FIFTY-SECOND REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

(THIRTEENTH LOK SABHA)

DEMANDS FOR GRANTS
(2003-2004)

MINISTRY OF CHEMICALS & FERTILISERS (DEPARTMENT OF FERTILISERS)

[Action taken by the Government on the Recommendations contained in the Forty-First Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (2003) on 'Demands for Grants' (2003-2004) of the Ministry of Chemicals & Fertilisers (Department of Fertilisers)]

Presented to Lok Sabha on 16.12.2003
Laid in Rajya Sabha on 16.12.2003

LOK SABHA SECRETARIAT
NEW DELHI
December, 2003/Agrahayana, 1925 (Saka)

CONTENTS

STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2003)

Shri Mulayam Singh Yadav — *Chairman*
Prof. Ram Gopal Yadav — *Acting Chairman*

MEMBERS

Lok Sabha

3. Shri Ashok Argal
4. Shri Ramchander Bainda
5. Dr. (Smt.) Suguna Kumari Chellamella
6. Shri Padam Sen Choudhary
7. Shri Khagen Das
8. Smt. Sheela Gautam
9. Shri Paban Singh Ghatowar
10. Shri Bijoy Handique
11. Shri Shriprakash Jaiswal
12. Shri Jagannath Mallick
13. Shri Punnulal Mohale
14. Shri P. Mohan
15. Shri Ashok N. Mohol
16. Dr. Debendra Pradhan
17. Shri Rajesh Ranjan
18. Shri Mohan Rawale
19. Shri Ram Sajivan
20. Dr. Bikram Sarkar
21. Dr. (Smt.) V. Saroja

*22. Shri Harpal Singh Sathi

23. Shri Shyamacharan Shukla
24. Shri Prabhunath Singh
25. Dr. Ram Lakhan Singh

**26. Dr. Ramesh Chand Tomar

27. Shri Shankersinh Vaghela

---

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

28. Shri Rathilal Kalidas Varma
29. Shri A.K.S. Vijayan
30. Dr. Girija Vyas
31. Shri Dinesh Chandra Yadav

Rajya Sabha

32. Shri Balkavi Bairagi
33. Shri Ram Nath Kovind
34. Shri Anil Kumar
35. Shri Rajiv Ranjan Singh 'Lalan'
36. Shri Moolchand Meena
37. Shri Dipankar Mukherjee
38. Shri Pritish Nandy
39. Shri Kripal Parmar
40. Shri Ahmed Patel
41. Shri V.V. Raghavan

***42. Shri Lajpat Rai

43. Ms. Mabel Rebello
44. Shri Yadlapati Venkat Rao
45. Shri Thanga Tamilselvan

SECRETARIAT

1.	Shri P.D.T. Achary	—	*Additional Secretary*
2.	Shri P.K. Grover	—	*Director*
3.	Shri R.K. Saxena	—	*Under Secretary*
4.	Smt. Madhu Bhutani	—	*Senior Executive Assistant*

*** Nominated w.e.f. 17th August, 2003.

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 Fifty-Second Report on Action Taken by Government on the recommendations contained in Forty-First Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2003) on 'Demands for Grants (2003-2004) of Ministry of Chemicals and Fertilisers (Department of Fertilisers)'.

2. The Forty-First Report of the Committee was presented to Lok Sabha on 8th April, 2003. The Replies of Government to all the recommendations contained in the Forty-First Report were received on 31st July, 2003. The Standing Committee on Petroleum & Chemicals (2003) considered the Action Taken Replies received from the Government and adopted the Report at their sitting held on 15th December, 2003.

3. An analysis of the Action Taken by Government on the recommendations contained in the Forty-First Report (Thirteenth Lok Sabha) of the Committee is given in Appendix-II.

4. For Facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

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

NEW DELHI;
15 *December,* 2003
24 *Agrahayana*, 1925 *(Saka)*

PROF. RAM GOPAL YADAV,
Acting Chairman,
Standing Committee on
Petroleum & Chemicals

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Forty-First Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2003) on 'Demands for Grants of Ministry of Chemicals & Fertilisers (Department of Fertilisers) for the year 2003-2004' which was presented to Lok Sabha on 8th April, 2003.

2. Action taken notes have been received from the Government in respect of all the 26 recommendations/ conclusions contained in the Report. These have been categorized as follows:—

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

Sl. No. 3, 4, 6, 8, 9, 10, 11, 13, 14, 16, 22

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

Sl. No. 7, 15, 25

(iii) Recommendations/conclusions in respect of which replies of the Government have not been accepted by the Committee:

Sl. No. 1,2,12,17,18,19,20,21,24

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

Sl. No. 5, 23, 26

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been furnished by

the Government and the recommendations which have been commented upon by the Committee in Chapter-I should be furnished expeditiously.

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

DEMANDS FOR GRANTS OF THE DEPARTMENT OF FERTILISERS (2003-04)

A. Objectives for 9th and 10th Five Year Plans

Recommendation (Sl. No.1, Para No. 12)

5. The Committee had noted that objectives for fertilizer sector during 9th Plan period (1997-2002) largely ranged from disinvestments, closure of non-viable sick PSUs, feedstock and pricing policy for fertilizers to removal of regional imbalances in industrial development. etc. whereas objectives during 10th Plan period (2002-07) ranged from phased decontrol of fertilizer industry to preparing the industry to face the challenges of global competition. The Committee found that except for closure of non-viable sick PSUs, the Government had not achieved any other objective of 9th Plan namely disinvestments, removal of regional imbalances in industrial development and feed stock any pricing policy for fertilizers. Evaluating the objective of 10th Plan, the Committee noted that the objective of closure of sick and non-viable fertilizer units was a continuation of the previous plan and as such could not be termed as contributing to laudable objectives of planning for development. The Government appeared 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 did not find the Government to have done something tangible to prepare the industry to face the challenges of global competition. They had regretted that an important objective of 9th Plan namely removal of regional imbalances in industrial development had been ignored in the 9th as well as 10th Plan. The Committee recommended 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 had recommended that a Committee of experts consisting of representatives of farmers, State Governments and

economists be constituted to simultaneously study the impact of phase de-control over movement of urea. The success of implementation/ achievement of this objective depended upon acceptability by the public and the assess the same the expert's committee should be asked to study that aspect also and report its findings to the Government. If need be, the Government should make mid-term appraisal of this objective.

6. The Department of Fertilisers have submitted the following reply in this regard:—

> "On the issue of setting up of fertilizer plants in different regions, it is stated that fertilizer industry is de-licensed and entrepreneurs are free to set up fertilizer Plants in any part of the country subject to environmental regulations. It is also seen that in setting up of the fertilizer plants, availability of basic feed stock and logistics of its transportation are among the most important factors which are kept in view by the entrepreneurs before taking a decision for setting up a fertilizer project at a particular location. It is further stated that Government is committed to ensure adequate availability of fertilizers in various parts of the country at the maximum retail prices notified/indicated by the Government.
>
> As regards monitoring the impact of phased decontrol of movement of urea under the New Pricing Policy, it is stated that expenditure reforms Committee (ERC) in their report (September 2000) had recommended total decontrol for distribution of urea w.e.f. 1.2.2001. However, exercising caution and to provide smooth transition for changed regime, Government has decided to decontrol distribution in phased manner; *i.e.,* 25% of the urea production in Kharif 2003 and 50% of production during Rabi 2003-04 will not be covered under EC allocations. Before introducting full decontrol over distribution and movement of urea, State governments and Ministry of Agriculture will be consulted. It may also the informed that in order to ensure adequate availabilities of urea, both in time and space, pipeline stock equivalent to 5% of annual requirement is maintained. Department of Fertilisers will continue to review the availability of urea specially in deficit States. Even after partial/total decontrol, DoF would continue to have a right to issue special movement orders to meet localized shortages, if any, in varrious parts of the country".

7. The Committee are not satisfied with the reply furnished by Government. The Committee had recommended that the important objective of 9th Plan namely removal of regional imbalances in industrial development be included in the objectives of 10th Plan also and concrete action be initiated to achieve the same. In reply Government have merely stated that fertilizer industry was de-licensed and entrepreneurs were free to set up fertilizer plants in any part of the country subject to environmental regulations. The Committee wish to emphasize that though the fertilizer industry is delicensed the responsibility of the Government in removing regional imbalances cannot be ignored. To achieve the above objective of removal of regional imbalances in industrial development particularly in north-east, hilly and remote areas, certain incentives need to be given to entrepreneurs. The Committee, therefore, reiterate that the objective of 9th Plan regarding removal or regional imbalances in industrial development be included in the 10th Plan also and concrete action plan formulated to achieve the same.

8. The Committee had pointed out that the success of phased decontrol of fertilizer industry and establishing pricing policy for controlled and decontrolled fertilizers would depend upon implementation of the scheme and acceptability by the public. Therefore, to assess the impact of phased decontrol over movement of urea it was recommended that a Committee of experts consisting of representatives of farmers, State Governments and economists be constituted. The Committee find that the Government has not initiated any steps in this regard. They, therefore, reiterate that a Committee of experts be constituted at the earliest to study the impact of phased decontrol over movement of urea to facilitate mid-course modifications in the policy.

B. Decontrol of Movement of Fertilisers

Recommendation (Sl. No. 2, Para No. 13)

9. The Committee had noted that due to de-control of movement of urea, the worst affected would be far flung, hilly and tribal areas. Although Department of Fertilisers had assured that certain percentage of urea would be made available in those areas in the next one or two years, the Committee had desired that a regular system should be established through which availability of urea and other fertilizers could

be assured across the country at affordable prices. The Committee had, therefore, recommended that the Government should review the policy of de-control of movement of fertilizers.

10. On the issue of de-control of movement of urea, the Department of Fertilisers has submitted the following reply:—

> "The Expenditure Reforms Committee (ERC) in their report entitled 'Rationalising Fertiliser Subsidies' submitted in September, 2000 had recommended total decontrol of distribution of urea w.e.f. 1.2.2001. The Department of Fertilisers had circulated the recommendations to the State Governments/UTs inviting their comments/suggestions. Based on the responses received from all the stakeholders including the State Governments and Department of Agriculture & Co-operation (DAC), the Government decided to move towards distribution decontrol regime in a phased manner. Accordingly it was decided to decontrol 25% of production in Kharif 2003 and 50% of production during Rabi 2003-04, while issuing EC allocations of urea to States. Based on the experience to be gained during the year, the Department of Fertilisers, in consultation with DAC, will decide further distribution decontrol of 2004-05. In the meanwhile, The Department has started reviewing the movement trend of decontrolled quantity (25% for Kharif season) and their impact on availability of urea specially in deficit States. This exercise will help in taking decision about extent of distribution decontrol specially after Rabi 2003-04.
>
> The Department may like to reiterate that even after total distribution decontrol, it has reserved the right to issue 'special movement orders' to meet localized shortages specially in remote and difficult areas. Besides, special freight reimubursement scheme for transportation of fertilizers will continue to operate in Jammu & Kashmir and North-Eastern States excluding Assam, further, State Government have been requested to ensure availability of urea throughout their State. At the level of Central Government, State-wise availability will continue to be closely monitored so that adequate availability of stocks is ensured during the peak consumption months.
>
> All the major fertilizers except urea have already been decontrolled as far as their distribution is concerned and their availability is currently being ensured through market forces of demand and

supply. All manufacturers of decontrolled fertilizers have established their marketing network throughout their primary and secondary marketing zones so as to maximize their sale. The Department, therefore, feels that in distribution decontrolled regime for urea, similar market forces will operate, which will compel manufacturers to supply and market urea in remote and difficult areas of the country so as to maximize their sales and the profitability."

11. The Committee had noted with concern that some of the States had opposed decontrol of urea apprehending that it may lead to insufficient availability of key fertilizers particularly in tribal/hilly/ remote areas. It was in this context that the Committee had desired that a regular system should be established through which availability of urea and other fertilizers can be assured throughout the country at affordable prices. In reply the Department of Fertilisers has expressed that in distribution decontrol regime for urea, market forces will operate which will compel manufacturers to supply and market urea in remote and difficult areas of the country. The Committee are not satisfied with this assessment of the Government. They, therefore, reiterate that the Government should review the policy of decontrol of movement of fertilizers to ensure regular and timely distribution of fertilizers in all parts of the country.

C. Rationalisation of Maximum Retail Prices of Complex Fertilisers

Recommendation (Sl.No. 8, Para No. 42)

12. The Committee had noted that there were wide variations among maximum Retail Prices of different grades of N:P:K complex fertilizers ranging between Rs. 6980 per tonne to Rs. 9080 per tonne. Not only that the Committee found that there was no correlation between MRPs and rate of concessions. The Committee had been informed that DoF was rationalizing the maximum retail price of those complex fertilisers based on Tariff Commission Report. The Committee have also been informed that Tariff Commission had dealt with Di-Ammonium Phosphate (indigenous and imported) (DAP) and Muriate of Potash (MoP) and had worked out normative as also distribution cost of those fertilisers. The Committee had further been informed that Inter-Ministerial Group (IMG)

was already examining the issue of rationalisation of Maximum Retail Prices of those complex fertilizers and its report was expected shortly. The Committee felt that things were moving in right direction and hoped that IMG would be able to submit their report early. The Committee had trusted that issue relating to wide variation among maximum retail prices of different grades of NPK complex fertilizers, correlation between MRPs and rate of concessions and distribution cost and of those fertilizers should be sorted out soon.

13. In their reply the Government have stated as under:—

"Inter-Ministerial Group (IMG) on pricing of NPK complex fertilisers has submitted its report to the Government with its recommendations of rationalizing Maximum Retail Prices of various grades of complexes. The recommendations have been framed so as to encourage more consumption/usage of phosphate and potash *vis-a-vis* nitrogen by the farmers. The Department is now seeking the approval of CCEA for implementing the recommendation of IMG along with other policy related issues of Concession Scheme for decontrolled fertilizers for 2003-04."

14. The Committee note that the Inter-Ministerial Group (IMG) has submitted its report to Government with its recommendations of rationalizing Maximum Retail Prices (MRP) of various grades of complexes and its now seeking the approval of Cabinet Committee on Economic Affairs (CCEA) for implementing the recommendations of IMG alongwith other policy related issues in Concession Scheme for decontrolled fertilizers for 2003-04. The Committee hope that the approval of CCEA would be obtained soon and the recommendations of IMG for decontrolled fertilizers would be implemented thereby sorting out the issue relating to variation among maximum retail prices of different grades of concessions and distribution cost of these fertilizers.

D. Import of Urea

Recommendation (Sl. No. 12, Para No.56)

15. The Committee had noted that a net provision of Rs. 709.25 crore had been proposed for import of 15 lakh tonnes of Urea. The

Committee's examination had revealed that import of urea was 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 indicated that due to severe drought like situation in most part of the country the import of urea during 2001-02 were 2.2 lakh tones only to keep pipeline stock at reasonable level. During 2002-03, there were no imports at all. The Committee had felt that drought like condition as experienced during 2001-02 and 2002-2003 were not usual phenomenon and as such the Committee viewed that as an exception. The Committee felt that as recommended by them last year all out efforts should be made to optimize the maximum level of indigenous production before resorting to imports.

16. On the issue of import of urea, the Government have explained as follows:—

"The Department appreciates the concern shown by the Committee for utilization of indigenous urea capacity before resorting to import for meeting demand-supply gap in the country and agrees that all efforts must be made to optimize domestic production. There are, however, constraints in achieving cent per cent utilization of production capacity of urea industry and among them, the most important is the limited availability of natural gas.

The country's present installed capacity of urea is about 205 lakh MT. The estimated production of urea during 2003-04 is 192-73 lakh MTs. Production of urea continued to suffer on account of inadequate supply of natural gas. Even Trombay-V unit of RCF had to remain under shut down due to non-availability of natural gas. Production of urea in FACT, FCI-Sindri and NLC-Neyveli has been shut down permanently in pursuance to the decision taken by their managements as these units became financially unviable due to high production costs under the new pricing regime for urea effective from 1.4.2003. On the other hand, low production in BVFCL's Namrup-III unit was due to ongoing revamp activities and delay in commissioning of Namrup-II plant. Besides, Duncan Industries Ltd., Kanpur has been under unscheduled shutdown due to liquidity crunch. Lack of production in these plants did not adversely affect the availability of urea.

The position of demand and production of urea in the country during 2003-04 is being closely monitored by the Department. Import of urea would be resorted only after utilizing the full indigenous production capacity of the Industry."

17. The Committee have noted that estimated production of urea during 2003-04 is 192.73 lakh MT as against country's installed capacity of 205 lakh MT. Production of urea continues to suffer as a number of units have been shut down due to their being financially unviable. Some others remained under shut down due to inadequate supply of natural gas. Government have, however, assured that import of urea would be resorted to only after utilizing the full indigenous production capacity of the industry. Keeping in view the non-utilisation of installed capacity of urea and also anticipating the higher consumption of urea and other fertilizers during the current year as monsoon conditions are much better, the Committee feel that there might be a wide gap between the production of urea and its demand. The situation might worsen further due to shut down of some urea producing units in the country. Under these circumstances the Government would be compelled to import urea in a large quantity. Therefore, the Committee would like the Government to ensure optimal utilization of indigenous production of urea in the country. Besides, necessary steps should also be taken to restart the closed urea producing units so that import of urea could be avoided.

E. New Pricing Policy

Recommendation (Sl. No. 17, Para No. 79)

18. The Committee had noted with satisfaction that Government had finally come forward with the long pending Pricing Policy for urea manufacturing units. During the course of evidence Secretary (Fertilisers) had informed the Committee that the New Pricing Policy had been signed practically by all the urea manufacturing units. The Committee found that new Pricing Policy replaced 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 had noted 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 urea units had 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 hoped that by implementation of New Pricing Policy industry would be able to face new challenges arising out of present globalisation.

19. The Government have submitted the following reply explaining the position in this regard:—

"The New Pricing Scheme (NPS) for urea units was formulated in the wake of criticisms leveled against erstwhile Retention Price Scheme (RPS) to the effect that it was a cost plus scheme which did not encourage efficiency and reduce costs. Its primary consideration and goal is to encourage efficiency parameters of international standards based on the usage of the most efficient feedstock and state of art technology. The new scheme aims at greater transparency, uniformity and efficiency in subsidy disbursement to urea units and inducing urea manufacturing companies to take cost reduction measures on their own and be competitive. With the introduction of NPS *w.e.f.* 1.4.2003, urea companies would be encouraged to further bring down the cost of production to levels that would compare favourably with the best in the world and they would be able to face new challenges arising out of liberalization and globalisation. while this expectation is possible to be achieved in respect of gas based units, the naphtha and FO/LSHS based units would continue to suffer the disadvantage of higher cost of feedstock."

20. The Committee note that the New Pricing Policy for urea units has been formulated to encourage efficiency parameters of international standards based on the usage of the most efficient feedstock and state of art technology. The Scheme aims at greater transparency, uniformity and efficiency in subsidy disbursement to urea units and inducing urea manufacturing companies to take cost reduction measures on their own and be competitive. It is further stated that with the introduction of the Scheme, urea companies would be encouraged to further bring down cost of production and would be able to face new challenges arising out of liberalization and globalisation. However, the

Committee note with concern that while this expectation is possible to be achieved in respect of gas based units, the naphtha and fuel oil/low sulphur heavy stock (FO/LSHS) based units would continue to suffer the disadvantage of higher cost of feedstock. They would like to point out that in case the naphtha and FO/LSHS based units continue to suffer due to one reason or the other, the objective of ensuring viable return to units under the New Pricing Policy would not be fulfilled. The Committee would, therefore, like the Government to examine this aspect and devise ways and means to ensure that the naphtha and FO/LSHS based units are not put to disadvantageous situation and are able to become competitive.

F. Phased Decontrol of Urea on Distribution

Recommendation (Sl. No. 18, Para No. 83)

21. The Committee had noted that under its New Pricing Policy (for urea manufacturing units) Government had started the process of decontrol in distribution of urea even though various State Governments had opposed such a move fearing that it might lead to insufficiency in availability of urea in tribal, hilly and remote areas. The Committee emphasized that distribution of urea was the responsibility of Department of Fertlisers and was done under ECA allocation made for supply of urea in different States from plants throughout the country. The Committee found that under the new dispensation Deptt. of Fertilisers had 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 had submitted that there would be no shortages of urea in States and Government would monitor the availability of urea in States for where shortages were reported including those of hilly, tribal and remote areas. The Committee did 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 fertilizers would take long-long time particularly when demand of urea was largely contingent upon the behaviour of monsoon and its distribution in different States in India. The Committee, therefore, strongly recommended that that aspect be reviewed in depth keeping in view the larger availability of urea in the country.

22. In regard to implications on phased decontrol on urea distribution the DOF have submitted as follows:-

"The Expenditure Reforms Committee (ERC) in their report had recommended total decontrol of distribution of urea. However, exercising caution and to provide smooth transition for changed regime, it has been decided to decontrol distribution in phased manner, first, 25% in Kharif 2003 and then 50% of production during Rabi 2003-04 will not be covered under EC allocations. While issuing allocations for controlled urea in Kharif 2003, marketing areas of almost all the urea suppliers have been largely retained in order to continue with multiple sources of supplies to States/Union Territories. The urea manufacturers/suppliers are likely to market urea in all these states even in the decontrolled distribution regime as in the case of all other major fertilizers. Further at present, in order to ensure adequate availabilities of urea, both in time and space, pipeline stock equivalent to 5% of annual requirement is maintained. In the event of distribution decontrol of urea, the pipeline stock will continue to be maintained to ensure the overall availability of urea in the country at a reasonably higher level than the requirement. The Department of Fertilisers will continue to review the movement trend of decontrolled quantities and their impact on availability of urea specially in deficit state during 2003-04. Based on the experience to be gained during the year the Department of Fertilisers, in consultation with Department of Agriculture & Cooperation (DAC), will decide the extent of further distribution decontrol for 2004-05. Even after total decontrol, DOF would have a right to issue 'special movement orders' to meet localized shortages, if any, in all parts of the country.

The overall availability of urea in the country being satisfactory, no problems are envisaged in moving urea at short notice by issue of special movement orders to manufacturers. However, the Department would continue to be in touch with the State Governments and monitor the availability in the country on periodical basis to ensure adequate and timely supply of urea."

23. The Committee had observed that under its New Pricing Policy (for Urea manufacturing units), the Government had started the process of decontrol in distribution of urea even though various States / Union Territories had expressed apprehension against total decontrol

stating that it might lead to insufficient availability of key fertilizers in tribal/hilly/remote areas. The committee were of the view that it might take long time to ensure availability of fertilizers particularly when demand of urea largely depended upon the behaviour of monsoon and its distribution in different States and therefore, had recommended that such aspects be reviewed in depth. The DOF have submitted that exercising caution and to provide smooth transition for changed regime, It has decided to decontrol the distribution of urea in a phased manner. It has further been stated that overall availability of urea being satisfactory, no problems are envisaged in moving urea at short notice by issue of special movement orders to manufacturers. The Committee are not satisfied with the reply of the Government. The Committee still feel that as demand of urea largely depends upon the monsoon scenario in the country, it would be rather difficult for the urea manufacturers and suppliers to make available the required quantity of urea particularly in far flung/hilly/tribal areas at short notice in the decontrolled distribution regime. Though the Government would have the right to issue 'special movement orders' to meet localized shortages, it may not be a practical proposition as the pipeline stocks of urea will be maintained in Central warehouses and it may take much time in ensuring timely supply of the required urea in all parts of the country, specially in remote/hilly areas. Therefore, the Committee again recommend that the policy of decontrol in distribution of urea may be reviewed keeping in view the need to ensure timely availability of urea in all parts of the country.

G. Delay in Feedstock Policy

Recommendation (SI. Nos. 19 & 20, Para Nos. 87 and 88)

24. The Committee were constrained to note that most important issue of Long Term Policy of Fertilisers particulary feedstock policy for fertilizer units had not been finalized 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 was no tangible investments in fertilizer sector. Secretary (Fertilisers) had candidly admitted befor the Committee that due to less availability of gas and uncertainty about LNG, no new expansion projects including those of KRIBHCO had come up so far. The Committee were not happy with

this state of affairs and hoped that in the interest of fertilizer industry as a whole the feedstock policy for fertilisers would be annouced expeditiously.

25. As regards delay in overall long term policy the Committee once again noted with dissatisfaction that Department of Fertilisers was still in the process of discussing the Draft Policy amongst the various stake holders. A Committee was stated to have been constituted under the Chairmanship of Secretary (Fertiliser) 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 were informed that finalisation of the long term policy had to wait till a clearer picture in respect of some critical issues emerged. The Committee had recommended that taking into account all the relevant factors a long term fertilizer policy should be formulated expeditiously.

26. In respect of Long Term Policy of Fertilisers particularly feedstock policy, the Government have explained as under :-

> "Natural gas is the preferred feedstock for production of urea as it is an efficient and comparatively cheaper feedstock. However, the country is facing shortage of natural gas to meet the requirement of consumers including fertiliser industry. Against the total requirement of gas of approximately 33 MMSCMD, the actual supply is arround 23 MMSCMD *i.e.* the shortfall is around 30% of the required quantity. Thus, there is a significant gap between demand and availability of natural gas. Although huge gas reserves in Krishna Godavari Basin and Eastern Coast of the country have been reported which will augment the deomestic availability of natural gas, however, the availability of natural gas from new gas finds will take some time as exploration and production of projects of natural gas have long gestation periods. For meeting the requirement of gas, the country is also in the process of importing Liquefied Natural Gas (LNG). Ministry of Petroleum & Natural Gas is working on formulating an integrated LNG Policy. It is hoped that the availability of natural gas will increase in near future by way of production from new gas fields and import of LNG and the requirements of natural gas of fertilizer industry would also be met adequately.
>
> Presently, the urea plants are using natural gas, naphtha, fuel oil, and low sulphur heavy stock (LSHS) etc. as the feedstock/fuel. The

Expenditure Reforms Commission, in its report on rationalizing fertilizer subsidies (September, 2000) put great emphasis on the use of liquefied natural gas/natural gas as the preferred feedstock for the industry. However, pricing of LNG, which will be wholly imported, is yet not clear. A new policy for the pricing of natural gas is also under consideration of the Government. Therefore, the finalisation of the long term policy has to wait till a clearer picture emerges in respect of such issues."

27. The Committee are not at all satisfied with the reply of the Government. They wish to emphasize that in the absence of clear cut long-term policy, the fertilizer industry will continue to suffer. The Committee would, therefore, like the Government to settle the critical issues like feedstock availability, its pricing etc. at the earliest and announce the feedstock policy for fertilizers without any further delay.

H. Revival of HFC NAMRUP

Recommendation (Sl. No. 21, Para No. 93)

28. The Committee had found that as against the Revised Estimates of Rs. 158.10 for 2002-03, Rs. 150.25 crore had been earmarked for 2003-04 as Plan loans to PSUs. Out of Rs. 150.25 crore, Rs. 134 crore (which included Rs. 20 crore separately provided for North-Eastern Region) would be utilized 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 had noted that the entire Namrup revamp had not been completed so far. In that connection the Secretary (Fertilisers) had assured the Committee that by July, 2003 the Deptt. would ensure that it goes into production. The Committee hoped that Deptt. of Fertilisers would keep the assurance.

29. In their reply, the Government have submitted :

"Namrup units I and III after their revamp have been commissioned. The revamp of unit II is under implementation. Upto end May, 2003, overall physical progress of the revamp project has been 88.50% and funds of Rs. 397.02 crore have so far been provided by the Government. Though the Namrup Project has been delayed, all out efforts are being made to complete the revamp at the earliest.

However, in view of the practical difficulties being faced in the implementation of the project, the company has requested for extension of time of Namrup-II revamping upto February, 2004."

30. The Committee had been assured by the Secretary (Fertilisers) that the revamp of the entire Namrup will be completed by July, 2003. However, the DOF have now submitted that upto end May, 2003, overall physical progress of the Namrup revamp project has been 88.50%. In view of the practical difficulties being faced in the implementation of the projects the company has requested for extension of time of Namrup-II revamping upto February, 2004. The Committee express their dissatisfaction over the fact that in spite of giving an assurance to them Namrup revamp project has not been completed so far. They, therefore, desire that Government should initiate all the necessary measures to ensure that revamp of Namrup-II Project is completed without any further delay.

I. Payment of terminal dues in HFC and FCI consequent upon their closure

Recommendation (Sl. No. 23, Para No. 104)

31. The Committee had observed that employees of FCI & HFCL had genuine grievances which they had brought before the Committee. It was obligatory on the part of Administrative authorities to look into those grievances objectively and positively. The Committee did not appreciate the assertion of the Department that release of 50% of ex-gratia payment by FCI to its employees who were retaining the quarters were being made as per orders of the Delhi High Court which was applicable only to the workmen category of employees of FCI. If the employees of HFCL had not gone to the court, they should not be denied the benefit of immediate payment of gratuity. Further the term 'No Dues Certificate' was not statutorily defined & its implications varied from company to company, place to place. The Committee had desired that without invoking judicial decisions in such cases, the Government should act judiciously with human angle. The Committee had recommended that all employees of HFCL and FCI be treated equally irrespective of some one having gone to court. Further for calculating the gratuity, employees' additional pay/personal pay be categorized as Pay. In case of dispute, the matter might be referred to Ministry of Personnel for clarification. The Committee had recommended that clarification given by Chief Labour Commissioner with

regard to training period of trainees be accepted. The Committee learnt that Local Development Authorities of the areas where employees residential accommodations were located had shown their interest in buying that accommodation from HFC and FCI for subsequently selling to the employees of those organizations. The Committee recommended that those requests of Development Authorities be examined positively. Finally, the Committee strongly recommended that employees be given their full terminal benefits before they were asked to leave their accommodation.

32. In regard to payment of ex-gratia dues and other grievances of the employees of FCI and HFCL, the Government have submitted as under :

> "The VSS dues to the employees of FCI and HFC are being paid as per scheme of the Department of Public Enterprises. After detailed review of the matter, orders for payment of 50% of ex-gratia dues to the employees (workmen category) of HFC have been conveyed to the company on 24.4.2003.
>
> As regards training period, the matter is sub-judice with Kolkata High Court on a Writ Petition filed by the employees union of the Haldia Unit of HFC.
>
> As regards sale of company quarters to the employees, FCI has, with prior approval of Government, issued a scheme on 6th June, 2003 for leasing out quarters to the ex-employees on certain conditions. Similar scheme in the case of HFC is under examination."

33. The Committee note that orders for payment of 50% ex-gratia dues to the employees (workmen category) of HFC have been conveyed to the Company in April, 2003. They would like to be apprised whether the payment has actually been made to the employees. As regards sale of Company quarters to the employees it has been state that FCI has issued a scheme for leasing out quarters to the ex-employees on certain conditions and similar scheme in case of HFCL is under examination. The Committee desire that such schemes in FCI and HFCL should be implemented early. The Government have also not replied to the recommendation of the Committee that while calculating ex-gratia, additional pay/personal pay may also be included in the pay of employees. The Committee would like to be informed of the final decision taken in the matter.

J. Disinvestment of PSUs under DOF

Recommendation (Sl. No. 24, Para No. 113)

34. The Committee had noted with dissatisfaction that five PSUs under DOF *viz.* NFL, MFL, RCF, FACT and PPL were to be disinvested. Out of that PPL had already been disinvested. The Commitee's examination had revealed that NFL and MFL were to be disinvested in first phase and as such their plan outlays had been restricted during 10th Plan period. Those outlays would be reconsidered after two years if these were not disinvested. The Committee found that NFL and MFL were two profit making PSUs under DOF. The Committee had examined that issue last year also and had recommended that they were not in favour of disinvestment of profit making fertilizer PSUs and had asked the Government to review their policy in that regard. The Committee in their 34th Action Taken Report while reiterating the same had observed that any disinvestments of those PSUs in fertilizers would pave the way for monopolistic evils in the industry. The Committee, however, found that progress of disinvestments in NFL, FACT and MFL was at the advanced stage. In that connection the Deptt. of Fertilizers had contended before the Committee that disinvestment of those PSUs would not adversely affect timely availability of fertilizers to farmers as also the interest of workers in those companies. The Committee did not share that perception of Deptt. of Fertilisers and reiterated their earlier recommendation that none of those companies should be disinvested.

35. On the issue of disinvestment of fertilizer PSUs, the DOF have submitted as under :

> "The Disinvestment Commission has categorized the fertilizer sector as 'Non-Core'. As per the declared policy, Government's equity in non-core PSUs is to be disinvested to bring it down to 26% or lower.
>
> Even after disinvestment of PSUs, the interests of the workers in these companies would be protected. The Government does not expect any adverse impact on availability of fertilizers as a result of disinvestment. The Availability of fertilizers will continue to be closely monitored in conjunction with the Ministry of Agriculture and the State Governments as the Government is committed to ensure timely supply of fertilizers to the farmers in the country."

36. The Committee do not agree with the assessment of the Government that even after disinvestment of Fertiliser PSUs, the interest of workers in these companies would be protected and no adverse impact is expected on availability of fertilizers as a result of disinvestment. The Committee feel that in the event of disinvestment of these PSUs, production and distribution of fertilizers will largely be controlled by fertilizer manufacturers and suppliers and in the decontrolled distribution regime the availability of fertilizers to the farmers throughout the country, particularly in hilly/remote areas could be adversely affected during peak season. Though the Government have assured that even after disinvestment of these PSUs, the interests of the workers in these companies would be protected, the Committee feel otherwise. Therefore, the Committee once again strongly recommed that the PSUs in the fertilizer sector, particularly profit making ones should not be disinvested.

K. DISINVESTMENT OF PPL

Recommendation (Sl. No. 26, Para No. 115)

37. As regards disinvestments in PPL the Committee had observed that after the Government equity in the company was disinvested in favour of Zuari-Agro the issue of post disinvestments claim amounting to Rs. 151 crore apprx. was under examination. The Committee have been informed that the issue was yet to be finalized and certain clarification regarding computation of claim given by the company were under examination. The Committee would like to know the final action taken in this regard within one month from the date of presentation of this Report.

38. The Government in their reply have merely stated as under :

> "The post closure adjustment of M/s Zuari Maroc Phosphates Ltd. in respect of Paradeep Phosphates Ltd. has not yet been finalized."

39. The Committee are constrained to note that till now post closure adjustment claim of M/s Zuari Maroc Phosphates Ltd. in respect of PPL has not been finalized. The Committee desire that the Department should take necessary steps to expeditiously settle the issue of post disinvestments claim arising out of disinvestments of Paradeep Phosphates Limited and apprise the Committee of the latest position soon.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 3, Para No. 27)

The Committee find with dismay that progress of utilization 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 utilization 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 annoncement 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.

Reply of the Government

Government would take final investment decision on the above proposals as per laid down time-schedule for investment appraisal of such projects, once the promoters submit the projects for approval of the Government.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Recommendation (Sl. No. 4, Para No. 28)

The Committee find that only one Oman India Fertilizers 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.

Reply of the Government

Implementation of the Oman India Fertilizers Project is being monitored by the Department on a regular basis, through monthly progress reports being sent by Oman India Fertilizers Company (OMIFCO) and corrective measures to avoid time and cost overrun are being suggested to OMIFCO by the Department.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Recommendation (Sl. No. 6, Para No. 32)

The Committee treat the Government reply as interim when it says that recommending abolition of 29 posts in the Department of Fertilizers by ERC was based on possible disinvestments 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' & 'B' and 8 posts in Group 'C' & '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 rationalize its manpower.

Reply of the Government

The observations made by the Committee have been noted. The Department assure the Committee that it will continue to manage its activities with rationalised manpower.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Recommendation (Sl. No. 8, Para No. 42)

The Committee note that there are wide variations among maximum Retail Prices of different grades of N:P:K: complex fertilizers 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.

Reply of the Government

Inter-Ministerial Group (IMG) on pricing of NPK complex fertilizers has submitted its report to the Government with its recommendations of rationalizing Maximum Retail Prices of various grades of complexes. The recommendations have been framed so as to encourage more consumption/usage of phosphate and potash *vis-a-vis* nitrogen by the farmers. The Department is now seeking the approval of CCEA for implementing the recommendation of IMG along with other policy related issues on Concession Scheme for decontrolled fertilizers for 2003-04.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Comments of the Committee

[Please *see* para. No. 14 of Chapter-I of the Report.]

Recommendation (Sl. No. 9, Para No. 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 concession 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 fradulent 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.

Reply of the Government

The Department appreciated the concern shown by the Committee for checking fraudulent claims under the Concession Scheme on sales of Phosphatic & Potassic (P&K) fertilizers as well as availability of quality fertilizers and Committee's recognition of DOF's efforts to achieve these objectives through setting up of Technical Audit and Inspection Cell (TAC) and notification of specified grades of rock phosphate for manufacture of SSP. The TAC has also completed inspection of DAP/NPK plants and the reports are being examined in the Department. The Department is in the process of further streamlining the procedure/system for processing of claims for payment of concession so as to minimize instances of fraudulent claims, if any, as also enabling immediate detection thereof.

Subsequent to the introduction of requirement of inspections by TAC, no fradulent claim or discrepancy of serious nature has come to the notice of the Department. However, the Department in consultation with TAC and the concerned companies/units, is examining in detail the reasons for excess claims and other discrepancies noticed subsequent to inspection by TAC, which are minor in nature. The Department fully agrees with the views of the Committee that the companies/units found guilty of unexplained excess claims or discrepancies in maintenance of concession related record due crass/indifferent approach must be punished in accordance with the guidelines for the Scheme depending on the severity of their act/fault.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Recommendation (Sl. No. 10, Para 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 fertilizers on sales was introduced) up to 31.3.2003. In this context, the Committee in their 26[th] Report had recommended that DOF should lay a time frame for settling the claims. In response Deptt. of Fertilizers 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 emphasize 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 complaints in future.

Recommendation (Sl. No. 11, Para No. 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 Fertilizers should periodically hold meetings with concerned State Governments to expedite the certification process.

Reply of the Government

It may be mentioned that the claims referred to in the recommendation were pending since October 2000 (since 1.10.2000, when the concession scheme for extending financial support of decontrolled P&K fertilizers on sales was transferred to Department of Fertilizers). This Department is assiduously monitoring the implementation of the provisions of guidelines issued on 5.8.2002. Besides computerization of processing of concession claims for close monitoring of pendency of outstanding balance payment for non-receipt of sales certification from the concerned States, the Department is making continous efforts by further rationalising the procedure/system for processing of claims for payment of concession for making the implementation of the Scheme more effective and streamlined to allow strict compliance of the guidelines on Concession Scheme, especially by the State authorities. The above apart, the Department has not only been time and again impressing upon the

State authorities to adhere to the time limits under the guidelines for submission of sales varifications but also asking the concerned companies/ units to pursue this with the concerned State authorities.

The Department in its efforts to continously monitor liquidation of outstanding claims of concession, pending settlement for want of sales verification from concerned State authorities, has been in dialogue with the States and the last of the series of such dialogue were held by Secretary, Department of Fertilizers at the level of State Agriculture Production Commissioner/concerned Secretary of the major States during the second week of June, 2003. The efforts have borne fruit and progress achieved in reducing the extent of outstanding payment awaiting final settlement of claim against sales verification is apparent from the fact that the same has come down to Rs. 291.11 crore against sales for the period 1.10.2000 to 31.3.2003 compared to Rs. 686.84 crore for the period 1.10.2000 to 31.1.2003 reported earlier. The position in respect of major States is given in the table below:

Sl. No.	State	Pending certification (1.10.2000 to 31.3.02)	Pending certification (1.4.2002 to 31.1.03)	Total pending certification (1-10-2000 to 31.1.03)
1.	Andhra Pradesh	3.51	30.87	34.38 (71.46)
2.	Bihar	30.05	2.88	32.93(53.33)
3.	Chhattisgarh	0.88	2.09	2.97
4.	Gujarat	1.80	5.05	6.85
5.	Haryana	0.30	5.42	5.72
6.	Himachal Pradesh	0.09	0.12	0.21
7.	Jammu & Kashmir	0.21	0.42	0.63
8.	Jharkhand	5.25	3.66	8.91
9.	Kerala	0.13	1.56	1.69
10.	Karnataka	0.92	14.11	15.03
11.	Maharashtra	3.50	14.58	18.08
12.	Madhya Pradesh	2.19	11.16	13.35(39.79)
13.	Orissa	0.52	1.46	1.98
14.	Punjab	5.33	6.82	12.15(42.91)
15.	Rajasthan	0.35	0.43	0.78
16.	Tamil Nadu	2.51	9.41	11.92
17.	Uttaranchal	2.14	0.99	3.13
18.	Uttar Pradesh	55.60	40.27	95.87(172.96)
19.	West Bengal	5.06	19.47	24.53
	Total	120.34	170.77	291.11(668.84)

() Figures reported earlier.

It is worth mentioning that, but for the state of Bihar, which has not resumed the sales certification since October 1998 and as a consequence thereto, the payment of concession on slaes to the State from 1.10.2002 is to be made on the basic of 100% payment of concession only on receipt of sales verification, the position of outstanding claims for the other major defeulting States of Uttar Pradesh, Andhra Pradesh, Punjab and Madhya Pradesh shows significant improvement.

Through the above efforts, this Department has also been able to reduce outstanding concession claims for the period prior to 1.10.2000 from Rs. 459.16 crore, at the time of transfer of record from Department of Agriculture and Co-operation (DAC), to Rs. 180.39 crore.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Recommendation (Sl. No. 13, Para No. 57)

National Fertilizers Limited was defrauded of 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 Fertilizers and NFL should put in joint efforts to get the case processed speedily in the Delhi Court.

Reply of the Government

In the criminal case initiated against M/s. Karsan Ltd. and their Chief Executives *i.e.* Mr. Tunkay Alankus and Mr. Cihan Karanchi etc. nearly 110 witnesses need to be examined, out of which evidence of 37 witnesses have already been recorded. The case is presently at the stage of prosecution evidence. For the purpose of concluding the case at the earliest, proceedings in the Special Court constituted on 18.8.2002 for trial of the accused, are put on fast track and progressing on a day-to-day basis. Efforts of Government of India and Central Bureau of Investgation (CBI) are oriented towards an early completion of the trial. All the agencies namely the Government, CBI and the NFL management are closely monitoring the court case.

The Committee may kindly note that NFL has initiated civil/criminal proceedings in various countries for repatriation of the assests identified/frozen therein in the name of M/s Karsan Limited, its executives, their relatives etc. and these proceedings are at various stages of finalisation. The Government and NFL are closely following up these pending cases in various countries.

Recommendation (Sl. No. 14, Para No. 62)

The Committee note with concern that war in Iraq might have a cascading effect over the prices and production of fertilisers. The price 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.

Reply of the Government

The Government recognizes the prices of raw material/ intermediates prevailing in the international market for working out concession rates for decontrolled fertilizers so as to ensure viability of indigenous phosphatic fertilizer industry. The prices of raw materials/ intermediates have now stabilised in the International market after the Iraq war. The C&F price of ammonia, which was ranging between US $ 209-213 per MT in April 2003, has come down to US $ 176-181 per MT in July 2003. Similarly the price of sulphur has also come down from US $ 88-101 per MT in April 2003 to US$ 75-87 per MT in July 2003. The Government is keeping a close watch on the trend of raw material/ intermediates prices in the international market, as this has a direct bearing on the subsidy burden. However, the impact of price increases in the international market is not transferred to the formers, as these fertilizers are available to the farmers at the notified prices by the Government of India.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Recommendation (Sl. No. 16, Para No. 73)

The Committee find that a staggering amount of Rs. 770.88 crore is still outstanding by the FICC under Department of Fertilizes 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 Department of Fertilizers 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 founds. The Committee desire that the DOF should ensure expeditious payment of these pending dues to urea units.

Reply of The Government

Subsequent to approval of the budget proposals for 2003-04 by Parliament, Ministry of Finance has allocated an amount of Rs. 7555 crore under BE 2003-04 for disbursement to subsidy to indigenous urea manufacturing units. After allocation of funds under BE 2003-04, Office of Fertilizer Industry Coordination Committee (FICC) has made outstanding payments to all urea companies except for the cases which are involved in the litigation/disputes.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

Recommendation (Sl. No. 22, Para No. 95)

The Committee find that as against the last year's amount of Rs. 644 crore for Non-Plan Loans to PSUs, Rs. 27217 crore has been provided for 2003-04for 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 if 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 fertilizer 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.

Reply of the Government

The Government have decided to close down HFC and FCI excepting its Jodhpur Mining Organisation as the same have not been found techno-economically viable. Howver, while taking the decision to close the Barauni unit of HFC, regional development, particularly the industrial development in the State of Bihar was duly considered. Accordingly, it was kept in mind that as and when natural gas or LNG, the economically viable feed stock for urea manufacture, becomes available, Bihar may be considered as the priority destination for investment in new urea capacity. Further, proposals for converting the coal based Ramagundam and Talcher units of FCI into power plants were examined in consultation with the Ministry of Power. However, NTPC showed its unwillingness to take over the plants and revive the same as these were not found techno-economically viable. The recommendation of the Committee for setting up of power plants at the closed sites of the units of these companies in view of the availability of coal in abundance in the region has been communicated to the Ministry of Power for examination and necessary action.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin-II dated 31.07.2003]

CHAPTER III

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

Recommendation (Sl. No. 7, Para No. 39)

The Committee do not completely disagree with the explanation of the Department of Fertilizers that decrease in consumption of decontrolled 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 decontrolled 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.

Reply of the Government

The consumption of phosphatic and potassic fertilizers went down subsequent to decontrol in August 1992. The Government introduced *ad hoc* concession and after that it is noticed that the NPK ratio has improved from 9.5:3.2:1 in the year 1992-93 to 6.4:2:5:1 in the year 2002-03. The consumption of fertilizers has been consistently low after 1999-2000 in fact last year, the country witnessed a widespread and severe drought in most parts of the country and as a result, consumption of major fertilizers namely urea, DAP, MOP and complexes was 317.68 lakh MT compared to 337.87 lakh MT in 1999-2000. However, there are prospects of good monsoon during the current year. Hence, Government would like to watch the consumption trend of 2003-04 before taking a view on constitution of an independent study. The Government is also encouraging fertilizer companies to devise ways to increase awareness in the farmers and in this direction, Indian Potash Ltd. has set up a Potash Promotion Board to increase awareness of potash and enhance its consumption. From the

Government side, Joint Secretary is member on this Potash Promotion Board.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Recommendation (Sl. No. 15, Para No. 69)

On the issue of whether the fertilizer 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 Rupees is 7800 per tonne whereas the sale price of urea is Rs. 4830 per tonne. 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 high 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 (Fertilizers) has stated that Ministry of Agriculture has examined the issue and various Committees had found this proposition 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 fertilizer consumption in the country is shared by small and marginal farmers who do not have cash surplus for purchase of fertilizers. Experience has shown that there is no crop loan available to these farmers on time. The Committee, therefore, urge the Government to examine the issue of targeting the subsidy to these farmers after identifying their number State-wise although the Government has already informed the Committee that subsidy of urea is available to all farmers including marginal one.

Reply of the Government

This recommendation has been examined in consultation with the Ministry of Agriculture (Department of Agriculture and Cooperation). Targeting the subsidy sepcifically for the small and marginal farmers is a gigantic task. As per information available with the Agriculture Census Division of the Department of Agriculture and Cooperation, number of marginal operational holdings (less than 1 hectare) and small operational holding 91.0–2.0 hectares) in India is around 83 million. Total consumption of fertilizers in India, in terms of 50 Kg. bags, is about 720 million bags. Distribution of about 470 million bags of different types of fertilizers (Urea, DAP, MOP, SSP and Complexes etc.) to small and marginal farmers assuming consumption of 65% fertilizers by small and marginal farmers, spread over 83 million holdings all over the country would involve huge administrative expenditure. Government of India did attempt targeting Fertiliser subsidy to small and marginal farmers in 1991-92. But the Scheme could not make any headway because of administrative problems involved in its implementation. Further, in dual pricing there is always scope for leakage and the benefit may not go only to small and marginal farmers for whom it is intended. Hence it has been considered desirable to continue with present system wherein subsidy on fertilizers is made available to all farmers including small and marginal farmers.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Recommendation (Sl. No. 25, Para No. 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.

Reply of the Government

The recommendation of Committee for giving priority and preference to KRIBHCO in terms of acquiring equity in NFL has been examined in consultation with Ministry of Disinvestment (MODI). MODI has informed that the existing established procedure for disinvestment of Government equity in Central Public Sector Undertakings provides for equal treatment to all bidders and the same has been upheld by the Hon'ble Supreme Court in the BALCO judgement. Any departure from this procedure by giving preferential treatment to any one bidder may not be justifiable and is liable to invite legal challenge.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

CHAPTER IV

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

Recommendation (Sl. No. 1, Para No. 12)

The Committee find that objectives for fertilizer sector during 9th Plan period (1997-2002) largely range from disinvestment, closure of non-viable sick PSUs, feedstock and pricing policy for fertilizers to removal of regional imbalances in industrial development etc. whereas objectives during 10th Plan period (2002-07) range from phased decontrol of fertilizers 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 feedstock 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 decontrol of fertilizers industry and establishing pricing policy for controlled and decontrolled 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 recommended 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 pashed decontrol 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.

Reply of the Government

On the issue of setting up of fertilizer plants in different regions, it is stated that fertilizer industry is de-licensed and entrepreneurs are free to set up fertilizer plants in any part of the country subject to environmental regulations. It is also seen that in setting up of the fertilizer plants, availability of basic feedstock and logistics of its transportation are among the most important factors which are kept in view by the entrepreneurs before taking a decision for setting up a fertilizer project at a particular location. It is further stated that Government is committed to ensure adequate availability of fertilizers in various parts of the country at the maximum retail prices notified/indicated by the Government.

As ragards monitoring the impact of phased decontrol of movement of urea under the New Pricing Policy, it is stated that Expenditure Reforms Committee (ERC) in their report (September 2000) had recommended total decontrol for distribution of urea *w.e.f.* 1.2.2001. However, exercising caution and to provide smooth transition for changed regime, Government has decided to decontrol distribution in phased manner, *i.e.*, 25% of the urea production in Kharif 2003 and 50% of production during Rabi 2003-04 will not be covered under EC allocations. Before introducing full decontrol over distribution and movement of urea, State Governments and Ministry of Agriculture will be consulted. It may also be informed that in order to ensure adequate availabilities of urea, both in time and space, pipeline stock equivalent to 5% of annual requirement is maintained. Department of Fertilizers will continue to review the availability or urea specially in deficit States. Even after partial/total decontrol, DOF would continue to have a right to issue 'special movement orders' to meet localized shortages, if any, in various parts of the country

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para Nos. 7 and 8 of Chapter I of the Report)

Recommendation (Sl. No. 2, Para No. 13)

The Committee are afraid that due to decontrol 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 decontrol of movement of fertilizers.

Reply of the Government

The Expenditure Reforms Committee (ERC) in their report entiled "Rationalising Fertilizer Subsidies" submitted in September, 2000 had recommended total decontrol of distribution of urea w.e.f. 1.2.2001. The Department of Fertilizers had circulated the recommendations to the State Governments/UTs inviting their comments/suggestions. Based on the responses received from all the stakeholders including the State Governments and Department of Agriculture & Co-operation (DAC), the Government decided to move towards distribution decontrol regime in a pahsed manner. Accordingly it was decided to decontrol 25% of production in Kharif 2003 and 50% of production during Rabi 2003-04, while issuing EC allocations of urea to States. Based on the experience to be gained during the year, the Department of Fertilizers, in consultation with DAC, will decide further distribution decontrol for 2004-05. In the meanwhile, the Department has started reviewing the movement trend of decontrolled quantity (25% for Kharif season) and their impact on availability of urea specially in deficit States . This exercise will help in taking decision about extent of distribution decontrol specially after Rabi 2003-04.

The Department may like to reiterate that even after total distribution decontrol, it has reserved the right to issue 'special movement orders' to meet localised shortages, specially in remote and difficult areas. Besides, special freight reimbursement scheme for transportation of fertilizers will continue to operate in Jammu & Kashmir and North-Eastern States excluding Assam. Further, State Governments have been requested to ensure availability of urea throughout their State. At the level of Central Government, State-wise availability will continue to be closely monitored so that adequate availability of stocks is ensured during the peak consumption months.

All the major fertilizers except urea have already been decontrolled as far as their distribution is concerned and their availability is currently being ensured through market forces of demand and supply. All manufacturers of decontrolled fertilizers have established their marketing network throughout their primary and secondary marketing zones so as to maximise their sale. The Department, therefore, feels that in distribution decontrolled regime for urea, similar market forces will operate, which will compel manufacturers to supply and market urea in remote and difficult areas of the country so as to maximise their sales and the profitability.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 11 of Chapter I of the Report)

Recommendation (Sl. No 12, Para No. 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.

Reply of the Government

The Department appreciates the concern shown by the Committee for utilization of indigenous urea capacity before resorting to import for meeting demand-supply gap in the country and agrees that all efforts must be made to optimize domestic production. There are, however, constraints in achieving cent per cent utilization of production capacity of urea industry and among them, the most important is the limited availability of natural gas.

The country's present installed capacity of urea is about 205 lakh MT. The estimated production of urea during 2003-04 is 192.73 lakh MTs. Production of urea continued to suffer on account of inadequate supply of natural gas. Even Trombay-V unit of RCF had to remain under shutdown due to non-availability of natural gas. Production of urea in FACT, FCI-Sindri and NLC-Neyveli has been shutdown permanently in pursuance to the decision taken by their managements as these units became financially unviable due to high production costs under the new pricing regime for urea effective from 1.4.2003. On the other hand, low production in BVFCL's Namrup-III unit was due to ongoing revamp activities and delay in commissioning of Namrup-II plant. Besides, Duncan Industries Ltd., Kanpur has been under unscheduled shutdown due to liquidity crunch. Lack of production in these plants did not, however, adversely affect the availability of urea.

The position of demand and production of urea in the country during 2003-04 is being closely monitored by the Department. Import of urea would be resorted only after utilizing the full indigenous production capacity of the Industry.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 17 of Chapter I of the Report)

Recommendation (Sl. No. 17, Para No. 79)

The Committee find with satisfaction that Government 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 term 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.

Reply of the Government

The New Pricing Scheme (NPS) for urea units was formulated in the wake of criticisms levelled against erstwhile Retention Price Scheme (RPS) to the effect that it was a cost plus scheme which did not encourage efficiency and reduce costs. Its primary consideration and goal is to encourage efficiency parameters of international standards based on the usage of the most efficient feedstock and state-of-art technology. The new scheme aims at greater transparency, uniformity and efficiency in subsidy disbursement to urea units and inducing urea manufacturing companies to take cost reduction measures on their own and be competitive. With the introduction of NPS *w.e.f.* 1.4.2003, urea companies would be encouraged to further bring down the cost of production to levels that would compare favourably with the best in the world and they would be able to face new challenges arising out of liberalization and globalisation. While this expectation is possible to be achieved in respect of gas based units, the naphtha and FO/LSHS based units would continue to suffer the disadvantage of higher cost of feedstock.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* para No. 20 of Chapter I of the Report)

Recommendation (Sl. No. 18, Para No. 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 Fertilizers 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 Fertilizers has restricted ECA allocation cover upto 75% for Kharif (April-Sept.) 2003 and 50% Rabi (Oct-March) 2004 and compete decontrol thereafter. The Deptt. of Fertilizers 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 Fertilizers keeping in view the fact that in decontrolled scenario the responsibility of the State Government in ensuring the availability of fertilizers will take long-long time particularly when demand of urea is largely contingent upon the behavior 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.

Reply of the Government

The Expenditure Reforms Committee (ERC) in their report had recommended total decontrol of distribution of urea. However, exercising caution and to provide smooth transition for changed regime, it has been decided to decontrol distribution in phased manner; first, 25% in Kharif 2003 and then 50% of production during Rabi 2003-04 will not be covered under EC allocations. While issuing allocations for controlled urea in Kharif 2003, marketing areas of almost all the urea suppliers have been largely retained in order to continue with multiple sources of supplies to States/ Union Territories. The urea manufacturers/suppliers are likely to market urea in all these States even in the decontrolled distribution regime as in the case of all other major fertilizers. Further at present, in order to ensure adequate availabilities of urea, both in time and space, pipeline stock equivalent to 5% of annual requirement is maintained. In the event of distribution decontrol of urea, the pipeline stock will continued to be maintained to ensure the overall availability of urea in the country at a reasonably higher level than the requirement. The Department of Fertilizers will continue to review the movement trend of decontrolled quantities and their impact on availability of urea specially in deficit states during 2003-04. Based on the experience to be gained during the year, the Department of Fertilizers, in consultation with Department of Agriculture & Co-operation (DAC), will decide the extent of further distribution decontrol for 2004-05. Even after total decontrol, DOF would have a right to issue 'special movement orders' to meet localized shortages, if any, in all parts of the country.

The overall availability of urea in the country being satisfactory, no problems are envisaged in moving urea at short notice by issue of special movement orders to manufacturers. However, the Department would continue to be in touch with the State Governments and monitor the availability in the country on periodical basis to ensure adequate and timely supply of urea.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 23 of Chapter I of the Report.)

Recommendation (Sl. No. 19, para No. 87)

The Committee are constrained to note that most important issue of finalisation of Long Term Policy of Fertilizers particularly feedstock policy for fertilizer units has not been finalized 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 fertilizer sector. Secretary (Fertilizers) has candidly admitted before the Committee that due to less availability of gas and uncertainly about LNG, no new expansion projects including those of KRIBHCO has come up so far. The Committee are not happy with the present state of affairs and hope that in the interest of fertilizer industry as a whole the feedstock policy for fertilizers would be announced expeditiously.

Reply of the Government

Natural gas in the preferred feedstock for production of urea as it is an efficient and comparatively cheaper feedstock. However, the country is facing shortage of natural gas to meet the requirement of consumers including fertilizer industry. Against the total requirement of gas of approximately 33 MMSCMD, the actual supply is around 23 MMSCMD i.e. the shortfall is around 30% of the required quantity. Thus, there is a significant gap between demand and availability of natural gas. Although huge gas reserves in Krishna Godavari Basin and Eastern Coast of the Country have been reported which will augment the domestic availability of natural gas, however, the availability of natural gas from new gas finds will take some time as exploration and production projects of natural gas have long gestation periods. For meeting the requirement of gas, the country is also in the process of importing Liquefied Natural Gas (LNG). Ministry of Petroleum & Natural Gas is working on formulating an integrated LNG policy. It is hoped that the availability of natural gas will increase in near future by way of production from new gas fields and import of LNG and the requirements of natural gas of fertilizer industry would also be met adequately.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 27 of Chapter I of the Report.)

Recommendation (Sl. No. 20, Para No. 88)

As regards delay in overall long term policy the Committee once again note with dissatisfaction that Department of Fertilizers 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 (Fertilizers) 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 fertilizer policy should be formulated expeditiously.

Reply of the Government

Presently, the urea plants are using natural gas, naphtha, fuel oil, and low sulpher heavy stock (LSHS) etc. as the feedstock/fuel. The Expenditure Reforms Commission, in its report on rationalizing fertilizer subsidies (Spetember 2000) put great emphasis on the use of liquefied natural gas/natural gas as the preferred feedstock for the industry. However, pricing of LNG, which will be wholly imported, is yet not clear. A new policy for the pricing of natural gas is also under consideration of the Government. Therefore, the finalisation of the long term policy has to wait till a clearer picture emerges in respect of such issues.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 27 of Chapter I of the Report.)

Recommendation (Sl. No. 21, Para No. 93)

The Committee find that as against the Revised Estimates of Rs. 158.10 crore 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 utilized for revamp of Namrup Project of HFC now known as Brahmaputra Valley Fertilizers 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 (Fertilizers) has assured the Committee that by July 2003 the Deptt. will ensure that it goes into production. The Committee hope that Deptt. of Fertilizers would keep the assurance.

Reply of the Government

Namrup units I and III after their revamp have been commissioned. The revamp of unit II is under implementation. Up to end May, 2003, overall physical progress of the revamp project has been 88.50% and funds of Rs. 397.02 crore have so far been provided by the Government. Though the Namrup Project has been delayed, all out efforts are being made to complete the revamp at the earliest. However, in view of the practical difficulties being faced in the implementation of the project, the company has requested for extension of time of Namrup-II revamping upto February, 2004.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilizers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 30 of Chapter I of the Report.)

Recommendation (Sl. No. 24, Para No. 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 PPL has already been disinvested. The Committees 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 fertilizer PSUs and had asked the Government to review thier 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 fertilizers 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 fertilizers 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 ealier recommendation that none of these companies should be disinvested.

Reply of the Government

The Disinvestment Commission has categorized the fertilizer sector as 'Non-Core'. As per the declared policy, Government's equity in non-core PSUs is to be disinvested to bring it down to 26% or lower.

Even after disinvestment of PSUs, the interests of the workers in these companies would be protected. Government does not expect any adverse impact on availability of fertilizers as a result to disinvestment. The availability of fertilizers will continue to be closely monitored in conjunction with the Ministry of Agriculture and the State Governments as the Government is committed to ensure timely supply of fertilizers to the farmers in country.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 36 of Chapter I of the Report.)

CHAPTER V

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

Recommendation (Sl. No. 5, Para No. 29)

The Committee find with dismay that DOF has failed in utilizing available gas within the country in State like Tripura. Instead it is going ahead with its Oman india Fertilizer Project in Oman for which an agreement has already been signed. The Committee have been informed by the Department of Fertilizers that the possibility of setting up a fertilizer 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 Fertilizers 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.

Reply of the Government

OCFL is still holding negotiations for finalisation of long term gas supply contract with GAIL and is also in touch with the Tripura State Government regarding infrastructure required for setting up the project. DOF is committed to extend the required support and assistance for commencement of the proposed project.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Recommendation (Sl. No. 23, Para No. 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 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/presonal pay be categorised as Pay. In case of dispute, the matter may be referred to Ministry of Personnel for clarification. The Committee also recommend that clarificaiton 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 accommodations 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 Developoment 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.

Reply of the Government

The VSS dues to the employees of FCI and HFC are being paid as per scheme of the Department of public Enterprises. After detailed review of the matter, orders for payment of 50% of ex-gratia dues to the employees (workmen category) of HFC have been conveyed to the company on 24.4.2003.

As regards training period, the matter is sub-judice with Kolkata High Court on a Writ Petition filed by the emplyees union of the Haldia Unit of HFC.

As regards sale of company quarters to the employees, FCI has, with prior approval of Government, issued a scheme on 6th June, 2003 for leasing out quarters to the ex-employees on certian condition. Similar scheme in the case of HFC is under examination.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No.33 of Chapter I of the Report)

Recommendation(Sl. No. 26, Para No. 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 crore approx. was under Committee's examination. The Committee have been informed that the issue is yet to be finalized and certian 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.

Reply of the Government

The post closure adjustment claim of M/s Zuari Maroc Phosphates Ltd. in respect of Paradeep Phosphates Ltd. has not yet been finalized.

[Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers
O.M. No. 5/3/03 Fin.-II dated 31.07.2003]

Comments of the Committee

(Please *see* Para No. 39 of Chapter I of the Report)

NEW DELHI;
15 *December*, 2003
24 *Agrahayana*, 1925 *(Saka)*

PROF. RAM GOPAL YADAV,
Acting Chairman,
Standing Committee on
Petroleum & Chemicals

APPENDIX I

MINUTES

Standing Committee on Petroleum & Chemicals
(2003)

EIGHTH SITTING

(15.12.2003)

The Committee sat from 1030 hrs. to 1100 hrs.

PRESENT

Prof. Ram Gopal Yadav — *Acting Chairman*

MEMBERS

Lok Sabha

2. Shri Padam Sen Choudhry
3. Shri Khagen Das
4. Shri Bijoy Handique
5. Shri Shriprakash Jaiswal
6. Shri Punnulal Mohale
7. Shri P. Mohan
8. Dr. Debendra Pradhan
9. Shri Ram Sajivan
10. Dr. Bikram Sarkar
11. Dr. (Smt.) V. Saroja
12. Shri Prabhunath Singh
13. Dr. Ram Lakhan Singh
14. Dr. Ramesh Chand Tomar
15. Shri. Shankersinh Vaghela
16. Dr. Girija Vyas

Lok Sabha

17. Shri Balkavi Bairagi
18. Shri Dipankar Mukherjee
19. Shri Kripal Parmar
20. Ms. Mabel Rebello

SECRETARIAT

1.	Shri P.D.T. Achary	—	*Additional Secretary*
2.	Shri P.K. Grover	—	*Director*
3.	Shri P.D. Malvalia	—	*Under Secretary*
4.	Dr. Ram Raj Rai	—	*Assistant Director*

At the outset hon'ble Acting Chairman welcomed the Membes to the sitting and explained the purpose of the day's meeting.

2. Thereafter, he invited the Members to give their suggestions, if any, on the following Draft Reports being considered for adoption :—

(i) 52nd Report on action taken by Government on the recommendations contained in the 41st Report of the Committee on 'Demands for Grants 2003-04 relating to Ministry of Chemicals & Fertilizers (Deptt. of Fertilisers)'

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

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

3. The Committee, thereafter, authorised the Chairman to finalise the Reports after factual verification from the concerned Ministries/ Departments and present them to the Parliament.

4. The Committee placed on record their appreciation of the work done by the Sub-Committees on Petroleum and Fertilisers of the Standing Committee on Petroleum & Chemicals.

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

The Committee then adjourned.

** Matters not related to this report.

APPENDIX II

[*Vide* Para 3 of the Introduction]

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN FORTY-FIRST REPORT (THIRTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON PERTOLEUM & CHEMICALS (2003) ON 'DEMANDS FOR GRANTS-2003-04 RELATING TO MINISTRY OF CHEMICALS & FERTILISERS, DEPARTMENT OF FERTILISERS'

(I)	Total number of recommendations	26
(II)	Recommendations that have been accepted by the Govt. (*Vide* Recommendation at Sl. Nos. 3, 4, 6, 8, 9, 10, 11, 13, 14, 16, & 22	
	Percentage to total	42.31%
(III)	Recommendations which the Committee do not desire to pursue in view of Government's reply	3
	(*Vide* Recommendation at Sl. Nos. 7, 15 & 25)	
	Percentage to total	11.54%
(IV)	Recommendations in respect of which replies of Govt. have not been accepted by the Committee	9
	(*Vide* Recommendation at Sl. Nos. 1, 2, 12, 17, 18, 19, 20, 21, & 24)	
	Percentage to total	34.61%
(V)	Recommendations in respect of which final replies of Govt. are still awaited	3
	(*Vide* Recommendation at Sl. Nos. 5, 23 and 26)	
	Percentage to total	11.54%