation No. 16)

(d) <u>New Pricing Policy</u>

74. The DOF has initiated a policy paper titled `Pricing Policy for Urea Manufacturing Units'. The New Pricing Policy replaces the existing Retention Price Scheme (RPS) w.e.f. 1.4.2003 with the object of encouraging efficiency parameters of international standards based on uses of mostly efficiently stocks , state-of-art technology and also ensuring viable return to the units. The New Policy will be implemented in Stages. Stage I would be for one year duration from 1.4.2003 to 31.3.2004. Stage II will be for two years duration from 1.4.2004 to 31.3.2006. The modalities of Stage III would be decided by Deptt. of Fertilisers after review of implementation of stage I and Stage II. The New Policy has divided the urea manufacturing units into following six groups on vintage and feedstock basis to determine group based concessions. -

(i) Pre 1992 gas based
(ii) Post 1992 gas based
(iii) Pre 1992 Naphtha based
(iv) Post 1992 Naphtha based
(v) Fuel Oil low sulphur heavy stock (FO/LSHS) based
(vi) Mixed energy based (such units which used alternative feedstock to the extent of more than 25% as admissible on 1.4.2002)

75. Rates of concessions for units in each group determined in two steps viz. Step I and Step II. In Step I,the weighted average retention price and the dealer's margin of the units in the respective group as applicable on 1.4.2002 would be computed. Units having exceptionally high or low retention price i.e. deviation of 20% and above with reference to group average computed in Step I are to be treated as outliers in their respective groups. In Step II the final weighted average group retention price after excluding the outliers will be computed.

76. The New Policy deals with other modalities for computation of concession rates. In this connection the Committee wanted to know whether the DOF has completed final weighted average group retention price for Step I and Step II, if not, by when it will be completed, the DOF in a written note submitted as under:-

> "The group concession rate on 1.4.2003 would be computed on the data of the units on 31.3.2003 as applicable. To determine that the retention prices as notified for 1.4.2002 would be taken as the base and the adjustment on the basis of 8th Pricing Periods for the remaining period, i.e. 1.4.2002 to 31.3.2002, shall be made before the end of financial year 2003-2004."

77. The Committee also wanted to know how much subsidy is likely to be saved under the new policy, DOF in a written note informed as under:-

> "The actual figures for saving would be dependent upon the final retention prices (RPs) for 31.3.2003. Initial estimates, based upon the data of RPs as on 1.4.2002, place the figures at around Rs. 680 crore."

78. During the course of evidence also this issue was discussed. The Committee wanted to know whether the New Pricing Policy has been consented by all urea manufacturing units, the Secretary (Fertilisers) informed as under:-

> "All have signed MOU but some small queries have been raised like whether those who have already signed the undertaking have power of attorney or not. All the units that go in for production have signed it and they have agreed to follow the New Pricing Policy."

79. The Committee find with satisfaction that Govt. has finally come forward with the long pending Pricing Policy for urea manufacturing units. During the course of evidence Secretary (Fertilisers) has informed the Committee that the New Pricing Policy has been signed practically by all the urea manufacturing units. The Committee find that this New Pricing Policy replaces the existing Retention Price Scheme, with a view to encourage efficiency parameters of international standards based on use of most efficient feedstocks state-of-art technology at the same time ensuring viable return investments. The Committee note that the New Policy would be implemented in gradual manner firstly for one year (Stage I) and subsequently for two years (Stage II) and thereafter (Stage III) it would be implemented based on review of implementation of Stage I and Stage II. For the purpose of implementation of urea units have been divided in terms of pre and post 1992 into six different units based on feedstocks. Since the benefits of the New Policy would be available in two stages viz. Stage I and Stage II. The Committee hope that by implementation of New Pricing Policy industry would be able to face new challenges arising out of present globalisation.

(Recommendation No. 17)

(e) Implication on phased decontrol of urea on distribution

80. Allocation and Supply linkages for movement and distribution of urea in terms of assessment made by Deptt. of Agriculture & Cooperation is responsibility of Deptt. of Fertilisers. The DOF has stated that the new Pricing Policy also deals with phased decontrolled of urea distribution restricting ECA allocation cover upto 75% for kharif 2003 and 50% for Rabi 2004 and complete decontrol in Stage II. In this connection the new policy dealing with distribution of urea stipulates as under:-

> "The Department will be free to make necessary adjustments in determining ECA allocation in case the estimated/ actual production during the year is below the reassessed installed capacity. The remaining urea production will be available to the manufacturers for sale to the farmers at MRP anywhere in the country. Manufacturers could sell urea with the prior permission of the Department of Fertilisers to complex manufacturing units on the principle of import parity price or to export, with the condition that no subsidy/ concession will be payable on that quantity and it will be computed towards the quantity permitted for decontrolled sale. The DOF will reserve the authority to make suitable adjustments, in view of demand-supply positions in the ECA allocation and decontrolled urea up to 15% over and above the reassessed installed capacity in case their applicable concession rate is financially and economically efficient thereby contributing to reduce the subsidy burden. During Stage-II, urea distribution will be totally decontrolled after having evaluated the Stage-I and with the concurrence of the Ministry of Agriculture."

81. The Committee also wanted to enquire whether some States and even the farmers organizations have asked the Government to shelve/defer the phased decontrol programme, the DOF in a written note was informed:-

> " Department of Fertilizers had circulated the recommendations of the Expenditure Reforms Commission submitted in its report on rationalizing fertilizer subsidies, to the State Governments/Union Territories also, inviting their comments/suggestions. Some of the State Governments/Union Territories had expressed apprehension against total distribution decontrol stating that it might lead to insufficient availability of key fertilizers in tribal/hilly/remote areas. Some of the States had also suggested that, in the event of decontrol, fertilizer companies may be directed to create buffer stocks in central warehouses. No representation has been received from farmers' organizations on this issue."

82. Asked about Government's response to the farmers suggestions, the DOF further clarified:-

"The ERC had recommended removal of distribution control from the first Stage itself beginning from 1.2.2001. Government has examined the report of ERC in consultation with State Governments, fertilizer industry and concerned Ministries/Departments of the Government of India. After considering all issues, Government have decided to introduce phased distribution decontrol in the new pricing policy for urea units. In Stage-I, i.e. from 1.4.2003 to 31.3.2004, the allocation of urea under the Essential Commodities Act 1955 (ECA) will be restricted up to 75% and 50% of installed capacity (as reassessed) of each unit in Kharif 2003 and Rabi 2003-04, respectively. During Stage-II, urea distribution will be totally decontrolled after having evaluated the Stage-I. The supply of urea to the farmers will, however, continue to be at Maximum Retail Price (MRP), fixed by the Government, anywhere in the country both in the case of urea under ECA allocation and the decontrolled urea. Besides, the Department will issue special movement orders to manufacturers for the States even for deregulated quantity where shortage of urea is reported."

83. The Committee note that under its New Pricing Policy (for urea manufacturing units) Government have started the process of decontrol in distribution of urea even though various State Governments have opposed such a move fearing that it might lead to insufficiency in availability of urea in tribal, hilly and remote areas. The Committee would like to emphasise that distribution of urea is the responsibility of Deptt. of Fertilisers and is done under ECA allocation made for supply of urea in different States from plants throughout the country. The Committee find that under the new dispensation Deptt. of Fertilisers has restricted ECA allocation cover upto 75% for kharif (April-Sept.) 2003 and 50% Rabi (Oct.-March) 2004 and complete decontrol thereafter. The Deptt. of Fertilisers submitted that there will be no shortages of urea in States and Govt. will monitor the availability of urea in States from where shortages are reported including those of hilly, tribal and remote areas. The Committee do not ascribe to the views of the Deptt. of Fertilisers keeping in view the fact that in decontrolled scenario the responsibility of the State Government in ensuring the availability of fertilisers and on their demand order for special movement of fertilisers will take long -long time particularly when demand of urea is largely contingent upon the behaviour of monsoon and its distribution in different States in India. The Committee, therefore, strongly recommend that this aspect be reviewed in depth keeping in view the larger availability of urea in the country.

(Recommendation No.18)

(f) <u>Delay in Finalisation of Long Term Policy</u>
<u>Delay in Feedstock Policy</u>

84. It came out during the course of examination that problem of feedstock has been 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. In this connection the Committee pointed out that the Committee had been consistently recommending finalisation of Long Term Fertiliser Policy. The last

recommendation was made in Committee's 34th Report presented to the House on 20.12.2002.

85. Replying to these observations, the DOF in a written note submitted as under:-

> "A draft outline of the long Term Policy for holding discussions with stakeholders such as State Governments, fertiliser industry, farmers, economists etc. has been prepared and has also been put on the website of the Department of Fertilizers for inviting comments/ suggestions. The Draft Policy has also been discussed in seminars/ workshops held in different parts of the country.
>
> The new fertilizer policy will aim at total decontrol of fertiliser sector in a phased manner and will dwell on issues such as creation of new capacities based on efficient feedstock, use of bio-fertilizers, organic manures and micro nutrients, WTO related matters, NPK ratio in fertilizer consumption for balanced fertilization, soil specific use of fertilizers, joint ventures abroad etc.
>
> There has been a very encouraging response to the proposals made in the draft policy and the Department has received a number of suggestions and comments from various stakeholders. 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 critical issues like feedstock availability and its pricing etc. that will have a significant bearing on the formulation of long term policy for fertilizer sector, finalisation of the long term policy has to wait till a clearer picture emerges in respect of such issues."

86. During the course of evidence of the representatives of DOF the Secretary (Fertilisers) also clarified :-

> " …the most important thing is the feedstock. Today, in this country, no other feedstock will make a fertiliser urea unit viable except gas and that too at a price which should be internationally competitive. Another form of that gas is LNG. So, I am assuming LNG and gas. The fact of the matter is that the supply of LNG and gas is uncertain. Till now, out of the total gas supply contracted, there is 20 per cent shortfall in supply from various units because ONGC and GAIL say that their production is less. LNG will come up by October-November, 2004. So KRIBHCO themselves postponed new expansion plant. Now, they have submitted a detailed project report. Now, they are saying that based on this, they want to go ahead. That is the reason that they wanted to postpone almost all expansion plans for some time.."

87. The Committee are constrained to note that most important issue of finalisation of Long Term Policy of Fertilisers particularly feedstock policy for fertiliser units has not been finalised so far. The Committee had examined this

issue last year also and recommended its expeditious finalisation. In Action Taken Report also the Committee had reiterated the same. The Committee find that in the absence of clear cut policy on feedstocks there is no tangible investments in fertiliser sector. Secretary (Fertilisers) has candidly admitted before the Committee that due to less availability of gas and uncertainty about LNG, no new expansion projects including those of KRIBHCO have come up so far. The Committee are not happy with the present state of affairs and hope that in the interest of fertiliser industry as a whole the feedstock policy for fertilisers would be announced expeditiously.

(Recommendation No. 19)

88. As regards delay in overall long term policy the Committee once again note with dissatisfaction that Deptt. of Fertilisers is still in the process of discussing the Draft Policy amongst the various stake holders .A Committee is stated to have been constituted under the Chairmanship of Secretary (Fertilisers) with representatives of industry and media to examine the responses to draft Policy and critical issues like feedstock availability and its pricing etc. The Committee are informed that finalisation of the long term policy has to wait till a clearer picture emerges in respect of some critical issues emerged. The Committee recommend that taking into account all the relevant factors a long term fertiliser policy should be formulated expeditiously.

(Recommendation No. 20)

Major Head 6855

(v) Loans and Investments in PSUs

89. This head is used for making loans to PSUs under Plan and Non-Plan expenditure. An amount of Rs. 367.97 crores has been proposed for 2003-04, out of which Rs. 150.25 crore is under Plan Loans and Rs. 217.72 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 meeting the requirements of funds five sick PSUs of Hindustan Fertilisers Corporation Ltd.(HFC)/Fertilisers Corporation of India Ltd.(FCI), Pyrites, Phosphates & Chemicals Ltd.(PPCL), Projects & Development India Ltd. (PDIL) and Brahmaputra Valley Fertiliser Corporation Ltd. (BVFCL).

90. The following are details of actuals for 2001-02 Budget and Revised Estimates for 2002-03 and Budget Estimates for 2003-04:-

(Rs. in crores)

Year	Plan Loans	Non-Plan Loans	Total
2001-2002(Actuals)	59.66	300.00	419.66
2002-2003 (B.E.)	218.60	250.00	468.60
2002-2003(R.E.)	158.10	644.00	802.10
2003-2004(B.E.)	150.25	217.72	367.97

(a) Plan Loans

Revival of HFC Namrup

91. Out of Rs. 150.25 crore provided as plan loans to PSUs Rs. 134 crore (which includes Rs. 20 crore separately provided for North-Eastern Region) is earmarked for rehabilitation/ revamp of Namrup Unit of HFC now known as BVFCL. Revamp of Namrup at a total outlay of Rs. 509.40 (revised) has been under implementation since 2.11.98 and was to be completed by 1.2.2002 . Upto November, 2002. 86.40% of work has been completed at an expenditure of Rs. 309.83 crore. Namrup has 3 units. Namrup I and III have restarted production and entire revamp project would be commissioned by May 2003. In this connection the Committee wanted to know whether the execution of revamp project is as per schedule without time and cost over runs, the DOF in a written note informed as under :-

> "Completion of the Namrup Project has been delayed and is now expected by the end of 2003. Up to end February, 2003, overall physical progress of the project has been 87.20% and cumulative expenditure of Rs. 339.28 crore has been incurred."

92. During evidence the Committee further wanted to know by when exactly the revamp would be completed, the Secretary (Fertilisers) informed the Committee as under:-

> "We are ensuring that it goes into production on July 2003."

93. The Committee find that as against the Revised Estimates of Rs. 158.10 for 2002-03, Rs. 150.25 crore has been earmarked for 2003-04. Out of Rs. 150.25 crore, Rs. 134 crore (which includes Rs. 20 crore separately provided for North-Eastern Region) would be utilised for revamp of Namrup Project of HFC now known as Brahmaputra Valley Fertilisers Corporation Ltd. (BVFCL) leaving the remaining amount of Rs. 36 crore to MFL (Rs. 14 crore) and FACT (Rs.22 crore) facing resource crunch. The Committee note that the entire Namrup revamp has not been completed so far. In this connection the Secretary (Fertilisers) has assured the Committee that by July, 2003 the Deptt. will ensure that it goes into production. The Committee hope that Deptt. of Fertilisers would keep the assurance.

(Recommendation No. 21)

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

94. As against the actuals of Rs. 300.00 crore for 2001-02 the likely expenditure for 2002-03 is expected to be Rs. 644 crore. For 2003-04 Rs. 217.72 crore have been proposed for non-plan loans to PSUs of HFC, FCI, PPCL, PDIL and BVFL. Out of Rs. 217.72 crore. Major share of Rs. 164.00 crore is for HFC, FCI and PPCL. HFC and FCI have been closed by Government on 5.9.2002 and remaining Rs. 53.72 crore is for PDIL and BVFCL.

95. The Committee find that as against the last year's amount of Rs. 644 crore for Non-Plan Loans to PSUs, Rs. 272.17 crore has been provided for 2003-04 for meeting the requirements of funds by FCI, HFC, PPCL, PDIL and BVFCL pending their closure/revival . Last year the Committee had recommended revival of these sick units of HFC and FCI keeping in view the fact that all their plants are located in Eastern region where there is absence of industry. The Committee have earlier disapproved Govt. decision of 5th September, 2002 to close some fertilisers plants as that would create tremendous regional imbalance in the region. The Committee once again advise the Deptt. of Fertilisers to devise ways and means for reindustrialisation in this region. This may be done by persuading parties to set up power plants at closed sites of these units since availability of coal is in abundance in the region.

(Recommendation No. 22)

(i) <u>Discrimination over payment of terminal dues in HFC and FCI consequent upon their closure</u>

96. The Government has decided on 5th September, 2002 to close down plants of Hindustan Fertiliser Corporation and Fertiliser Corporation of India. Consequent upon this closure, the Government has decided to ask the employees of these Corporations to opt for Voluntary Separation Scheme. While issuing orders for the closure of units, the management of these Companies did not make payment of the terminal dues with the result that employees are facing financial hardship.

97. The Committee came across reports that the employees are not being paid their terminal dues with the excuse that they are occupying company's accommodation and the same would be paid only after they vacate the accommodation. Even such of the employees who are not even in company's accommodation were also not being paid their dues.

98. In this connection the Committee wanted to know whether the employees of the fertilisers plants which have been closed down had been paid their regular salaries and wages before they were notified as having availed VSS. The DOF in a written note stated as under:-

> "The salary and wages up to the month of February, 2003 have been paid by the Hindustan Fertilizer Corporation Ltd. and the Fertilizer Corporation of India, Ltd. to their employees. "

99. The Committee also wanted to know the statutory provisions regarding payment of salaries/wages for the employees opting for VSS and whether these are uniform or vary from company to company, DOF in a written note clarified as under:-

> "As per the Voluntary Separation Scheme (VSS), the employees who opt for VSS within three months from the date of offer, are eligible for the following benefits :-

(i) An employee would be entitled to an ex-gratia payment equivalent to 45 days emoluments (pay + DA) for each completed year of service or the monthly emolument at the time of retirement multiplied by the balance months of service left before the normal date of retirement, whichever is less;
(ii) All those who have completed not less than 30 years of service, will be eligible for a maximum of 60 (sixty) months salary/wage as compensation. This will be subject to the amount not exceeding the salary/wage for the balance period of service left (at the rate of monthly salary/wage at the time of voluntary retirement).

An amount of Rs. 432 crore has so far been disbursed for VSS to the employees of HFC, FCI and PPCL and the implementation of the scheme is beiong regularly monitored."

100. This Standing Committee have received various representations from recognized and affiliated Associations & Unions of Hindustan Fertilizer Corporation, DFCI Workers Union, FCI Employees Union, FCI-EMZ Employees' Association. The highlights of these representations are :

(i) While calculating ex-gratia, component of additional pay/personal pay and other benefits of similar category are not being taken into account.
(ii) The component of additional pay/personal pay was earlier declared part of wage agreement.
(iii) Management is not counting training period as qualifying period for service though Chief Labour Commissioner has already clarified positively for this provision.
(iv) Employees are being discriminated in the matter of release of gratuity, retention of accommodation etc.

The Committee have learnt that Local Development Authorities of the Areas were residential accommodation of the employees of HFC and FCI is located have approached the Central Government and management of these companies and shown the interest to buy this property. The Development Authorities propose to develop these and subsequently sell them to these employees.

101. The Committee desired to know under which law of the land, the gratuity, ex-gratia, leave salary of employees have been withheld pending vacation of their allotted accommodation. The Committee also wanted to know whether some of the employees have been given ex-gratia & leave salary even though they were retaining their accommodation ;but their colleagues who were not in company's accommodation have been denied these benefits.

102. The Department replying to these observations submitted as under:-

"Acceptance of applications of employees who have opted for Voluntary Separation Scheme (VSS) is being decided in accordance with the terms of the scheme. Terminal dues of the employees who are not occupying company accommodation are paid on submission of the 'No Dues Certificate'. The statutory payments of gratuity and provident fund are being made to all the employees. The ex-gratia under VSS and leave encashment are, however, paid on production of 'No Dues Certificate'. Release of 50% of ex-gratia payment by FCI to its employees who are retaining the quarters are being made as per orders of the Delhi High Court which is applicable only to the workmen category of employees of FCI. In the order, the High Court has made it obligatory for the petitioner workmen of FCI to undertake to hand over the possession of the vacant house to the company within the stipulated date, failing which they are liable for contempt of court. Applicability of the same condition in respect of the employees of HFC is under consideration."

103. This issue also came up during evidence when the Committee desired that the Department of fertilizers should ensure that employees of these companies are given graceful exit. Secretary in the Department responded positively to this suggestion.

104. The Committee feel that employees of FCI & HFCL have genuine grievances which they have brought before the Committee. It is obligatory on the part of Administrative authorities to look into these grievances objectively and positively. The Committee do not appreciate the assertion of the Department that release of 50% of ex-gratia payment by FCI to its employees who are retaining the quarters are being made as per orders of the Delhi High Court which is applicable only to the workmen category of employees of FCI. If the employees of HFCL have not gone to the court, they should not be denied the benefit of immediate payment of gratuity. Further the term 'No Dues Certificate' is not statutorily defined & its implications vary from company to company, place to place. The Committee would like that without invoking judicial decisions in such cases, the Government should act judiciously with human angle. The Committee therefore recommend that all employees of HFCL and FCI be treated equally irrespective of some one having gone to court. Further for calculating the gratuity, employees demand of inclusion of their additional pay/personal pay be categorized as Pay. In case of dispute, the matter may be referred to Ministry of Personnel for clarification. The Committee also recommend that clarification given by Chief Labour Commissioner with regard to training period of trainees be accepted. The Committee learn that Local Development Authorities of the areas where employees residential accommodation is located have shown their interest in buying this accommodation from HFC and FCI for subsequently selling to the employees of these organisations. The Committee recommend that these requests of Development Authorities be examined positively. Finally, the Committee strongly recommend that employees be given their full terminal benefits before they are asked to leave their accommodation.

(Recommendation No. 23)

(c) Disinvestment of PSUs under DOF

105. The Department of Fertilisers 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).

106. During the course of examination the DOF has informed that five companies viz. NFL, MFL, PPL, FACT and RCF are list for disinvestment during 10th Plan period (2002-07). In the first phase NFL, PPL and MFL are include outlays for NFL and MFL have been restricted keeping in view this fact in mind . Their outlays will be reconsidered after two years in case these companies are not disinvested till than. As PPL has been disinvested, no outlay for this company included in the 10th Plan Outlays.

107. The Committee's examination has revealed that budgetary provisions for Annual Plan 2003-04 and 10th Plan (2002-07) of these PSUs are as detailed below:-

Name of PSU	**Annual Plan 2003-04**	**Rs. in crore 10th Plan (2002-07)**
NFL	45.13	160.00
MFL	14.00	99.00
*PPL	Nil	Nil
FACT	22.00	475.00
RCF	68.77	1900.00

*already disinvested.

108. The Committee during the course of examination wanted to know the PSU-wise details of progress of disinvestment in respect of FACT, MFL and NFL. The DOF in a written note stated:-

"The Disinvestment Commission has categorized fertilizer sector as non-strategic. As per the declared policy of the Government, GOI held equity in generality of cases, will be brought down to 26% or below in all Public Sector Undertakings operating in non-strategic areas. The Government have decided to divest 33.5% (earlier 32.74%) of its holding out of 59.50% (earlier 58.74%) in Madras Fertilizers Limited (MFL); 51% of its holding out of 97.65% in National Fertilizers Limited (NFL) and 51% of its holding out of 97.38% in Fertilizers & Chemicals Travancore Limited (FACT) in favour of strategic buyers alongwith the transfer of management control.

MFL : National Iranian Oil Company (NIOC) has also shown its Willingness to divest its entire equity held in the company. An agreement to this effect is to be executed between

MFL & NIOC and thereafter the Expression of Interests will be invited from the prospective bidders.

FACT: The Expression of Interest was invited from the prospective Bidders by 26.2.2003. The shortlisting of Bidders and finalisation of various documents is in process by the Minisitry of Disinvestment.

NFL : The Expression of Interest was invited from the prospective Bidders by 10.2.2003. The shortlisting of Bidders and finalisation of various documents is in process by the Minisitry of Disinvestment.

109. During the course of examination the Committee wanted to know what would be the effect of disinvestment on production of Fertilizers in public sector, DOF in a written note stated:-

"As per the declared policy, Government's equity in non-core PSUs is to be disinvested to bring it down to 26% or lower. The fertiliser sector has been categorized as `non-core . Inspite of the change of management control through disinvestment in fertilizer PSUs, the Government is committed to timely supply of fertilizers to the farmers in all parts of the country."

110. In reply to a question about what measures have been taken to protect the interests of workers in these companies, the DOF stated as under:-

"The Shareholders Agreement incorporates suitable provisions regarding protection of interests of the employees of the Fertilizer PSUs to be disinvested which will be monitored by the Government nominee Directors on the Board of these companies."

111. The break-up of equity held by Government and share to be disinvested and remaining to be left with PSUs is as detailed below:-

Name of PSU	Present Govt. equity	Equity to be disinvested	Equity to be left with PSU after disinvestment
NFL	59.50	33.5	26
MFL	37.65	51.0	26
FACT	97.38	51.0	26
RCF	*	*	*

***** *Disinvestment process on RCF has been deferred.***

112. During the course of evidence also the case of post disinvestment of PPL was discussed. In this connection the Committee wanted to know whether the issue of post disinvestment claim arising out of disinvestment of PPL of Rs. 151 crore made by Zuari Agro has been sorted out and whether the amount has been made available to Zuary Agro and whether any decision thereon has been taken particular when DOF has earlier informed the Committee that the matter was under consideration of the Government, the DOF in a written note informed:-

> "The post disinvestment claim of M/s Zuary Maroc Phosphates Private Ltd. has not yet been finalized. Certain clarifications regarding computation of the claim given by the company are under examination."

113. The Committee note with dissatisfaction that five PSUs under DOF viz. NFL, MFL, RCF, FACT and PPL are to be disinvested. Out of this out of this PPL has already been disinvested. The Committee's examination has revealed that NFL and MFL are to be disinvested in first phase and as such their plan outlays have been restricted during 10th Plan period. These outlays will be reconsidered after two years if these are not disinvested . The Committee find that NFL and MFL are two profit making PSUs under DOF. The Committee had examined this issue last year also and had recommended that they are not in favour of disinvestment of profit making fertilisers PSUs and had asked the Government to review their policy in this regard.. The Committee had in their 34th action Taken Report while reiterating the same had observed that any disinvestment of these PSUs in fertilisers will pave the way for monopolistic evils in the industry. The Committee, however, find that progress of disinvestment in NFL , FACT and MFL is at the advanced stage. In this connection the Deptt. of Fertilisers has contended before the Committee that disinvestment of these PSUs will not adversely affect timely availability of fertilisers to farmers as also the interest of workers in these companies. The Committee do not share this perception of Deptt. of fertilisers and reiterate their earlier recommendation that none of these companies should be disinvested.

(Recommendation No. 24)

114. The Committee in their earlier reports had recommended that instead of disinvesting NFL, it should be given to KRIBHCO on nomination basis. The committee regret that Government did not accept this recommendation. However, the Committee have learnt through Press Reports that the Government have now decided to allow KRIBHCO to bid for NFL. The Committee welcome this decision but recommend that KRIBHCO should be given priority and preference in terms of acquiring equity of NFL. The Committee desire that the Department of Fertilizers should approach the Ministry of Disinvestment accordingly.

(Recommendation No. 25)

115. As regards disinvestment in PPL the Committee find that after the Government equity in the company was disinvested in favour of Zuari-Agro the issue of post disinvestment claim amounting to Rs. 151 crores apprx. was under

Committee's examination. The Committee have been informed that the issue is yet to be finalised and certain clarification regarding computation of claim given by the company are under examination. The Committee would like to know the final action taken in this regard within one month from now the date of presentation of this Report.

(Recommendation No. 26)

<u>April 7, 2003</u>
Chaitra 17, 1925 (Saka)

NEW DELHI

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	**2**	**3**	**4**
1	7	12	The Committee find that objectives for fertiliser sector during 9th Plan period (1997-2002) largely range from disinvestment, closure of non-viable sick PSUs feedstock and pricing policy for fertilisers to removal of regional imbalances in industrial development etc. whereas objectives during 10th Plan period (2002-07) range from phased decontrol of fertilisers industry to preparing the industry to face the challenges of global competition. The Committee find that except for closure of non-viable sick PSUs the Government have not achieved any other objective of 9th Plan namely disinvestments, removal of regional imbalances in industrial development and feed stock and pricing policy for fertilizers. Evaluating the objective of 10th Plan, the Committee note that the objective of closure of sick and non-viable fertilizer units is a continuation of the previous plan and as such cannot be termed as contributing to laudable objectives of planning for development. The Government appear to have initiated measures to achieve the other objectives namely phased de-control of fertilizer industry and establishing pricing policy for controlled and de-controlled fertilizers but their success would depend upon the implementation of the schemes and their acceptability with the masses. The Committee do not find the Government to have done something tangible to prepare the industry to face the challenges of global competition. They regret to note that an important objective of 9th Plan namely removal of regional imbalances in industrial development has been ignored in the 9th as well as 10th Plan. The Committee recommend that this objective be included in objectives of the 10th Plan also and concrete action initiated to achieve the same. Regarding the other objectives of 10th Plan, the Committee recommend that a Committee of experts consisting of representatives of farmers, State Governments and economists be constituted to simultaneously study the impact of phased de-control over movement of urea. The success of implementation/achievement of this objective depends upon acceptability by the public and to assess the same the expert's committee should be asked to study this aspect also and report its findings to the Government. If need be, the Government should make mid-term appraisal of this objective.

2	8	13	The Committee are afraid that due to de-control of movement of urea, the worst affected would be far flung, hilly and tribal areas. Although Department of Fertilizers has assured that certain percentage of urea would be made available in these areas in the next one or two years, the Committee would like that a regular system should be established through which availability of urea and other fertilizers can be assured across the country at affordable prices. The Committee, therefore, recommend that the Government should review this policy of de-control of movement of fertilizers.
3	15	27	The Committee find with dismay that progress of utilisation of plan outlay during 9th Plan (1997-2002) has been far from satisfactory and prospects for 10th Plan period (2002-07) are not encouraging. The Committee find that as against the total 9th Plan outlay of Rs. 8771.41 crore, the actual expenditure was only Rs. 3724.71 crore representing a utilisation rate of 42.4%. The Committee also note that the original approved outlay of Rs. 11013 crore for the plan period was curtailed due to non- materialisation of four mega urea projects of Thal of RCF, Hazira Expansion and Gorakhpur Plants of KRIBHCO and Nellore of IFFCO. The Committee learn that execution of these projects could not take off as the Government could not decide the economic viability of these projects. However, now with the discovery of gas in Krishna Godavari basin and with the announcement of new pricing policy, the promoters of these projects have shown interest in reviving these projects except the project at Gorakhpur. The Committee would like the Government to end the uncertainty over the economic viability of these projects and accord investment approval for the projects during the current financial year itself.
4	15	28	The Committee find that only one Oman India Fertilisers Project has been finally approved and is under implementation by IFFCO and KRIBHCO during the 10th Plan period. In this connection, the Committee have been informed that the project has achieved financial closure on 15.8.2002 and work has since commenced. A provision of Rs. 519 crore has been made for contributing towards funding this joint project. The Committee have been assured earlier that the project would be completed within 36 months of its financial closure. The Committee expect the Department of Fertilizers to monitor the execution of the project and to see that there is no time and cost overrun.
5	16	29	The Committee find with dismay that DOF has failed in utilising available gas within the country in State like Tripura. Instead it is going ahead with its Oman India Fertiliser Project in Oman for which an agreement has already been signed. The Committee have been informed by the Department of Fertilisers that the possibility of setting up a fertiliser plant in Tripura was explored earlier also. But IFFCO,

			KRIBHCO after carrying out feasibility report did not find the proposal viable. However, now private company M/s. Oswal Chemicals and Fertilisers Ltd. (OCFL) has already evinced interest in the matter and their request for allocation of gas for the proposed plant has already been agreed to by Ministry of Petroleum and Natural Gas. OCFL has commenced discussions with concerned authorities for finalisation of gas supply agreement. OCFL proposes to appoint a consultant for preparing a DPR etc. for project related activities after signing of gas supply contract. The Committee hope that DOF would monitor the progress of the proposed project and pursue it to finality.
6	18	32	The Committee treat the Government reply as interim when it says that recommending abolition of 29 posts in the Deptt. of Fertilisers by ERC was based on possible disinvestment in certain PSUs and replacement of existing Retention Price. The Committee find that as against recommended abolition of 29 posts DOF has decided to abolish 17 posts in Group `A' and `B' and 8 posts in Group `C' and `D'. The Committee hope that with the abolition of 25 posts the activities of DOF would not be adversely affected and it would soon be able to rationalise its manpower.
7	21 & 22	37, 38 & 39	The Committee note that payment of concessions on indigenous decontrolled fertilisers is based on level of consumption of fertilisers. The Committee were informed that actual payment of concession for 2001-02 corresponded to the level of consumption of 51.48 lakh tonnes of indigenous DAP and 49.63 lakh tonnes of complex fertilisers and 26.05 lakh tonnes of SSP. For subsequent year 2002-03 the Committee found that due to severe draught in various State during kharif season there was a fall in consumption which slipped even lower than 2001-02. For 2003-04 DOF has stated that increased budget provision is due to increase in projected consumption based on assessment made by Ministry of Agriculture. As regards figures for payment of concessions for decontrolled fertilisers the Committee's examination has revealed that it is based on assessed consumption of these fertilisers and also to cater variation in Dollar Rupee exchange rate and variation in international prices. The Committee have been informed that due to severe draught conditions in almost all parts of the country during 2002-03 the likely imports of DAP was 3.70 lakh tonne and that of MOP of 28.34 lakh tonnes and corresponding amount is likely to be Rs. 737 crores only. For 2003-04 Rs. 1090 crore have been proposed based on ideal monsoon conditions anticipating import of 10 lakh of DAP and 25 lakh tonnes of MOP. The Committee do not completely disagree with the explanation of the Department of Fertilizers that decrease in consumption of de-controlled fertilizers was due to drought conditions in some parts of

			the country. At the same time they would like to point out that it has been reported to the Committee that the main reason for decreasing consumption of the de-controlled fertilizers is higher prices even after concessions. The Committee would like the Department to conduct an independent study to ascertain the facts and if found correct, devise ways and means to make the prices of these fertilizers affordable.
8.	24 & 25	42	The Committee note that there are wide variations among maximum Retail Prices of different grades of N:P:K complex fertilisers ranging between Rs. 6980 per tonne to Rs. 9080 per tonne. Not only that the Committee find that there is no correlation between MRPs and rate of concessions. The Committee have been informed that DOF is rationalising the maximum retail price of these complex fertilisers based on Tariff Commission Report. The Committee have also been informed that Tariff Commission has dealt with Di-Ammonium Phosphate (indigenous and imported) (DAP) and Muriate of Potash (MOP) and has worked out normative as also distribution cost of these fertilisers. The Committee have been informed that inter-Ministerial Group (IMG) is already examining the issue of rationalisation of Maximum Retail Prices of these complex fertilisers and its report is expected shortly. The Committee feel that things are moving in right direction and hope that IMG would be able to submit its report early. The Committee trust that issue relating to wide variation among maximum retail prices of different grades of NPK complex fertilisers, correlation between MRPs and rate of concessions and distribution cost and of these fertilisers should be sorted out soon.
9.	26	44	The Committee find that the practice of submitting fraudulent claims is still persisting. The Committee in their 26th Report had dealt with this practice and recommended certain measures to check this menace. The Committee note that the Department of Fertilizers has made recoveries from fertilizer manufacturers after technical audit of these units. The Committee appreciate that the Department has constituted Technical Audit and Inspection Cell (TAC) who shall make inspections of SSP manufacturers. The Committee note that subsequent to TAC's inspections, only 66 SSP companies have been notified to be eligible for concessions out of 100 companies listed originally. TAC has also been asked to conduct Techno Commercial Audit of DAP and NPK Plants in the country. The Committee find that at initial stage itself one third of SSP manufacturers have been found indulging in putting up fraudulent claims. While viewing this very seriously, the Committee recommend that TAC should be further strengthened to make its job more effective. The Committee also recommend that cases of fraudulent claims be dealt with strongly by awarding exemplary punishment in order to have effect on others.

10.	29	48	The Committee are pained to note that crores of rupees of manufacturer's money have been blocked for want of certification of sales by State Governments. These claims are pending since October, 2002. As many as 19 States have not certified the sales resulting in blocking of a huge amount of Rs. 686.84 crores since 1.10.2000 (when the concession scheme for extending financial support of decontrolled P&K fertilisers on sales was introduced) upto 31.3.2003. In this context, the Committee in their 26th Report had recommended that DOF should lay a time-frame for settling the claims. In response Deptt. of Fertilisers has informed that they have brought out comprehensive revised guidelines for implementation of the Concession Scheme, especially laying stress for timely certification of sales. These guidelines emphasise on early certification of sales by States besides seeking of prior permission of DOF for marketing arrangements with a view to settle claim of concession early. The Committee hope that revised guidelines would be implemented in letter and spirit leaving no room for any complaint in future.
11.	29	49	As regards the magnitude amount of blocked money to be certified by the different States the Committee find that biggest defaulter in this regard is the State of Uttar Pradesh followed by Andhra Pradesh, Bihar, Punjab, Madhya Pradesh etc. etc. The Committee recommend that the Deptt. of Fertilisers should periodically hold meetings with concerned State Governments to expedite the certification process.
12.	33	56	The Committee note that a net provision of Rs. 709.25 crore has been proposed for import of 15 lakh tonnes of Urea. The Committee's examination has revealed that import of Urea is done to bridge the gap between demand and indigenous availability in the country. Similarly, the actual import of Urea depends upon the trends of domestic production and evaluation of demand based on progress of monsoon and distribution of rainfall. Year-wise analysis of imports of Urea indicate that due to severe drought like situation in most part of the country the import of Urea during 2001-02 were 2.2 lakh tonnes only to keep pipeline stock at reasonable level. During 2002-03, there were no imports at all. The Committee feel that draught like condition as experienced during 2001-02 and 2002-03 are not usual phenomenon and as such the Committee view it as an exception. The Committee feel that as recommended by them last year all out efforts should be made to optimise the maximum level of indigenous production before resorting to imports.

13.	33	57	National Fertilisers Limited was defrauded or Rs. 133 crores in 1995 and since then the company is pursuing their case either for recovery of amount or for import of urea. The Committee find that the case has now reached its logical conclusion. The Committee recommend that the Department of Fertilisers and NFL should put in joint efforts to get the case processed speedily in the Delhi Court.
14.	35	62	The Committee note with concern that war in Iraq might have a cascading effect over the prices and production of fertilisers. The prices of ammonia has already risen which will have a budgetary implications for DAP and NPK production. Similarly the prices of sulphur, naphtha and urea have gone up . The Committee appreciate that Secretary (Fertilisers) is taking up the matter with Cabinet Secretary. The Committee view the fall out of war on production and prices of urea as serious and urge Government to initiate steps to secure the interests of fertiliser, industry and in turn the farmers.
15.	38 & 39	69	On the issue of whether the fertiliser subsidy reaches to the farmers or not the Government, contended that farmers are getting subsidy in the form of low sale price of urea as compared to higher cost of its production within the country. The international price of urea influences subsidy which in term of Rs. is 7800 per tonne whereas the sale price of urea is Rs. 4830 per tonnes . The difference between international price of urea and sale price of urea of Rs. 2970 per tonne is subsidy to farmers. The average retention price is Rs. 8500 per tonne as on (1.4.2002) and difference between this figure and price of urea is compensated to urea industry for higher cost of raw materials such as naphtha. During the course of evidence on the issue of giving subsidy directly to farmers rather than through urea industry, the Secretary (Fertilisers) has stated that Ministry of Agriculture has examined the issue and various Committees had found this preposition impractical and had feared rampant corruption if implemented. The Committee find that from 2003-04 the Government has already brought out New Pricing Policy for urea units with the result a huge amount is expected to be saved. Coming to main point of devising a model for reaching the subsidy to farmers, the Committee feel that Government should bear in mind that end user of subsidy is none other than farmers of the country. The Committee find that as per Fertiliser Association of India estimates nearly 65% of the total fertiliser consumption in the country is shared by small and marginal farmers who do not have cash surplus for purchase of fertilisers. Experience has shown that there is no crop loan available to these farmers on time. The Committee therefore urge the Govt. to examine the issue of targeting the subsidy to these farmers after identifying their number State –wise although the Govt. has already inform the Committee that subsidy of urea is available to all farmers including marginal one.

16.	41	73	The Committee find that a staggering amount of Rs. 770.88 crore is still oustanding by the FICC under Deptt. of Fertilisers to be paid to various urea units. The Committee's examination has revealed that out of Rs. 770.88 crore amount to be paid to NFL (Rs. 277.98 crore) and IFFCO (Rs. 195.16 crore) followed by NFCL. Kakinada II (Rs. 94.41 crore), NLC Neyveli (Rs. 56.70 crore) etc. The Deptt. of Fertilisers has informed the Committee that installments could not be paid from December 2002 onwards due to paucity of funds. The Committee are not convinced with the argument as it is Government's obligation to arrange funds. The Committee desire that the DOF should ensure expeditious payment of these pending dues to urea units.
17.	43	79	The Committee find with satisfaction that Govt. has finally come forward with the long pending Pricing Policy for urea manufacturing units. During the course of evidence Secretary (Fertilisers) has informed the Committee that the New Pricing Policy has been signed practically by all the urea manufacturing units. The Committee find that this New Pricing Policy replaces the existing Retention Price Scheme, with a view to encourage efficiency parameters of international standards based on use of most efficient feedstocks state-of-art technology at the same time ensuring viable return investments. The Committee note that the New Policy would be implemented in gradual manner firstly for one year (Stage I) and subsequently for two years (Stage II) and thereafter (Stage III) it would be implemented based on review of implementation of Stage I and Stage II. For the purpose of implementation of urea units have been divided in terms of pre and post 1992 into six different units based on feedstocks. Since the benefits of the New Policy would be available in two stages viz. Stage I and Stage II. The Committee hope that by implementation of New Pricing Policy industry would be able to face new challenges arising out of present globalisation .
18.	46	83	The Committee note that under its New Pricing Policy (for urea manufacturing units) Government have started the process of decontrol in distribution of urea even though various State Governments have opposed such a move fearing that it might lead to insufficiency in availability of urea in tribal, hilly and remote areas. The Committee would like to emphasise that distribution of urea is the responsibility of Deptt. of Fertilisers and is done under ECA allocation made for supply of urea in different States from plants throughout the country. The Committee find that under the new dispensation Deptt. of Fertilisers has restricted ECA allocation cover upto 75% for kharif (April-Sept.) 2003 and 50% Rabi (Oct.-March) 2004 and complete decontrol thereafter. The Deptt. of Fertilisers submitted that there will be no shortages of urea in States and Govt. will monitor the availability of urea in States from where shortages are reported including those of hilly, tribal and remote areas. The Committee do not ascribe to the views of the Deptt. of Fertilisers keeping in view

			the fact that in decontrolled scenario the responsibility of the State Government in ensuring the availability of fertilisers and on their demand order for special movement of fertilisers will take long -long time particularly when demand of urea is largely contingent upon the behaviour of monsoon and its distribution in different States in India. The Committee, therefore, strongly recommend that this aspect be reviewed in depth keeping in view the larger availability of urea in the country.
19.	48	87	The Committee are constrained to note that most important issue of finalisation of Long Term Policy of Fertilisers particularly feedstock policy for fertiliser units has not been finalised so far. The Committee had examined this issue last year also and recommended its expeditious finalisation. In Action Taken Report also the Committee had reiterated the same. The Committee find that in the absence of clear cut policy on feedstocks there is no tangible investments in fertiliser sector. Secretary (Fertilisers) has candidly admitted before the Committee that due to less availability of gas and uncertainty about LNG, no new expansion projects including those of KRIBHCO have come up so far. The Committee are not happy with the present state of affairs and hope that in the interest of fertiliser industry as a whole the feedstock policy for fertilisers would be announced expeditiously.
20.	48 & 49	88	As regards delay in overall long term policy the Committee once again note with dissatisfaction that Deptt. of Fertilisers is still in the process of discussing the Draft Policy amongst the various stake holders .A Committee is stated to have been constituted under the Chairmanship of Secretary (Fertilisers) with representatives of industry and media to examine the responses to draft Policy and critical issues like feedstock availability and its pricing etc. The Committee are informed that finalisation of the long term policy has to wait till a clearer picture emerges in respect of some critical issues emerged. The Committee recommend that taking into account all the relevant factors a long term fertiliser policy should be formulated expeditiously.
21.	50	93	The Committee find that as against the Revised Estimates of Rs. 158.10 for 2002-03, Rs. 150.25 crore has been earmarked for 2003-04. Out of Rs. 150.25 crore, Rs. 134 crore (which includes Rs. 20 crore separately provided for North-Eastern Region) would be utilised for revamp of Namrup Project of HFC now known as Brahmaputra Valley Fertilisers Corporation Ltd. (BVFCL) leaving the remaining amount of Rs. 36 crore to MFL (Rs. 14 crore) and FACT (Rs.22 crore) facing resource crunch. The Committee note that the entire Namrup revamp has not been completed so far. In this connection the Secretary (Fertilisers) has assured the Committee that by July, 2003 the Deptt. will ensure that it goes into production. The Committee hope that Deptt. of Fertilisers would keep the assurance.

22.	51	95	The Committee find that as against the last year's amount of Rs. 644 crore for Non-Plan Loans to PSUs, Rs. 272.17 crore has been provided for 2003-04 for meeting the requirements of funds by FCI, HFC, PPCL, PDIL and BVFCL pending their closure/revival . Last year the Committee had recommended revival of these sick units of HFC and FCI keeping in view the fact that all their plants are located in Eastern region where there is absence of industry. The Committee have earlier disapproved Govt. decision of 5th September, 2002 to close some fertilisers plants as that would create tremendous regional imbalance in the region. The Committee once again advise the Deptt. of Fertilisers to devise ways and means for reindustrialisation in this region. This may be done by persuading parties to set up power plants at closed sites of these units since availability of coal is in abundance in the region.
23.	54	104	The Committee feel that employees of FCI & HFCL have genuine grievances which they have brought before the Committee. It is obligatory on the part of Administrative authorities to look into these grievances objectively and positively. The Committee do not appreciate the assertion of the Department that release of 50% of ex-gratia payment by FCI to its employees who are retaining the quarters are being made as per orders of the Delhi High Court which is applicable only to the workman category of employees of FCI. If the employees of HFCL have not gone to the court, they should not be denied the benefit of immediate payment of gratuity. Further the term 'No Dues Certificate' is not statutorily defined & its implications vary from company to company, place to place. The Committee would like that without invoking judicial decisions in such cases, the Government should act judiciously with human angle. The Committee therefore recommend that all employees of HFCL and FCI be treated equally irrespective of some one having gone to court. Further for calculating the gratuity, employees demand of inclusion of their additional pay/personal pay be categorized as Pay. In case of dispute, the matter may be referred to Ministry of Personnel for clarification. The Committee also recommend that clarification given by Chief Labour Commissioner with regard to training period of trainees be accepted. The Committee learn that Local Development Authorities of the areas where employees residential accommodation is located have shown their interest in buying this accommodation from HFC and FCI for subsequently selling to the employees of these organisations. The Committee recommend that these requests of Development Authorities be examined positively. Finally, the Committee strongly recommend that employees be given their full terminal benefits before they are asked to leave their accommodation.
24.	57	113	The Committee note with dissatisfaction that five PSUs under DOF viz. NFL, MFL, RCF, FACT and PPL are to be disinvested. Out of this out of this PPL has already been disinvested. The Committee's

			examination has revealed that NFL and MFL are to be disinvested in first phase and as such their plan outlays have been restricted during 10th Plan period. These outlays will be reconsidered after two years if these are not disinvested . The Committee find that NFL and MFL are two profit making PSUs under DOF. The Committee had examined this issue last year also and had recommended that they are not in favour of disinvestment of profit making fertilisers PSUs and had asked the Government to review their policy in this regard.. The Committee had in their 34th action Taken Report while reiterating the same had observed that any disinvestment of these PSUs in fertilisers will pave the way for monopolistic evils in the industry. The Committee, however, find that progress of disinvestment in NFL , FACT and MFL is at the advanced stage. In this connection the Deptt. of Fertilisers has contended before the Committee that disinvestment of these PSUs will not adversely affect timely availability of fertilisers to farmers as also the interest of workers in these companies. The Committee do not share this perception of Deptt. of fertilisers and reiterate their earlier recommendation that none of these companies should be disinvested.
25.	58	114	The Committee in their earlier reports had recommended that instead of disinvesting NFL, it should be given to KRIBHCO on nomination basis. The committee regret that Government did not accept this recommendation. However, the Committee have learnt through Press Reports that the Government have now decided to allow KRIBHCO to bid for NFL. The Committee welcome this decision but recommend that KRIBHCO should be given priority and preference in terms of acquiring equity of NFL. The Committee desire that the Department of Fertilizers should approach the Ministry of Disinvestment accordingly.
26.	59	115	As regards disinvestment in PPL the Committee find that after the Government equity in the company was disinvested in favour of Zuari-Agro the issue of post disinvestment claim amounting to Rs. 151 crores apprx. was under Committee's examination. The Committee have been informed that the issue is yet to be finalised and certain clarification regarding computation of claim given by the company are under examination. The Committee would like to know the final action taken in this regard within one month from now the date of presentation of this Report

APPENDIX-II

MINUTES
STANDING COMMITTEEON PETROLEUM & CHEMICALS
(2003)

THIRD SITTING
(26.3.2003)

The Committee sat from 1400 hrs. to 1530 hrs.

PRESENT

Shri Ram Nath Kovind - in the Chair

MEMBERS
LOK SABHA

2. Dr. (Smt.) Suguna Kumari Chellamella
3. Shri Padam Sen Choudhary
4. Shri Khagen Das
5. Shri Harpal Singh Sathi
6. Smt. Sheela Gautam
7. Shri Paban Singh Ghatowar
8. Shri Bijoy Handique
9. Shri Ashok N. Mohol
10. Dr. Debendra Pradhan
11. Shri Mohan Rawale
12. Dr. Bikram Sarkar
13. Dr. (Smt.) V. Saroja
14. Shri Shankar Singh Vaghela
15. Shri A.K.S. Vijayan
16. Dr. Girija Vyas

RAJYA SABHA

17. **Shri Balkavi Bairagi**
18. **Shri Rajiv Ranjan Singh `Lalan'**
19. **Shri Dipankar Mukherjee**
20. **Shri Kripal Parmar**
21. **Shri Ahmed Patel**

SECRETARIAT

1.	**Shri P.K. Grover**	**-**	**Director**
2.	**Shri R.K. Saxena**	**-**	**Under Secretary**
3.	**Shri J.N. Obeoi**	**-**	**Officer on Special Duty**

REPRESENTATIVES OF DEPARTMENT OF FERTILISERS

1. Shri Nripendra Misra, Secretary
2. Shri Vijay Singh, Additional Secretary & Financial Adviser
3. Shri Balwinder Kumar, Joint Secretary (A&M)
4. Shri Tejinder Singh Laschar, Economic Adviser (F)
5. Ms. Swantantra Kaur Sekhon, Executive Director, FICC

REPRESENTATIVES OF PUBLIC SECTOR UNDERTAKINGS

1. Shri P.S. Grewal, CMD, National Fertilisers Limited (NFL)
2. Shri K.S. Ponnuswami, Director (Finance), Hindustan Fertiliser Corporation (HFC)

In the absence of the Chairman, the Committee chose Shri Ram Nath Kovind 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 Department of Fertilisers and representatives of Public Sector Undertakings.

2. The Committee took oral evidence of the representatives of Ministry of Chemicals and Fertilisers, Department of Fertilisers in connection with Demands for Grants of the Department of fertilisers for 2003-04.

3. During the course of evidence, the main issues that came up for discussion included less rate of utilisation of Ninth Plan (1997-2002) outlay by Deptt. of Fertilisers and uncertainty about utilisation of plan funds during the Tenth Plan (2002-07), non-materialisation of four mega urea projects due to uncertainty about feedstock policy, impact of Iraq war on fertiliser subsidy, New Fertiliser Policy and its implications on decontrol of urea , issue of delay in payment of terminal dues to employees of closed units of HFC and FCI etc.

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

The Committee then adjourned.

APPENDIX-III

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

FIFTH SITTING (04.04.2003)

The Committee sat from 1200 hrs. to 1300 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Shri Ashok Argal
3. Dr. (Smt.) Suguna Kumari Chellamella
4. Shri Padam Sen Choudhry
5. Shri Khagen Das
6. Shri Harpal Singh Sathi
7. Smt. Sheela Gautam
8. Shri Shriprakash Jaiswal
9. Shri Jagannath Mallick
10. Shri Ashok N. Mohol
11. Dr. Debendra Pradhan
12. Shri Ram Sajivan
13. Dr. Bikram Sarkar
14. Dr. (Smt.) V. Saroja
15. Dr. Ramesh Chand Tomar
16. Shri Prabhunath Singh
17. Dr. Ram Lakhan Singh
18. Shri Ratilal Kalidas Varma
19. Shri A.K.S. Vijayan

Rajya Sabha

20. Shri Ram Nath Kovind
21. Shri Dipankar Mukherjee
22. Shri V.V. Raghavan
23. Ms. Mabel Rebello
24. Prof. Ram Gopal Yadav

Secretariat

1. Shri P.D.T. Achary - *Additional Secretary*
2. Shri P.K. Grover - *Director*
3. Shri R.K. Saxena - *Under Secretary*
4. Shri J.N. Oberoi - *Officer on Special Duty*
5. Dr. Ram Raj Rai - *Assistant Director*
6. Shri A.K. Shah - Assistant Director

2. At the outset Hon'ble Chairman welcomed the Members and appreciated them for making suggestions and contribution in examination of Demands for Grants for the Ministries attached with this Committee.

3. The Committee then considered the following Draft Reports:-

(i) **

(ii) **

(iii) Forty-First Report on Demands for Grants of the Ministry of Chemicals & Fertilisers, Department of Fertilisers for the year 2003-04.

4. Some of the Members suggested minor changes in the draft Reports, which were accepted and incorporated.

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

6. 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 this Report***

APPENDIX-IV

The details of the actuals of net revenue and capital expenditure for 2001-2002 and Budget and Revised Estimates for 2002-2003 and Budget Estimates for 2003-2004 of the Deptt. of Fertilisers are as under:-

(Rs. in crores)

Sl. No.	Major Head	Item of Expenditure	Actual 2001-02	BE 2002-03	RE 2002-03	BE 2003-04
1	2	3	4	5	6	7
Non-Plan Provisions **A. REVENUE SECTION**						
1.	3451	Sectt. Economic Service	5.44	5.82	5.72	5.78
2.	2852	Office of FICC	0.91	1.39	1.49	1.91
3.	2852	Subsidy on indigenous fertilisers	8044.00	6499.00	7499.00	7555.00
4.	2401	Subsidy on imported fertilisers				
		Gross	147.50	948.00	18.00	1410.75
		Recovery	-100.16	-443.00	-8.00	-701.50
		Net	47.34	505.00	10.00	-709.25
5.	2401	Concessional sale of decontrolled fertiliser	4503.52	4224.00	3500.00	4456.00
6.	2852	Grant for MIS	0.01	0.01	0.01	0.01
7.	2852	Productivity Award	0.03	0.03	0.03	0.03
8.	2852	Write off of loans and interest due from HFC , PPL, MFL and FACT	356.62	--	442.36	-----
Total Revenue Section			**12958.07**	**11235.25**	**11458.61**	**12,727.98**
B. CAPITAL SECTION						
8.	6855	Non-Plan Loans to PSUs:				
		HFC	184.00	87.00	271.00	50.00
		FCI	130.00	118.00	320.00	60.00
		PPCL	28.00	28.00	36.00	54.00
		PDIL	18.00	17.00	17.00	17.99
		BVFCL	---	--	---	35.73
Total Capital Section			360.00	250.00	644.00	217.72
Total Non-Plan			13,318.07	11,485.25	12,102.61	12,945.70
Plan Provisions A. **REVENUE SECTION**						
1.	2852	Grant to KRIBHCO for REP	14.56	15.00	15.00	18.00
2.	2852	Grant to PDIL for R&D	4.00	4.00	4.00	4.00
3.	2852	S&T Programme of Deptt.	0.49	0.80	0.80	3.00
4.	2852	Grant to MIT	0.79	1.00	1.00	1.50
5.	2852	Grant to VRS	20.00	-	-	-
Total Revenue Section			40.04	20.80	20.80	26.50

B. CAPITAL SECTION

CAPITAL SECTION					
4855/6855 **Investment in and Loans to PSUs**					
S.No.	Name of PSU	**Actuals (2001-02)**	**B.E. (2002-03)**	**R.E. (2002-03)**	**B.E. (2003-04)**
1.	FCI	20.00	18.00	3.00	--
2.	FACT	25.00	19.00	19.00	22.00
3.	HFC	115.33	172.00	122.00	114.00
4.	PDIL	1.00	1.00	1.00	0.50
5.	PPL	3.16	6.00	---	-
6.	MFL	21.00	15.00	15.00	14.00
7.	PPCL	0.00	0.20	00.20	--
Non-lapsable fund for North East & Sikkim		-	28.00	28.00	20.00
Total PSUs:		185.49	259.20	188.20	170.50
Total Capital Section		225.53	259.20	188.20	170.50
Total Plan		265.59	280.00	209.00	197.00
Total Department of Fertilisers		13543.60	11,765.25	12311.61	13,142.70

APPENDIX-V

DETAILS OF ACTUAL EXPENDITURE AND PLAN OUTLAY DURING NINTH PLAN

(Rs. in crores)

Sl.No.	Name of the undertaking/ Item	9th Plan 1997-2002	1997-98 Actual	1998-99 Actual	1999-2000 Actual	2000-01 Actual	2001-2002 Actual	Total 9th Plan (1997-2002)
1	2	3	4	5	6	7	8	9
1.	FCI	132.00	55.00	48.00	10.00	20.00	20.00	153.00
2.	FACT	294.00	178.61	55.92	35.00	40.00	25.00	334.53
3.	HFC	390.00	41.00	35.00	60.19	57.00	115.33	308.52
4.	NFL	1118.00	75.24	53.35	61.02	119.02	28.01	336.64
5.	RCF	2700.00	163.67	177.28	157.52	85.13	33.21	616.81
6.	PDIL	12.00	2.00	0.08	0.89	1.00	1.00	4.97
7.	PPL	80.00	49.50	10.00	10.00	12.48	3.16	85.14
8.	PPCL	10.00	6.00	1.69	-	-	--	7.69
9.	MFL	209.00	81.69	62.48	21.50	20.24	21.00	206.91
10.	KRIBHCO	2720.00	33.56	29.56	41.44	76.62	41.78	222.96
11.	IFFCO	3253.00	629.34	313.86	193.82	141.40	79.65	1358.07
12.	Misc. schemes Under the Department	95.00	9.77	14.08	12.87	12.70	40.05	89.47
	Total	**11013.00**	**1325.38**	**801.30**	**604.25**	**586.49**	**408.19**	**3724.71**

APPENDIX-VI

ABBREVIATIONS USED IN THE REPORT

1.	DAP	Di- Ammonium Phosphate
2.	MOP	Muriate of Potash
3.	SSP	Single Super Phossphate
4.	FO	Fuel Oil
5.	LSHS	Low Sulphur Heavy Stock
6.	ECA	Essential Commodities Act