SIXTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

(THIRTEENTH LOK SABHA)

MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS (2000-2001)

Presented to Lok Sabha on 25.4.2000
Laid in Rajya Sabha on 25.4.2000

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

April, 2000/Chaitra, 1922 (Saka)

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

Shri Mulayam Singh Yadav—*Chairman*

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2. Shri Ashok Argal
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15. Shri P. Mohan

*16. Shri B.K. Handique

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

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*Shri B.K. Handique, M.P. Lok Sabha nominated in lieu of Shri Vilas Muttemwar, M.P. Lok Sabha *w.e.f.* 24.1.2000.

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (1999-2000) having been authorised by the Committee to submit the Report on their behalf present this Sixth Report on Demands for Grants of the Ministry of Chemicals and Fertilizers, Department of Fertilizers for the year 2000-2001.

2. The Committee examined/scrutinised the Demands for Grants pertaining to the Ministry of Chemicals & Fertilizers, Department of Fertilizers for the year 2000-2001 which were laid on the Table of the House on 14th March, 2000.

3. The Committee took evidence of the representatives of the Ministry of Chemicals and Fertilizers, Department of Fertilizers at their sitting held on 30th March, 2000.

4. The Committee considered and adopted the Report at their sitting held on 11th April, 2000.

5. The Committee wish to express their thanks to the Officers of the Ministry of Chemicals & Fertilizers, Department of Fertilizers for furnishing the material and information which they desired in connection with the examination of Demands for Grants of the Ministry, for the year 2000-2001 and for giving evidence before the Committee.

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

NEW DELHI;
17 *April*, 2000
28 *Chaitra*, 1922 *(Saka)*

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

REPORT

A. Introductory

The Department of Fertilizers (DOF) in the Ministry of Chemicals & Fertilizers is entrusted with the following responsibilities:

(i) Ensuring adequate and timely availability of fertilizers;

(ii) Sectoral planning and development of fertilizer industry;

(iii) Planning and monitoring of production, import and distribution of fertilizers;

(iv) Management of subsidy both for imported and indigenous urea; and

(v) Administrative responsibility of 9 public sector undertakings (PSUs) and other organisations under its administrative control.

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

Public Sector Undertakings

(i) Fertilizer Corporation of India Ltd. (FCI)

(ii) Hindustan Fertilizer Corporation Ltd. (HFC)

(iii) Madras Fertilizer Ltd. (MFL)

(iv) National Fertilizer Ltd. (NFL)

(v) Fertilizers and Chemicals Travancore Ltd. (FACT)

(vi) Projects and Development India Ltd. (PDIL)

(vii) Paradeep Phosphates Ltd. (PPL)

(viii) Pyrites, Phosphates and Chemicals Ltd. (PPCL)

(ix) Rashtriya Chemicals and Fertilizers Ltd. (RCF)

Cooperatives Sector Undertakings

(i) Indian Farmers Fertilizer Cooperatives Ltd. (IFFCO)

(ii) Krishak Bharati Cooperative Ltd. (KRIBHCO)

Joint Sector Undertaking

Indian Potash Ltd. (IPL)

B. Mid-Term Appraisal of 9th Five Year Plan (1997—2002)

3. Approved outlay for 9th Plan for PSUs and cooperatives under DOF was Rs. 11,013 crore for continuing schemes as well as for new schemes, having a provision of budget support from Government of Rs. 929 crore only. The balance was proposed to be funded by concerned PSUs/cooperatives from their own resources. Out of total approved outlay of Rs. 11013 crore major share of Rs. 9791 Crore had been allotted to IFFCO (Rs. 2720 Crore), KRIBHCO (Rs. 3253 Crore), RCF (Rs. 2700 Crore) and NFL (Rs. 1118 Crore). The following statement shows year-wise Budget/ Revised outlays, *vis-a-vis* actual expenditure as also the Budget support and % utilisation with respect to approved plan outlays during first three years of the 9th Plan:

(Rs. in Crore)

Year	Budget Outlay	Revised Outlay	Actual Expenditure	Budget Support	% Utilisatioin
1997-98 (First Year)	1728.38	1728.38	1322.78	239.78	76
1998-99 (Second Year)	2200.00	989.00	801.30	209.20	36
1999-2000 (Third Year)	1828.00	888.84	324.49 (upto Dec. 99)	165.00 (B.E.) 150.00 (R.E.)	16
2000-2001 (Fourth Year)	1872.00			197 (BE)	

4. As may be seen from the above, actual expenditure during the first three years is about Rs. 2450 Crore which accounts for only 20% of the total approved outlay of 9th Plan (1997-2002) of Rs. 11013 Crore. Asked about the reasons for non-utilisation of funds, the Ministry attributed the following reasons for non-utilisation of the plan funds for 1997-98 and 1998-99;

Year	Reasons for non-utilisation of Plan funds
1997-98	Non-materialisation of Fertilizers projects at Oman/Iran/Nellore/Mangalore and KRIBHCO projects in Rajasthan of the order of Rs. 369 Crore.
1998-99	(i) No new projects were finalised due to unresolved issue of differences in demand supply perception of fertilizers among Govt. and the Planning Commission.
	(ii) Non-materialisation of revival packages for HFC/FCI; and
	(iii) Non-finalisation due to non-approval of certain new schemes/expansion/joint venture.

5. Department of Fertilizers further informed that Cabinet Committee on Economic Affairs (CCEA) has accorded in principle approval to four mega projects of IFFCO (Nellore), KRIBHCO (Gorakhpur) and RCF (Thal) and KRIBHCO (Hazira expansion) totalling an estimated amount of about Rs. 5900 crore. It also came out during the course of examination that shortfall between approved plan funds and actuals was primarily due to non-finalisatioin of these four mega projects plus Indo-Oman Fertilizers project.

6. On being pointed out by the Committee whether the gap between approved plan funds *vis-a-vis* actuals during the first three years (1997-2000) of the 9th Five Year Plan (1997-2002) was very wide, the Secretary (Fertilizers) deposed during evidence:

> "I would agree with the hon. Member that if we compare the figure of expenditure in relation to the allocation, the gap is very big. Yes. But the expenditure has not been very low. I come back to the same thing. Most of this shortfall in expenditure is on account of these four projects and the Indo-Oman project."

7. When reminded that last time also, he defended the less utilisation of plan funds on similar grounds, he candidly admitted and stated:

> "...when the Standing Committee met last time I said, and I remember what I promised, that 'within two to three months we will get these things sorted out.' And, we did succeed in taking the matter to the highest level for getting an, in principle, clearance. Thereafter, we have expedited the matter. All the proposals for the four projects were also sent to the PIB because the Government said: "We are clearing this in principle, but it is subject to investment appraisal by the PIB." So, the PIB has also apprised the projects, and now the matter is at the very last stage of clearance for those projects and as also for Indo-Oman project."

8. Replying to a query, the Secretary said:

> "I must clarify two things here. Yes, there have been delays. Last time, I said that. I have to repeat the same thing here. So far as these four projects relating to Thal, Hazira, Nellore and Gorakhpur are concerned, it was about differences in perception of supply and demand."

9. Holding out hopes of early implementation of all the four projects and also Indo-Oman, the Secretary stated:

> "When last time, we met, the matter had not gone to the PIB. Now, the development in regard to all projects including the Indo-Oman project is that we have gone a step further. The Public Investment Board considered it. Now, all that is required, is the decision from the top."

10. Allaying the fears of the Members that Indo-Oman project has been shelved and PMO has sent a communication in this regard, the Secretary categorically stated:

> "About the Indo-Oman project, there is no such communication that you have referred to. It is still under consideration. It has not been shelved."

11. Elaborating further on the usefulness and strategic importance of Indo-Oman project, the Secretary emphasized:

> "About Oman I would like to clarify that we feel that it has certain strategic value because (a) the natural gas reserves within the country will get depleted (b) Naptha will be very costly and (c) the cost of production per tonne in Oman will be very much lower as compared to that in India because the Sultenate of Oman is giving gas at the rate of 77 Cents per MMBTU as against the price of $3.5 or more than that in the country. What is more, granulated urea which releases Nitrogen in instalment and which is more beneficial to the farmer, we are getting it at the price of pre-urea and there we score addition to at least 10 US Dollars per tonne."

12. The Committee further pointed out that the present utilisation rate of plan fund was dismal and amounted to negation of concept of planned economic development and asked whether non-implementation of pending projects had been reviewed by the Government, the Department of Fertilizers in a written note informed:

> "Objectives of planned economic development is to ensure self sufficiency in the area of production of fertilizers, leaving a nominal margin for imports. It will be clear from the table below that planned economic development has not been allowed to suffer as the country has been steadily building up production capacity for fertilizers and has achieved near self-sufficiency in production of nitrogenous fertilizers.

Year-wise production and consumption of various fertilizers in the country and imports made during the 8th and 9th Plan periods

'N' in lakh MT

S.No.	Year	Production	Consumption	Imports
1.	1992-93	74.30	84.27	
	1993-94	72.31	87.89	
3.	1994-95	79.45	95.07	
4.	1995-96	87.77	98.23	19.93
5.	1996-97	85.99	103.01	
6.	1997-98	100.86	109.00	13.62
7.	1998-99	104.80	113.54	
8.	1999-2000	110.67	124.75	8.33

The production of nutrient 'P' increased from 23.06 lakh MT in 1992-93 to 33.45 lakh MT in 1999-2000. As far as nutrient 'K' is concerned, the entire requirement is imported as there is no indigenous production of the same.

The requirements for capacity additions in the fertilizer sector to meet the objectives of planned economic development are constantly reviewed by the Department of Fertilizers. Proposals for fresh capacity creation by 2003-04, are in final stages of approval by the Government. All project proposals of the public/cooperative sector including joint ventures abroad, for additions to fertilizer production capacity for which outlay has been made during the plan periods are monitored by the Department regularly. The pending project proposals namely the four domestic urea projects approved in principle and the joint venture Oman

India Fertilizer project are closely monitored by the Department as processing of these project proposals for according final investment approval is at a very advanced stage. The proposals of KRIBHCO for take over of a Mangalore Chemicals and Fertilizers Ltd.'s plant and setting up a power project in Rajasthan have since been dropped after pre-feasibility studies and due diligence process, as they were found to be unattractive. The proposed joint venture project in Iran is in the preliminary stages at present. However, its progress is being regularly monitored in the quarterly review meetings."

13. The Committee also referred to the various recommendations made by them in their earlier reports presented during 10th, 11th and 12th Lok Sabha emphasising the need for synchronzing proper planning and uniform spending during the plan period. The Committee in this regard wanted to know impact of these recommendations particularly when utilisation rate of plan funds during the last three years of the 9th Plan was only 20%. The Committee also wanted to know the conclusive role performed by Department of Fertilizers in this regard. The Department of Fertilizers in a written note informed:

"The shortfall in utilisation of plan outlay is mainly on account of the delay in getting Government's clearances for such new projects. The Department of Fertilizers has tried to play as pro-active role as it could with regard to them.

The Chief Executives of the PSUs are instructed by the Department of Fertilizers to expeditiously sanction new schemes which fall within their delegated powers. Department of Fertilizers has also taken steps to strengthen the project implementation and monitoring set up in the Public Sector Undertakings. The measures taken include nomination of the nodal officers responsible for timely implementation of the projects and institution of a mechanism for information sharing amongst the PSUs/Cooperatives so as to ensure that the deficiencies noticed in the project implementation do not recur. The Government nominee Directors also regularly monitor both financial and physical progress of various schemes in the meeting of the Board of Directors..."

14. Finally, the Committee wanted to know by when these pending projects would be finally cleared by the PIB and the Government, the Secretary replied as under:

> "The delay was totally beyond our control. According to my assessment, this is not again within my control, however, within two to two and a half months it should be possible for us to take a final decision."

15. The Committee are distressed to note that out of the approved 9th Plan (1997-2002) outlay of about Rs. 11,000 crore, the amount spent by the Department of Fertilizers during the first three years *viz.* (1997-2000) was only of the order of Rs. 2450 crore, which amounts to only 20% of the approved Plan outlay. Reportedly the shortfall was mainly due to delay in clearances of four mega Fertilizer projects *viz.*, IFFCO; Nellore (Rs. 1736 Crore), KRIBHCO; Gorakhpur (Rs. 1536 Crore), RCF's Thal project (Rs. 1332 Crore) and KRIBHCO's Hazira Project (Rs. 1318 Crore) totalling about 5900 Crore besides the Indo-Oman Project.

16. During the course of evidence of the representatives of Department of Fertilizers the Secretary (Fertilizers) admitted before the Committee that the gap between allocation and expenditure is very big. Expressing anguish over the delay in clearance of these projects the Committee recalled that earlier also similar reasons were advanced for non-utilisation of Plan funds and the position has rather worsened. The Committee are not convinced with the claims of the Department that they played a pro-active role in getting "in principle" approval from CCEA for the pending projects. This was done in April, 1999 and sufficient period of time has passed and no tangible further progress has been made. The Committee had earlier recommended that the Government should accord absolute and final approval to these projects. The Committee reiterate their recommendation and hope that this would be accorded within two and a half months as assured by the Secretary, Fertilizers.

(Recommendation Sl. No. 1)

17. About the Oman-India Fertilizer project, the Committee feel that it is the first proposal of its kind for setting up a joint venture Urea/Ammonia plant of international standard at the source of abundant gas supply in a friendly foreign country. Since the natural

gas reserves in the country are limited, there is all the more need for scouting for available sources in foreign lands. Indo-Oman project is reflection of this thinking. But the fact is that the project has been pending for long, the Government must take a decision in the matter expeditiously.

(Recommendation Sl. No. 2)

18. Another factor which is of immense concern is the attitude of the Department towards fulfilment of objectives and achievements of targets laid down in the Plan. The Committee are not convinced with the reply of the Department that planned economic development has not been allowed to suffer. A mere 20% utilisation of Plan outlay in three years can by no measure be called economic development. Planning Commission after indepth exercises and studies lays down targets. The Plan is based on a serious stock taking of the strength of past achievements and failures and seeks to provide balanced targets for the future. The Committee hope that the Government evolves shared vision and commitment to achieve these objectives.

(Recommendation Sl. No. 3)

C. Analysis of Demands for Grants of Department of Fertilizers for 2000-2001

19. Demands for Grants of Department of Fertilizers for the year 2000-2001 (Demand No. 6) has provided for the following gross provisions:

(Rs. in Crore)

	Plan	Non-Plan	Total
Revenue Section	18.50	9376.84	9395.34
Capital Section	178.50	150.00	328.50
Total	197.00	9526.84	9723.84

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

20. The net budgetary provisions for 2000-2001 after adjusting recoveries on account of import of fertilizers (Rs. 812 crore) is as under:

(Rs. in Crore)

	Plan	Non-Plan	Total
Revenue Section	18.50	8564.84	8583.34
Capital Section	178.50	150.00	328.50
Total	197.00	8714.84	8911.84

21. The details of the actuals of gross revenue and capital expenditure for 1998-99 and Budget and Revised Estimates for 1999-2000 and Budget Estimates for 2000-2001 of the Department of Fertilizers are as under:

(Rs. in Crore)

Sl. No.	Major Head	Item of Expenditure	Actual (1998-99)	BE (1999-2000)	RE (1999-2000)	BE (2000-2001)
	2	3	4	5	6	
Non-Plan Provisions						
A. Revenue Section						
1	3451	Sectt. Economic Service	5.08	5.30	5.14	5.77
2.	2852	Office of FICC	0.86	0.83	0.76	1.03
3.	2852	Subsidy on indigenous Fertilizers	7473.00	8000.00	8670.00	8058.00
4.	2401	Net subsidy on imported Urea	124.00	750.00	80.00	500.00

	2	3	4	5	6	7
5.	3475	Other General Economic Services	2.13			
6.	2852	Grant for MIS	0.24	0.01	0.01	0.01
7.	2852	Productivity Award	0.01	0.03	0.03	0.03
		Total Revenue Section	7605.32	8756.17	8755.94	8564.84
B. Capital Section						
8.	6855	Loans to PSUs				
		FCI	256.20	192.75	143.00	70.00
		HFC	143.00	107.25	127.00	65.00
		PPCL			25.00	15.00
		Total Capital Section	399.20	300.00	295.00	150.00
		Total Non-Plan	8004.52	9056.1	9050.94	8714.84
Plan Provisions						
A. Revenue Section						
	2852	Grant to KRIBHCO for REP	10.08	0.01	8.78	13.00
2.	2852	Grant to PDIL for R&D	4.00	4.00	4.00	4.00
3.	2852	Grant to MIT		0.99	0.99	1.20

1	2	3	4	5	6	7
4.	2852	S&T Programmes of Department		0.50	0.50	0.30
5.	2852	Grant to VRS				
		FCI	2.00		3.50	
		HFC	4.00			
		PPCL			1.00	
		MFL			5.50	
		Total	6.00	00.00	10.00	00.00
		Deduct amount from NRF	6.00	00.00	10.00	00.00
		Net	00.00	00.00	00.00	00.00
		Total Revenue Section	**14.08**	**5.50**	**14.27**	**18.50**
B. Capital Section						
		Crop Husbandry			0.04	
2.	4855 6855	Investment in and Loans to PSUs:				
		1. FACT				
		2. HFC	19.22	35.00	35.00	40.00
		3. MFL	35.00	84.00	60.19	80.00
		4. FCI	61.00	20.00	20.00	25.00

1	2	3	4	5	6	7
		5. PPL	48.00	10.00	10.00	20.00
		6. PDIL	10.00	10.00	10.00	12.49
		7. PPCL	00.00	00.00	0.00	1.00
			1.50	0.50	0.50	0.01
		Total PSUs	174.72	159.50	135.73	178.50
		Total Capital Section	**174.72**	**159.50**	**135.73**	**178.50**
		Total Plan	**188.80**	**165.00**	**150.00**	**197.00**
		Total A+B (Plan + Non-Plan)	***8193.32**	**9221.17**	**9200.94**	**8911.84**

*Excludes Rs. 1120.60 crore for write off of repayment of loans given by Government of India and interest and penal interest thereon outstanding against Namrup unit of HFC as part of its revival plan by receipt. There is no cash outgo.

22. It may be seen that out of the total demand of Department of Fertilizers for 2000-2001 of Rs. 8911.84 Crore, subsidy on Urea (both for indigenous as well as imported) constitute Rs. 8558 Crore followed by loans and investment in PSUs constituting Rs. 328 Crore. Head-wise Demands are discussed in succeeding paragraphs.

REVENUE SECTION

MAJOR HEAD 3451

Secretariat Economic Services

23. As against the actual expenditure of Rs. 5.08 Crore in 1998-99, there is provision of Rs. 5.77 Crore under the 'Head' for 2000-2001. During the course of examination the Committee wanted to know whether the DOF is adhering to the Government directions for adhering to austerity measures, the Department of Fertilizers in a written note informed:

"Details of actual non-plan expenditure during 1998-99, Budget Estimates (BE) for 1999-2000, BE after 10% cut on account of economy in expenditure on items other than Salaries and Wages, Professional services, Rent rate and Taxes and Revised Estimates (RE) for 1999-2000 in respect of Major Head 'Sectt. Econ. Services are given below:

(Rs. in '000)

Sub-Head	Actual (1998-99)	BE (1999-2000)	After 10% Cut	RE (1999-2000)
Salaries	3,57,37	3,86,00	3,86,00*	3,75,00
Wages	1,45	3,00	3,00*	2,27
OTA	6,31	7,00	6,30	6,30
TE (Dom.)	5,05	5,50	4,95	8,80
TE (For.)	2,22	6,50	5,85	3,20
OE	1,19,67	1,07,00	96,30	1,01,00
Prof.	2,83	3,25	3,25*	3,25
Pub.	1,94	1,60	1,44	1,44
ƆAE	2,43	2,50	2,25	3,00
RRT	8,83	7,90	7,90*	8,04
Adv. & Pub.	New sub-head created during 2000-2001			1,30
Total	5,08,10	5,30,25	5,17,24	5,13,60

*10% mandatory cut not applicable

As will be seen from the above, the expenditure under the Office Expenses and under the domestic travel has gone beyond the approved limits after applying 10% cut. But at the same time, there is reduction in the travelling expenses on visits abroad. However, efforts will be made to limit the overall expenditure on travelling, both domestic and foreign, to BE for the current year.

In case of expenditure on Office Expenses, increase of Rs. 4.7 lakhs is due to purchase of new car *in lieu* of the bullet-proof car which was purchased for the previous Minister (Chemicals & Fertilizers) and which was surrendered to the Ministry of Home Affairs as per the guidelines of the Government.

It is pertinent to mention that total expenditure of Rs. 5.13 crore under the Major Head 3451-Sectt. Econ. Services during 1999-2000 will be less than the budget provision of Rs. 5.17 crore, available after 10% mandatory cut wherever applicable, during the current year.

Further, no post has been created in the Department during the year 1999-2000 and consequent to the instructions of the Department of Expenditure for austerity, 8 posts which were vacant, have been kept in abeyance."

24. The Committee in this context also wanted to know whether DOF was monitoring expenditure (particularly tours/travels/office expenses/hospitality and foreign tours including training and business exploration related visits) level in PSUs and other organisations, the Department of Fertilizers in a written note informed:

"DOF has nine PSUs and two Multi-state Cooperative Societies under its administrative control. Monitoring of the expenditure incurred towards tours/travels/office expenses/hospitality in these organisations is not undertaken by this Department. This comes within the purview of PSUs which carry them out with the approval of their Board of Directors or Managements depending upon the delegation of powers in each of these organisations.

Department of Public Enterprises (DPE) *vide* O.M. No. 2(41)/93-DPE(WC)G-XI dated 13.8.1999 have issued guidelines for regulating foreign tours of Chief Executives and other Board level executives of PSUs. Department of Fertilizers, *vide* letter No. 139-2-97-HR-1 dated 3.9.1997, have laid down the procedure for foreign visits of the Chairman, Vice Chairman, Chief Executives of Multi-State Cooperative Societies under its administrative control.

The foreign tours of Chief Executives and functional directors of PSUs and Cooperatives are permitted by Government after detailed scrutiny of each case and after taking into account the purpose of the tour, duration, level of participation, benefits to organisation through the participation etc. The proposals for foreign tours are entertained with the approval of the Board of Directors in respect of Cooperative Societies. However, foreign tours of below Board level executives both for training and business in these organisation are approved and sanctioned by the respective managements under their delegated powers and details are placed for information of the Board of Directors."

25. The Committee note that as against actual expenditure of Rs. 5.08 Crore during 1998-99 on Secretariat of the Department, revised estimates for 1999-2000 (after 10% cut) were Rs. 5.17 Crore. The budget for 2000-2001 for the purpose has been placed at Rs. 5.13 Crore. The Committee desire that Department of Fertilizers should take economy measures, to the extent possible in the areas of office expenses, tours and travels, etc., so that need for revision of budget estimates at a later stage does not arise.

(Recommendation No. 4)

26. The Committee regret to note that Department of Fertilizers does not monitor the expenditure of PSUs/organisations under its administrative control. The Committee feel that there are areas like office expenses, tours/travelling (including foreign visits), hospitality, etc., where there is scope for effecting saving in a big way. The Committee, accordingly, recommend that the Department should keep a vigil in these areas through its nominees on the Board of PSUs/ organisations, through quarterly performance review meetings taken by the Ministry and through other similar institutionalised mechanisms. The Committee would await specific response of the Department in this regard.

(Recommendation No. 5)

MAJOR HEAD 2852

Fertilizer Subsidy under Retention Price Scheme/Freight Subsidy.

27. Fertilizer subsidy both for indigenous and imported Nitrogenous (Urea) fertilizers is provided in the Demands for Grants of Department of Fertilizers. Difference between cost of production of Urea as assessed

by FICC (known as retention price) and statutorily fixed sale price is paid as subsidy to manufacturers. For decontrolled Phosphate (P) and Potash (K) fertilizers special (adhoc) concessions are separately provided in the Demands for Grants of the Ministry of Agriculture and Cooperation.

28. The quantum of subsidy on indigenous Urea during 1998-99 and 1999-2000 was Rs. 7472.99 crore and Rs. 8670 crore respectively. A provision of Rs. 8058 crore has been proposed for 2000-2001. Out of this Rs. 7170.24 crore is for subsidy under RPS and Rs. 861 crore is for Freight Subsidy as shown below:

(Rs. in Crore)

Year	N (RPS)	P*	SSP*	Total	Payment under freight Subsidy	Others	Total
1	2	3	4	5	6	7	
1998-99 (Actuals)	6851.23	4.21		6855.44	535	82.55	7472.99
1999-2000 (B.E.)	7082.95	2.00	0.02	7084.97	810	105.00	8000
1999-2000 (R.E.)	7401.00	7.00		7408.00	1192	70.00	8670
2000-2001 (B.E.)	7168.22	2.00	0.02	7170.24	861.76	26.00	8058

(*These are for the period prior to August, 1992. Thereafter subsidy is provided by the Ministry of Agriculture on these fertilizers)

(i) Effect of reduction in subsidy on agriculture

29. The Department of Fertilizers has stated that the provisions on subsidies are lowered as selling price of urea has been increased from Rs. 4000 per tonne to Rs. 4600 per tonne.

30. During the course of examination the Committee pointed out that Government's emphasis is to reduce the bill on subsidy whereas subsidies in India are reportedly much lower than those in some of the developed countries in Europe. In this context, the Committee wanted to know comparative figure of level of subsidies available in leading European and Asian countries of the last three years for comparative analysis. The Department of Fertilizers in a written note informed:

"Figures relating to farm subsidies in selected countries for 1991 as published in the Fertilizers Statistics (1997-98) by Fertilizer Association of India are being relied upon in answer to this question as figures for the last 3 years for comparative analysis could not be procured inspite of efforts made. While the incidence of total farm subsidies in India is much lower than that in the developed E.C. countries, USA, Japan and Canada, this is slightly higher than those in New Zealand and Australia. However, the level of farm subsidies is the lowest in India in terms of per capita and per hectare of arable land when compared to these countries which represent the developed nations. The figures are quoted below:

Farms Subsidies in selected Countries—1991

Country	Total farm subsidies	Population (milln.)	Arable land +(mill ha)	Subsidy (US$)	
				Per capita	Per ha of arable land
EC	83.59	345.760	82.205	241.8	1016.8
	34.70	252.410	187.776	137.5	184.8
	31.48	123.921	4.552	254.0	6915.6
Canada	7.68	27.034	45.930	284.1	167.2
Australia	1.44	17.292	46.877	83.3	30.7
New Zealand	0.13	3.380	0.410	38.5	317.1
India 1991-92	3.02*	862.745	169.700	3.5	17.8

*Only food and fertilizer subsidy
(Source FAI statistics 1997-98)

It may not be appropriate to compare the subsidy regime in India with that of developed countries because subsidies have to be seen in terms of nation's fiscal affordability. Main Asian countries like Indonesia, Pakistan and Bangladesh have recently taken steps to cut down subsidies. In fact, Bangladesh has cut down the subsidies altogether on fertilizers. Further, the basis of computation of farm subsidies in the other countries would also be governed by various considerations such as access to world markets, promotion of exports etc. which are not strictly relevant in the Indian context of food and fertilizer subsidy.

One of the major areas of concern before the Government is the burgeoning fiscal deficit and increasing food and fertilizer subsidy bill which adds to this deficit. In recent years, there has been a progressive increase in the subsidy on foodgrains by Government of India. Food subsidy was Rs. 2850 crore in 1991-92 but rose to Rs. 8000 crore (B.E.) in 1999-2000. At the same time, total fertilizer subsidy which was Rs. 4799.60 crore in 1991-92 has gone up to Rs. 13250 crore (B.E.) in 1999-2000. That is why the Union Finance Minister has announced in his latest budget speech that "major subsidies, on food and fertilizer constitute a significant portion of our non-plan expenditure. The rate at which these subsidy payments are growing is not sustainable.

It may be true therefore that incidence of farm subsidies which include food and fertilizer subsidies may be lower in India than those extended in the developed countries. It is also true that countries in the region like Indonesia, Pakistan and Bangladesh have taken steps perhaps for similar reasons of fiscal constraints to reduce their subsidy burden."

31. The Committee further pointed out the present increase in price of Urea would discourage farmers from using it being costlier which in turn would hamper production of Urea in the country when there will be resultant less demand of foodgrains. The Secretary replied during evidence:

"Sir, certain very important issues which concern the agricultural sector, production of fertilizers have been raised. We would like to make it clear and in no uncertain terms that it is the aim of the Government of India to achieve self-sufficiency in foodgrains. This would imply self-sufficiency in production of fertilizers also.

A view will have to be taken on the extent of self-sufficiency because imports would be required either to bridge the gap between the supply and demand according to the needs of the situation or even to keep the industry under pressure, to be efficient. I assure you that on this basic issue we will be taking conscious and long-term view."

32. He further added:

"You also raised issues connected with the increase in prices and the quantum of subsidy. In the developed countries also there are subsidies. There also subsidies are much higher. It is basically a question of what you can afford. So far as we are concerned, we have tried to get information from some of the developing countries and we have found that in our country the price of urea is the cheapest. A balance has to be struck between the quantum of subsidy and the resources that are required for economic development. Here, continued increase in the quantum of subsidy may not necessarily be in the national interest because to that extent you are diverting resources from economic development."

33. He also stated:

"So far as the Department of Fertilizers is concerned, we have to take an inter-ministerial view because of the Ministry of Finance and Ministry of Agriculture are also involved in it. But I can say that even if the quantum of subsidy is reduced the allocation for the agricultural sector should not be reduced. It should be at least made good. If you reduce subsidy here, there should be a corresponding increase in allocation for agriculture. Our view in the Department of Fertilizers would be that even though the quantum of subsidy may be reduced on account of fiscal reasons, the transition should be managed in such a way that the quantum of agricultural production does not suffer and that can be done only by suitable enhancement in the outlays for agricultural sectors. That would be our view. I fully share the Members' concern that what we do, agricultural production should not be allowed to suffer."

34. On being asked about comparative fertilizer prices in the country with other agriculture based countries, the Department of Fertilizers furnished the following information:

(June 1999)

Name of the Country	Price of Fertilizers (In terms of US $ per ton)			
	Urea	SSP		MOP
Bangladesh	117.62	123.99		
China	263.05	66.30	314.20	172.55
India	86.03	70.13	195.09	
Malaysia	172.77		123.22	118.48
Nepal	108.31		271.79	136.85
Pakistan	149.63	78.93	255.88	
Philippines	169.39		213.84	153.71
Sirl Lanka	106.03		378.67	153.94
Thailand	165.65			

Source: FADINAP

35. In reply to a question, the Secretary, Fertilisers admitted that the prices of agricultural produce in the country are much lower than most of the countries.

36. The Committee note that as against the quantum of subsidy of Rs. 7472.99 crore and Rs. 8670 crore during 1998-99 and 1999-2000 respectively, a sum of Rs. 8558 crore has been proposed for subsidy on Urea, both for indigenous production and for import content. The Department of Fertilizers has informed that provisions of subsidy this year have been lowered as selling price of Urea has been increased from Rs. 4000 to Rs. 4600 per tonne. Admittedly subsidy

given to the farming community in developed/developing countries is much higher than being given in our country. Regretfully the farmers do not get remunerative prices for their produce and hardly recover cost of production.

37. The Committee, therefore, do not share the perception of the Government that as part of reducing fiscal deficit, the subsidy has to be reduced. The Committee feel that the Government should appreciate that agriculture is the backbone of the economy and to sustain agricultural growth and protection of farmers interests, continuation of subsidy on fertilizers is a must.

38. Subsidy on urea in itself should not be viewed as detrimental but should be seen in the international perspective where even the developed countries are extending very high level of farm subsidy to support their farmers. Subsidy is a necessary mechanism to ensure availability of fertilisers to farmers at affordable rates. The Committee therefore strongly recommend that the increase in prices of urea should be withdrawn immediately.

(Recommendation No. 6)

39. The Committee have another apprehension arising out of increase in price of urea. With the price increase, the production of foodgrains which is already showing decline might suffer further. If this happens, the Government will have to import food at a higher cost which would not only off-set the saving accrued due to reduction in subsidy but also create a demoralizing effect on the farming community and the nation's self-confidence. The Committee would like to caution the Government in this regard.

(Recommendation No. 7)

(ii) Recovery of Excess subsidy

40. The Committee in earlier years had dealt with the issue relating to reported under statement of capacity by some fertilizer units for getting more subsidy. In this context they had recommended their 12th Report (12th Lok Sabha) and 3rd Report (13th Lok Sabha) for recovery of excess amounts of subsidy from these units.

41. As a follow up action, the Government had constituted a technical Committee to go into the matter and the Committee had submitted its report to the Government. Asked about action taken on the Report, the Department of Fertilizers, in a written note informed:

"An Expert Committee was constituted by the Government in April, 1999 under the Chairmanship of Dr. G.B. Purohit, the then Consultant in the Department of Fertilizers to identify all high capacity utilization plants and to make recommendations with regard to the reassessed capacities for each unit. The Committee submitted its report on 19th November, 1999.

The report of the Committee has been considered by the Fertilizer Industry Coordination Committee (FICC) in its 84th meeting held on 3rd February, 2000. FICC has favoured the reassessment of capacity of urea plants on the basis of design capacity and flexibilities in-built at the design stage or subsequently and also actual performance. The Standing Committee of Parliament in its 12th Report for 1999-2000 has already expressed strong views on the subject of reassessment of capacity. The Committee of Secretaries has also directed the Department of Fertilizers to submit a note on this issue. In view of these considerations, FICC has decided in the above-mentioned meeting to obtain the orders of the Government on this issue. Now, the Department of Fertilizers is in the process of obtaining the orders of the competent authority in the Government on this issue."

42. In this context, the Committee recalled that the Government had sought the opinion of Ministry of Law on making manipulation of capacities as punishable offence and putting a cap on production of fertilizer units beyond 110% for checking undue benefits. The Committee wanted to know about concrete steps so far been taken by Government, the the Department of Fertilizers in a written note stated:

"Pursuant to the recommendations of the Standing Committee contained in its 12th Report for 1999-2000 regarding examination from legal point of view as to whether the practice of manipulation of capacity is a criminal offence punishable under the process of law, the Department of Fertilizers had approached the Ministry of Law to obtain their advice on this issue. The advice of the Ministry of Law has been received on 21.3.2000 and is being processed for further necessary action. As far as the issue of putting a cap on production of fertilizer for checking undue benefits is concerned, the Department of Fertilizers has addressed to it as an interim measure in the production plan for the year 2000-2001 for high cost urea producing fertilizer units. The production of high cost urea producing units having a retention price above Rs. 7000/- has been restricted to 110% of their installed capacity."

43. The Committee are dismayed to note that during the last one year (*i.e.* from April, 1999 to March 2000), there has been no concrete progress on the question of recovery of excess amounts paid so far from certain fertilizer manufacturing units on account of understatement of installed capacities of concerned organisations. The Committee constituted by the Government (Purohit Committee) has submitted its Report to the Government in November, 1999. Keeping in view the importance of the subject, where Government is to recover money from fertilizer units including units in private sector, the Committee desire that a time frame of 6 months should be fixed to recover Government money from the concerned organisations. The Committee would like to be apprised of the details of recovery in each case.

(Recommendation No. 8)

44. As regards steps taken by Government on the practice of manipulation of capacity as a criminal offence, the Committee have been informed by Department of Fertilizers that the issue was referred to Ministry of Law and on 21st March, 2000, the Ministry of Law had communicated their advice and the same is being processed for further action. Department of Fertilizers has also informed that putting a cap on production of fertilizer for checking undue benefits has been addressed by Department of Fertilizers as an interim measure in production plan for 2000-2001 for high cost Urea producing units. The Committee would like to know the contents of advice of the Ministry of Law received in this regard and action taken thereon. The Committee would like to refer to their earlier recommendation made in this regard in their 3rd Report, 13th Lok Sabha and once again recommend that manipulation of capacity should be treated as criminal offence punishable under the process of law.

(Recommendation No. 9)

MAJOR HEAD '2401

Sub-head B1 -Subsidy on Import of Urea

45. The following table shows the amount earmarked for import of urea and recoveries made on this account for the year 1998-99, 1999-2000 and proposed for 2000-2001:

Year	Imports (Rs. in Crore)	Recoveries (Rs. in Crore)	Net subsidy (Rs. in Crore)	Import of Urea (in lakh tonnes)
1998-99 (Actuals)	333.08	208.87	124.21	6.35
1999-2000 (B.E.)	1370	620	750	8.33
1999-2000 (R.E.)	293	213	80	5.33
2000-2001 (B.E.)	1312	812	500	21

46. The Department of Fertilizers has stated that a gross provision of Rs. 1312 Crore has been proposed for import of urea during 2000-2001 for 21 lakh tonnes of urea against the indigenous production of about 200 lakh tonnes expected during the year. During the course of examination, the Committee wanted to know whether in the light of less import during 1999-2000 (5.33 lakh tonnes) proposed import of 21 lakh tonnes would not be too much leading to greater outgo of precious foreign exchange. The Department of Fertilizers in a written note informed:

"The imports of urea are made to bridge the gap between the assessed demand and indigenous availability. The assessment of imports is done after taking into account the assessed demand of urea in the country, estimated production, estimated opening stocks at the beginning of the financial year, global demand and supply situation, international prices of urea etc. The requirement of imports is ultimately dependent upon the realization of demand estimates which in turn depends upon the monsoon and trends of indigenous production and consumption. Since 1995-96 there have been significant addition to the indigenous production while growth of consumption of urea has not been as per the estimates.

The estimates of imports for each financial year are tentative and are first made in January. The Government has a system in place for periodical reviews with a view to make timely corrections in estimates of imports through an Inter-Ministerial Committee which reviews the requirement periodically. In 1999-2000, the initial estimate of 17.5 lakh metric tonnes was scaled down to 5.33 lakh metric tonnes."

47. In the context of different perception of demand and supply of fertiliser in different wings of Government, the Committee wanted to know the latest position now regarding agreed demand and supply projection of fertilizers by the end of the 9th Plan and thereafter by 2011-12, the Department of Fertilizers in a written note informed:

"As far as the Urea demand projections for the end of 9th Plan is concerned, Department of Fertilizer's view is that there would be a demand supply gap of 49 lakh MT in 2002-2003. This was noted by the CCEA while according in principle approval for setting up four domestic urea projects with 15 lakh MT import dependence.

The assessment of demand projections for fertilizers is being done by the Ministry of Agriculture and is normally done through the pre-Plan Working Groups constituted for the purpose. The exercise for constitution of the Working Group for the 10th Plan is at present underway. This Working Group is also likely to make projections for the terminal year of the 11th Plan. As a prelude to this exercise the Ministry of Agriculture has also commissioned a study on fertilizer response ratio of different crops in India by Indian Agricultural Statistics Research Institute."

48. The Committee further pointed out that as against current level of fertilizer consumption of 90.04 Kgs. Per hectare, it is expected to go up at 207.53 Kg. by 2011-12. At present India's self reliance in fertilizer production (Urea) is around 92.1%. During the last three years the share of the private sector in fertilizer production has declined from 51.28% to 47.41% and that of Public Sector remained almost stagnant

and it is feared that share of Private Sector may decline further. Department of Fertilizer has also reportedly decided that no new fertilizer projects would be set up till 2003-2004. The Committee wanted to know whether a situation was emerging during the next 3 to 4 years wherein supply forces will have predominant role in determining price structure putting farming community at disadvantage and how the Department of Fertilizers proposes to deal with it. The Department of Fertilizer in a written note stated:

"Urea is curently under price, movement and distribution control of the Government of India. The demand of urea is assessed and supply is arranged both from the indigenous sources and imports to meet the assessed demand. The Maximum Retail Price (MRP) of urea for the farmers is fixed and uniform throughout the country except for the local taxes in States wherever these are levied. So long as urea remains under control, suppliers role will be limited to reaching urea to farmers as per the allocations made under the Essential Commodities Act and sell it at the price notified by the Government. The contours of supply and distribution in the event of decontrol of urea are difficult to state at this stage. These will be formulated and put in place as and when the Government moves in the direction of decontrol of urea.

The country has currently installed of 200.69 lakh MT of urea. In the current year, the production is estimated to be close to 200 lakh MTs against which the consumption will be an estimated 209 lakh MTs. Thus the country has reached self-sufficiency level of 95% in urea in 1999-2000. The average growth rate in consumption of urea in the first 3 years of the 9th Five Year Plan period has been 3.3%.

The growth in consumption of urea is depressed partly on account of increasing consumption of phosphatic fertilizers and, in principle, DAP. These fertilizers also contain nitrogen. Assuming growth rate of average 4% annually, the estimated requirement shall be 234 lakh MTs by 2003-4. Thus, there will be a gap of nearly 34 lakh MTs to be met. Since the Government has sanctioned, in principle, 4 new projects in the Public/Cooperative sector, there is no further scope for addition of capacities. In order then to avoid unnecessary burden of subsidy on account of unrestricted addition of capacities and in view of the bearish trend of prices in international market of urea, the Government has decided not to encourage capacities for production of urea till 2003-04 except the aforesaid 4 projects."

49. The Committee note that a provision of Rs. 500 Crore net has been proposed for 2000-2001 for import of 21 lakh tonnes of urea. During the course of examination, the Department of Fertilizers has informed that since imports are made to bridge the gap between assessed demand and indigenous availability, these are tentatively made in January every year and these are periodically revised by Government for timely correction of import estimates through an Inter-Ministerial Committee. Department of Fertilizers also informed that as against the previous budget estimate of 17.5 lakh tonnes of Urea during 1999-2000, the final estimates were only 5.33 lakh tonnes. For 2000-2001 this has been assessed at 21 lakh tonnes. The Department of Fertilizers has also informed that by 2002-2003 there would be a gap between demand and supply of the order of 49 lakh tonnes. The Committee feel that in fourth year from now the quantum of import would be around three times than the present level of 5.33 lakh tonnes resulting in considerable outgo of precious foreign exchange. The Committee, therefore, feel that a well thought of strategy should be worked out by Department of Fertilizers for minimising the quantum of imports as far as possible.

(Recommendation No. 10)

50. The Committee are anguished to note that even though the country has capability to achieve 100% self sufficiency in the production of urea, the Government on the pretext of having competitive pressures by having some element of import on indigenous industry, are not trying to achieve it. The Committee trust that this should not be the principle or justification for spending foreign currency on import of various goods in the country. The Committee, therefore, hope that corrective measures will be taken in this regard.

(Recommendation No. 11)

Impact of removal of Quantitative Restrictions (QRs)

51. On the issue of impact of removal of Quantitative Restrictions, it came out during the course of examination that under the commitment given to the World Trade Organisation, quantitative restrictions on import of various items including urea are to be removed by April, 2001. In this context, the Committee wanted to know the quantitative restrictions which are to be removed by April, 2001 and how far it would affect the domestic poduction of urea in the country. The Department of Fertilizers in the written note stated:

"Under the commitment given by the country to the World Trade Organization the quantitative restrictions on 1429 tariff lines are to be removed by April 1, 2001. The fertilizers which are included in the Restricted List, Special Import Licence (SIL) and Canalized List, are as under:

Restricted List	(i)	Other natural and animal fertilizers
	(ii)	Mineral or chemical fertilizers containing three fertilizing elements nitrogen, phosphorus, and potassium other than DAP, MOP, MAP, SOP, NP and NPK fertilizers.
Special Import Licence (SIL)		Ammonium Sulphate
Canalized list	(i)	Urea whether or not in aqueous solution
	(ii)	Other mineral or chemical fertilizers, phosphatic
	(iii)	Other mineral or chemical fertilizers, potassic.
	(iv)	Other mineral or chemical fertilizers, n.e.s.

There is no bound rate of customs duty on urea. Appropriate tariff rate and such other measures as may be necessary keeping in view the national interest, will be decided in due course."

52. The Committee also pointed out that under obligations of WTO, India will have to dismantle all quantitative restrictions (QRs) on imports by 2001. As such Urea imports will have to be decanalised. After removal basis; instead there will be at par with domestic supplies. In this context, the Committee wanted to know the likely scenario Department of Fertilizers has perceived in the wake of removal of QRs and to what extent it would affect indigenous industry and whether Government has undertaken any study in this regard and considered any action plan to face this challenge. The Department of Fertilizers in a written note informed:

> "In 1997 there were 27 types of fertilizers which were under quantitative restrictions (QRs.) These have been progressively brought down to 7 which includes urea, ammonium sulphate and certain types of phosphatic, potassic fertilizers and those containing three fertilizing elements, Nitrogen, Phosphorus and Potassium. There has been no adverse impact on the indigenous industry with the removal of these fertilizers from the QR list so far.
>
> Expect for urea, adverse impact on the indigenous industry is not anticipated of removal of QRs on other fertilizers. In respect of urea, Department of Fertilizers (DoF) is contemplating to provide adequate safeguards. DoF intends to impose appropriate customs duty as there is no bound rate currently under the WTO agreement.
>
> The Government has also been reviewing the impact of the commitments made by the country to the World Trade Organization (WTO) in general on QRs, in particular, alongwith other measures with the Ministry of Commerce and the Fertilizer Association of India (FAI). This was also one of the subjects of the Annual Seminar conducted by the FAI in which papers were presented by experts."

53. Responding to the query of the Committee that how the Government plans to face the impact of restriction free import of fertilizers in the international market in wake of removal of Quantitative Restrictions by April, 2001, the Secretary, Fertilizers deposed:

> "We share your anxiety about the implications of free trade and WTO related matters. It is going to pose a very serious implication. It has serious implications on the indigenous fertilizer industry.
>
> Let me take the example of DAP. Though it is a de-controlled fertilizer today the bound rate of custom duty on DAP is 5 per cent. Surely, if we throw it open to global competition, the indigenous industry will not be able to survive this competitive environment. The degree of the custom duty will have to be enhanced. That is a very long-drawn procedure under WTO and we have to follow it.
>
> On urea, there is no bound rate. But the moment you remove quantitative restrictions, a suitable degree of protection for the indigenous industry will have to be thought of. Their implication arising out of WTO related matters is there and it is connected with the second in a way. Nearly 30 per cent of the installed capacity in the fertilizer industry today is based on Naphtha. Indigenous availability of natural gas is going to deplete after the year 2010. Naphtha-based units especially most of them may become non-viable if they are straight away thrown open to global competition. So, a very carefully orchestrated response to the WTO challenge has to be planned."

54. The Committee have been informed that under the commitment given to World Trade Organisation (WTO) the quantitative restrictions on import of various items including urea are to be lifted by April, 2001. The Secretary, Fertilizers also shared the anxiety over the implications of free trade and WTO related matters and was of the view that these will have serious implications on indigenous fertilizer industry. The Committee were informed that

1	2	3	4	5	6
3.	PDIL	0.00	0.00	0.00	0.50
4.	PPCL	0.75			
5.	PPL	5.00	5.00	5.00	6.00
	Total	46.75	52.00	40.00	56.50

B. Loans (Plan)

Sl.No.	PSU	1998-99 (Actuals)	1999-2000 (B.E.)	1999-2000 (R.E.)	2000-2001 (B.E.)
1	2	3	4	5	6
1	MFL	61.00	20.00	20.00	25.00
2.	FCI	24.00	5.00	5.00	10.00
3.	FACT	19.22	35.00	35.00	40.00
4.	HFC	18.00	42.00	30.19	40.00
5.	PPL	5.00	5.00	5.00	6.49
6.	PPCL	0.75	0.50	0.50	0.01
7.	PDIL	0.00	0.00	0.00	0.50
	Total	127.97	107.50	95.69	122.00

C. Loans (Non Plan)

Sl.No.	PSU	1998-99 (Actuals)	1999-2000 (B.E.)	1999-2000 (R.E.)	2000-2001 (B.E.)
1.	FCI	256	192.75	143.00	70
2.	HFC	143	107.25	127.00	65
3.	PPCL	—	—	25.00	15
	Total	399	300	295.00	150.00

(a) Revival of FCI/HFC

59. During the course of examination, the Committee pointed out that the financial position of HFC/FCI in fertilizer is very bad as enumerated below:—

PSU		Loss for 1999-2000 (Est.) (Rs. in Crore)	Remarks
1.	FCI	834.26	Gorakhpur unit closed since 1990. Production in Ramagundam and Talcher units suspended since April, 1999. Referred to BIFR in 1992. Revival package yet to be finalised.
2.	HFC	574.05	Haldia Project never put into production. Production in Durgapur and Barauni units suspended *w.e.f.* June, 97 and Jan. 99 respectively. Referred to BIFR in 1992. Revival package of only Namrup units finalised and put into operation.

60. The Committee in their Reports since 1993-94 have been repeatedly recommending finalisation of revival proposals for these sick units. In the latest report 3rd Report, 13th Lok Sabha presented to the House on 10th March, 2000, the Committee have again impressed

upon the Government the need for revival of these units. Almost all plants of HFC/FCI except at Sindri (FCI) and Namrup (HFC) have been closed. Asked about the reasons for opting soft option of closure of units, the Secretary, Fertilizers said during evidence:—

> "About closed units, the Government are aware and the policy as enunciated in the Finance Minister's speech is to revive units which are potentially viable. So far as the public sector is concerned, proposals have been prepared for both the Hindustan Fertilizer Corporation and FCI and they are again submitted for inter-ministerial consultations because of the change of the Government."

61. On being asked whether Government was not serious about reviving FCI and HFC units, even after lapse of 7-8 long years, the Department of Fertilizers in a written note informed:—

> "The Government have given very serious consideration to this matter. However, in view of the various constraints such as the complexity of the problems that need to be tackled and the magnitude of the investment that is required and the statutory requirement connected with the Sick Industrial Companies (Special Provisions) Act, 1985 it has not been possible to arrive at the final decision..."

62. Asked about the latest status of revival packages for sick units of HFC/FCI, the Department of Fertilizers in a written note further stated:—

> "...The complexities relating to revival of these units arise on account of outdated technologies with serious mismatch in equipments, inherent design and equipment deficiencies, and accumulated losses which today stand at Rs. 3628.74 crore (HFC) and Rs. 5049 crore (FCI) thereby requiring huge investments without any commensurate results in terms of sustained and viable operations of these plants. Inspite of this, Government have approved the revival of the Namrup unit of HFC with the direction to ensure increased gas supply of 1.72 MMSCMD. Investment clearance of Rs. 350 crore for revival of Namrup units have been given by the Government of which around Rs. 80 crore has already been released towards renewal and replacement and the revamping project of Namrup. It may also be noted that

as an indicator of its commitment to the revival of Namrup unit, Government's sacrifice to the tune of Rs. 1120.60 crore in terms of write off of GOI plan/non-plan loan and accrued interest thereon has also been extended. Similarly, Government have taken up the rehabilitation of Sindri Unit of FCI and have released Rs. 144 crore during the period 1994-95 to 1998-99 towards continuous renewal and replacements, pollution control and other offsite facilities and have provided Rs. 10 crore during this year. It is because of these efforts of the Government towards revival of the Sindri unit of FCI that the production in the unit this year has already surpassed the target of 2.45 lakh MTs of production.."

63. The Department of Fertilizers in a written note further added:—

"An, in principle, approval has been accorded to KRIBHCO to set up a fertilizer plant at the site of FCI's Gorakhpur plant.

Government have already decided that the revival of Haldia Project of HFC is not techno-economically viable as the unit could not even achieve the stage of commissioning. It has been decided to hive off the Haldia Project and the proposal of the West Bengal Government for utilisation of some of the land belonging to Haldia Project by the Indian Oil Corporation which has refinery in the vicinity of the existing Haldia Project is under examination of a Working Group set up recently by the DOF which includes representatives of Department of Fertilizers, Ministry of Petroleum and Natural Gas, State Government of West Bengal and a senior representative from Indian Oil Corporation.

The revised rehabilitation packages in respect of the remaining units of HFC and FCI based on unitwise techno-economic viability were recently considered by Committee of Secretaries. A comprehensive rehabilitation proposal incorporating the views of the Committee of Secretaries has now been finalised and is presently under Inter-Ministerial consultations.

On approval of the comprehensive rehabilitation proposals by the competent authority in the Government, further action will be taken for obtaining concurrence of BIFR."

the moment quantitative restrictions are removed, a suitable degree of protection for indigenous industry will have to be thought of. He also stated that since nearly 30% of the installed capacity of Urea in the country is based on Naphtha which is costlier as compared to Natural Gas, if it is thrown in open to global competition it will become non-viable.

55. The Committee have also been informed that in the event of opening up of Indian market to the world, there is no bound rate on customs duty on Urea. Appropriate tariff rate and other such measures as may be necessary would be decided keeping in view the national interest. In this context the Committee have also been informed that the Government have been reviewing the impact of commitments made to WTO in general and on QRs in particular, alongwith other measures, with the Ministry of Commerce and the Fertilizer Association of India (FAI).

56. The Committee feel that the customs duty regime on imported fertilizers should be finalised early in consultation with the Ministry of Commerce to ensure that no undue impact is caused on indigenous capacities created for production of fertilizers because of the necessity to ensure compliance with WTO guidelines. The indigenous industry which has been built up over the years should be given a reasonable opportunity to become competitive so that most of the indigenous capacity may remain viable.

(Recommendation No. 12)

MAJOR HEAD '4855/6855'

(iii) Investment in and Loans to PSUs

57. As against amount of Rs. 330.69 Crore for 1999-2000 and Rs. 573.72 Crore for 1998-99 an amount of Rs. 328 Crore has been proposed for investment in and loans to PSUs under the administrative control of Department of Fertilizers. Out of Rs. 328 Crore, Rs. 150 Crore is plan loans for HFC; FCI and PPCL and

Rs. 178.50 Crore for both non-plan and investments in PSUs. The following statement shows actuals for 1998-99 and Budget and Revised for 1999-2000 and proposals for 2000-2001 on both investment and loans:

(Rs. in Crores)

Year	Investments	Plan Loans	Non-Plan Loans	Total
1998-99 (Actuals)	46.75	127.97	399	573.72
1999-2000 (B.E.)	52.00	107.50	300	459.50
1999-2000 (R.E.)	40.00	95.69	295	430.69
2000-2001 (B.E.)	56.50	122.00	150	328.50

58. PSU-wise position is as under:

A. Investment (Plan)

(Rs. in Crores)

Sl.No.	PSU	1998-99 (Actuals)	1999-2000 (B.E.)	1999-2000 (R.E.)	2000-2001 (B.E.)
1	2	3	4	5	6
	FCI	24.00	5.00	5.00	10.00
2.	HFC	17.00	42.00	30.00	40.00

1	2	3	4	5	6
3.	PDIL	0.00	0.00	0.00	0.50
4.	PPCL	0.75			
5.	PPL	5.00	5.00	5.00	6.00
	Total	46.75	52.00	40.00	56.50

B. Loans (Plan)

Sl.No.	PSU	1998-99 (Actuals)	1999-2000 (B.E.)	1999-2000 (R.E.)	2000-2001 (B.E.)
1	2	3	4	5	6
	MFL	61.00	20.00	20.00	25.00
2.	FCI	24.00	5.00	5.00	10.00
3.	FACT	19.22	35.00	35.00	40.00
4.	HFC	18.00	42.00	30.19	40.00
5.	PPL	5.00	5.00	5.00	6.49
6.	PPCL	0.75	0.50	0.50	0.01
7.	PDIL	0.00	0.00	0.00	0.50
	Total	127.97	107.50	95.69	122.00

C. Loans (Non Plan)

Sl.No.	PSU	1998-99 (Actuals)	1999-2000 (B.E.)	1999-2000 (R.E.)	2000-2001 (B.E.)
	FCI	256	192.75	143.00	70
	HFC	143	107.25	127.00	65
3.	PPCL			25.00	15
	Total	399	300	295.00	150.00

(a) Revival of FCI/HFC

59. During the course of examination, the Committee pointed out that the financial position of HFC/FCI in fertilizer is very bad as enumerated below:—

	PSU	Loss for 1999-2000 (Est.) (Rs. in Crore)	Remarks
	FCI	834.26	Gorakhpur unit closed since 1990. Production in Ramagundam and Talcher units suspended since April, 1999. Referred to BIFR in 1992. Revival package yet to be finalised.
2.	HFC	574.05	Haldia Project never put into production. Production in Durgapur and Barauni units suspended *w.e.f.* June, 97 and Jan. 99 respectively. Referred to BIFR in 1992. Revival package of only Namrup units finalised and put into operation.

60. The Committee in their Reports since 1993-94 have been repeatedly recommending finalisation of revival proposals for these sick units. In the latest report 3rd Report, 13th Lok Sabha presented to the House on 10th March, 2000, the Committee have again impressed

upon the Government the need for revival of these units. Almost all plants of HFC/FCI except at Sindri (FCI) and Namrup (HFC) have been closed. Asked about the reasons for opting soft option of closure of units, the Secretary, Fertilizers said during evidence:—

> "About closed units, the Government are aware and the policy as enunciated in the Finance Minister's speech is to revive units which are potentially viable. So far as the public sector is concerned, proposals have been prepared for both the Hindustan Fertilizer Corporation and FCI and they are again submitted for inter-ministerial consultations because of the change of the Government."

61. On being asked whether Government was not serious about reviving FCI and HFC units, even after lapse of 7-8 long years, the Department of Fertilizers in a written note informed:—

> "The Government have given very serious consideration to this matter. However, in view of the various constraints such as the complexity of the problems that need to be tackled and the magnitude of the investment that is required and the statutory requirement connected with the Sick Industrial Companies (Special Provisions) Act, 1985 it has not been possible to arrive at the final decision..."

62. Asked about the latest status of revival packages for sick units of HFC/FCI, the Department of Fertilizers in a written note further stated:—

> "...The complexities relating to revival of these units arise on account of outdated technologies with serious mismatch in equipments, inherent design and equipment deficiencies, and accumulated losses which today stand at Rs. 3628.74 crore (HFC) and Rs. 5049 crore (FCI) thereby requiring huge investments without any commensurate results in terms of sustained and viable operations of these plants. Inspite of this, Government have approved the revival of the Namrup unit of HFC with the direction to ensure increased gas supply of 1.72 MMSCMD. Investment clearance of Rs. 350 crore for revival of Namrup units have been given by the Government of which around Rs. 80 crore has already been released towards renewal and replacement and the revamping project of Namrup. It may also be noted that

as an indicator of its commitment to the revival of Namrup unit, Government's sacrifice to the tune of Rs. 1120.60 crore in terms of write off of GOI plan/non-plan loan and accrued interest thereon has also been extended. Similarly, Government have taken up the rehabilitation of Sindri Unit of FCI and have released Rs. 144 crore during the period 1994-95 to 1998-99 towards continuous renewal and replacements, pollution control and other offsite facilities and have provided Rs. 10 crore during this year. It is because of these efforts of the Government towards revival of the Sindri unit of FCI that the production in the unit this year has already surpassed the target of 2.45 lakh MTs of production.."

63. The Department of Fertilizers in a written note further added:—

"An, in principle, approval has been accorded to KRIBHCO to set up a fertilizer plant at the site of FCI's Gorakhpur plant.

Government have already decided that the revival of Haldia Project of HFC is not techno-economically viable as the unit could not even achieve the stage of commissioning. It has been decided to hive off the Haldia Project and the proposal of the West Bengal Government for utilisation of some of the land belonging to Haldia Project by the Indian Oil Corporation which has refinery in the vicinity of the existing Haldia Project is under examination of a Working Group set up recently by the DOF which includes representatives of Department of Fertilizers, Ministry of Petroleum and Natural Gas, State Government of West Bengal and a senior representative from Indian Oil Corporation.

The revised rehabilitation packages in respect of the remaining units of HFC and FCI based on unitwise techno-economic viability were recently considered by Committee of Secretaries. A comprehensive rehabilitation proposal incorporating the views of the Committee of Secretaries has now been finalised and is presently under Inter-Ministerial consultations.

On approval of the comprehensive rehabilitation proposals by the competent authority in the Government, further action will be taken for obtaining concurrence of BIFR."

64. During the course of evidence of the representatives of Department of Fertilizers, the Committee also wanted to know the reasons for sickness in fertilizer sector particularly in HFC/FCI, the Secretary, Fertilizer stated:—

> "Sir, two companies, Hindustan Fertilizer Corporation and Fertilizer Corporation of India, already stand referred to BIFR. They are sick industrial companies. The Government was considering a rehabilitation package but because of change of Government, certainly it took time. One of the functional units is at Namrup, and the other is at Sindri in Bihar. The Government of India have already decided to hive off the unit at Haldia. Gorakhpur also was decided to hive off, but KRIBHCO wants to put up another plant at Gorakhpur, and it is one of the four plants which is awaiting approval by the Government of India. Barauni and Durgapur are lying closed. So far as Ramagundam and Talcher are concerned, apart from the problem connected with high ash content of indigenous coal, there are problems connected with equipment and they are lying closed. I must point out here that in the enthusiasm to go ahead with indigenous engineering and equipment, we entered into an arrangement that later on proved to be a handicap. To save foreign exchange, we bought equipment from a number of sources, and now there is mismatch. So, there is the basic problem connected with the equipment whether it is Haldia, Ramagundam or Talcher. We are exploring the possibilities. One is, whether we can revive these units in their existing form.
>
> The second point is whether it is better to have a new one or not. The third point is whether the existing infrastructure could be used by somebody with benefit in investment costs. The Expert studies have shown that even if we spend considerable amounts of money on the sick units it would not be possible for us to get a guarantee that their production would be consistent and that their capacity utilisation would be high and energy efficiency would be low. Let me take the example of Barauni plant. The quantum of investment would be Rs. 269 crore. But after investing such a huge amount of

money, the number of achievable streams would be 250 days. Energy consumption would be 1.8 times higher than the grassroot plant. If we only take the cash cost into account, the cost of production is, in case of the Plant at Durgapur, Rs. 18,638 crore as against the retention cost of Rs. 7,924 crore. This is an important question that has to be decided."

65. It also came out that BIFR has identified following options to find out the revival plan of the above two units Barauni and Durgapur of HFC:—

(i) Public Sector fertilizer company can take over these two units;

(ii) It can be private company;

(iii) It can be a workers cooperative in line with KRIBHCO;

(iv) By selling off some of existing assets of the two units.

66. On being enquired by the Committee about latest directives of BIFR and the response of Department of Fertilizers on these, DOF in a written note stated:—

"BIFR hearings with regard to HFC and FCI were held on March 16, 2000. The meeting was attended by all the stakeholders of these two public sector undertakings and representatives of the Operating Agency *i.e.,* ICICI. The order of the BIFR on these hearings is awaited. Further action will be taken on receipt of BIFR's order."

67. Queried specifically as to by when final decision on the issue will be taken, Secretary (Fertilizers) responded during evidence:—

"Coming to the problem of sick units, I can only say that we expect that the decision of the Government should have been available by now but because of change again the whole procedure has to be repeated. Inter-Ministerial consultations are taking place again. This decision should have been available by now, I think, I should give that also another two to two-and-a-half months."

68. Speaking about the future of these sick companies, The Secretary, Fertilizers added:—

> "As regards the revival of the PSUs, the stage is rather premature and this will be linked with our long-term policy, which we are separately preparing. Today the deficit regions are the southern and the eastern region. Looking into this scenario, what we felt was to reduce the investment cost, one of the strategies for the long-term policies could be that investment can take place at the same centres because existing infrastructure may be made available, and so, investment cost will be lower. That is going to be one of the strategies. But it is not a Government decision. But to answer your concern, I would say that it is not possible to give any guarantee about the revival of the sick units in their existing form."

69. The Committee find that as against the amount of Rs. 330.69 crore for 1999-2000 and Rs. 563.72 crore for 1998-99 a sum of Rs. 328 crore has been proposed for 2000-2001 for investment and loans to PSUs. The Committee also find that out of Rs. 328 crore Rs. 56.50 crore have been proposed for investment and Rs. 72.00 crore have been proposed for both Plan and non-Plan loans to PSUs. Non-Plan loan is mainly (Rs. 150 crore) for two sick companies *viz.*, HFC/FCI. The financial position of these sick companies is also very bad with estimated losses for 1999-2000 of Rs. 834.26 crore for FCI and Rs. 574.05 crore for HFC. The Committee also find that after these companies were referred to BIFR in 1992 as sick companies, till today most of the units of these companies have either been closed down or production in some of these have been suspended except Sindri Unit of FCI and Namrup III unit of HFC. The Committee are anguished to note that the Government could not finalise and implement their revival plans even after a lapse of over 8 years.

70. The Commitee are not amused to hear from the Secretary, Fertilizers that revival packages could not be finalised due to change of Government. Similarly, these are being referred repeatedly to Inter-Ministerial Consultations. The Committee are constrained to believe that Government are not serious about finalising the revival plan and the Department of Fertilizer is not playing a proactive role. The Committee, however, trust that as promised by the Secretary, there would be a positive outcome

within 2 to 3 months time. The Committee would like to be apprised of the conclusive action taken by the Government in regard to revival of all units of HFC/FCI within 3 months of presentation of their Report in Parliament.

(Recommendation No. 13)

71. With regard to Namrup unit in the North-East, the Committee have the firm opinion that its revival was not only of strategic importance but is also essential because of low cost of gas based urea produced from the unit. The Committee recommend that effective and early implementation of Namrup revamp project should be undertaken.

(Recommendation No. 14)

(b) Revival of other PSUs under DoF

72. During the course of examination, the Committee pointed out that financial position of other PSUs in fertilizer sector other than HFC and FCI was also in very bad shape as enumerated below:—

		Loss for 1999-2000 (Est.) (Rs. in Crore)	Remarks
	PDIL	8.03	Revival package put into operation since July, 1997. Referred to BIFR in 1992.
2.	FACT	81.90	
		44.44	
4.	PPCL	46.36	Production of Amjhore and Saladipura unit suspended since April, 1999. Referred to BIFR. Mining in Mussorie and running of Dehradun unit suspended since September, 1998.

73. Asked about the latest position about revival plans of PDIL and PPC. The Department of Fertilizer, in a written note stated:—

"The Board of Indusrial and Financial Reconstruction (BIFR) sanctioned the Rehabilitation scheme for PDIL in July, 1997. While sanctioning the Scheme, BIFR had observed that Catalyst and Research and Development Divisions of PDIL were not viable on stand-alone basis. The profits of Engineering and Consultancy Division were to be used for cross-subsidising the losses of Catalyst and R&D divisions. In the hearing held by BIFR on 25.11.1999 for monitoring/reviewing the implementation of Rehabilitation Scheme, it directed PDIL and the promoter (Government) to submit a concrete revised rehabilitation proposal to Industrial Crdit and Investment Corporation of India Ltd. (ICICI), Monitoring Agency (MA) in view of the inability of PDIL to achieve a positve networth as projected in the Scheme under implementation. The ICICI in turn is to examine the revised rehabilitation proposal and submit their report/scheme to the BIFR for tis consideration and final approval. The revised rehabilitation proposal of PDIL, which has been duly approved by its Board. has been recently received on 18.01.2000, and is under examination.

PPCL

The Disinvestment Commission (DC), has *inter-alia* recommended sale/closure of Dehradun unit, that Saladipura and Amjhore units be demerged from Dehradun and clubbed together for sale to a strategic buyer. The proposal on 'Restructuring of PPCL', which is based on recommendations of DC, is under finalisation after holding inter-Ministerial consultations. Approval of the competent authority will have to be obtained thereafter."

74. The Committee also wanted to know whether the Government had reviewed in depth the reasons for which PPCL, PPL and FACT have joined loss making Group from the profit making Group and as to how to make these companies viable one. The Department of Fertilizers in a written note stated:

"PPL had recorded profit during 1993-94 to 1995-96 only as a result of reliefs and concessions provided under the financial restructuring scheme made effective from 31.3.1994 in view of complete erosion of its net worth. Similarly, since 1990-91, PPCL had recorded marginal profits of upto Rs. 25 lakh during the year 1990-91 and 1991-92. The company has been continuously reporting losses after decontrol of phosphatic fertilizers in 1992. Hence, to identify PPL and PPCL as profit making companies would not be appropriate.

PPL

Losses are mainly attributable to depreciation of Rupee leading to higher cost of imported inputs, delay in disbursement of special concessions, low capacity utilisation of acid plants leading to higher imports of Phosphoric Acid, and inventory carrying cost on heavy build up of stocks.

A comprehensive proposal on financial restructuring of PPL seeking certain reliefs and concessions is at present under Inter-ministerial consultations.

FACT

Losses are mainly attributable to high interest burden on Government loans used for capital investment in the Ammonia Replacement Project, which was largely set up on environmental considerations, depressed market condition, and unremunerative price of complex/mix fertilizers.

The management has approached the Government with various options on financial restructuring and financial assistance to improve its financial performance. These options are being examined in order to finalise a financial assistance cum restructuring package alongwith suggestion on other cost reduction measures such as manpower rationalisation which can lead to financial viability of the company.

PPL

Losses are mainly attributable to decontrol of SSP and delays in disbursement of concession, intrinsic cost disadvantage of pyrites based sulphuric acid production, increase in operating costs of pyrites mining at Amjhore, rising costs of deep underground mining at Mussoorie and increased transportation costs.

The Disinvestment Commission (DC), has *inter-alia* recommended sale/closure of Dehradun unit, that Saladipura and Amjhore units be demerged from Dehradun and clubbed together for sale to a strategic buyer. The proposal on 'Restructuring of PPCL', which is based on recommendations of DC, is under finalisation after holding inter-Ministerial consultations. Approval of the competent will have to be obtained thereafter."

75. During the course of evidence of the representatives of Department of Fertilizers, also the Committee wanted to know the latest position about revival of PPCL. The Secretary, Fertilizer stated:—

> "PPCL has units in Dehradun, Saladipura and Amjhore. In our assessment, the unit at Amjhore could be made viable with a small doese of investment. It ran into difficulty because the import substitution incentive was withdrawn, sulphuric acid was produced with the help of pyrites. It can be made viable. The Department is seized of the matter. We are also trying to explore the ways and means to find out what could be done."

76. Asked by when it will start functioning, the Secretary, Fertilizer stated:—

> "The question has become somewhat difficult because we have also to deal with the recommendation of the Disinvestment Commission which has recommended disinvestment of this company. They have said that the unit at Dehradun should be closed and the units at Amjhore and Saladipura should be separated from the company.
>
> I do agree that Amjhore has a possibility of revival; and it is not possible for me to disclose the full details because it is at a preliminary stage. But at least within the Department, we should be able to take a view on that within the next three months."

77. The Committee find that apart from HFC and FCI, four other PSUs under the Department of Fertilizers *viz.*, PDIL, FACT, PPL and PPCL have also started incurring losses. Losses during 1999-2000 were to the extent of Rs. 8.03 crore, Rs. 81.90 crore, Rs. 44.44 crore and Rs. 46.36 crore for PDIL, FACT, PPL and PPCL respectively. The Committee are anguished to note that units of these PSUs are being closed one after another. For instance, production at Amjhore and Saladipura units of PPCL was suspended since April, 1999 and running of mining in Mussoorie and Dehradun units has been suspended since September, 1998. The Committee consider fertilizer units as the backbone of self-reliance in agricultural production in the country. Their running is linked to the interests of poor farmers. Accordingly, the Committee recommend that Government should take effective measures to revive all these units and make them viable.

(Recommendation No. 15)

(c) Disinvestment of PSUs under DoF

78. In the latest Annual Report of Department of Fertilizers, it has been stated that the Government is actively considering disinvestment in six fertilizer PSUs *viz.*, PPCL, FACT, MFL, NFL, RCF and PPL. The Committee wanted to know about the latest position/decision in this regard and whether by taking most of fertilizer units in private sector, would it not adversely affect the small and marginal farmers in long run. The Department of Fertilizer in a written note stated:—

"Macro policy with regard to disinvestment of Government equity in PSUs is the subject matter handled by the newly created Department of Disinvestment. However, it may not be appropriate to call disinvestment in fertilizer PSUs "a soft option". Onging exercise of disinvestment in PSUs including those in fertilizer sector is part of an overall policy, which has been enunciated beginning from Statement of Industrial Policy dated 24.7.91. It would mention in the Budget Speeches of 1991-92, 1998-99, 1999-2000 and 2000-2001. In the 1999-2000 Budget Speech, it was announced by the Finance Minister that "Government's strategy towards public sector enterprises will continue to encompass a judicious mix of strengthening strategic units, privatising non-strategic ones through gradual disinvestment or strategic sale and devising viable rehabilitation strategies for weak units.

The Disinvestment Commission has recommended disinvestment of Government held equity in NFL, FACT, MFL, PPCL, RCF and PPL. This was because Commission after due examination had classified the fertilizer sector as non-core on the basis of competitive market structure of fertilizer industry in India which was delicensed in 1991 and has not displayed any oligopolistic tendency.

Government have decided to disinvest 51% of NFL's equity through a strategic sale to a strategic buyer along with transfer of management control. The process of selection of a global advisor/ merchant banker through a global process of competitive selection is underway. Government have also decided to disinvest 32.74% of its equity held in MFL out of the Government of India holding of 58.74% to a strategic buyer along with transfer of management control. Necessary formalities for appointment of a global advisor/ merchant banker to assist the Government in the process of disinvestment have also been completed. Process of disinvestment in FACT, PPCL, PPL and RCF is at initial stages.

The process of disinvestment involves transfer of management to a strategic buyer through a stratregic sale.It is envisaged that the process of disinvestment and resultant change in ownership will exert necessary pressure on the company to improve its performance, enhance efficiency, seek higher profits and to face the market challenge. It will not adversely affect the small and marginal farmers because of competition and sufficient capacities in the fertilizer sector for indigenous production in urea and DAP. It may be mentioned that India has no known reserves of MoP and there is no fertilzer sector PSU in this field.

79. The Committee also pointed out that some of the PSUs earmarked for disinvestment were not doing well and enquired whether it could be distress sell out. The Department of Fertilizer in a written note stated:—

> "It may not be appropriate to term it as distress sale in case of disinvestment of some of the PSUs which are not doing as well as disinvestment process is part of a well conceived policy where profitability of the company is outweighed by macro considerations of policy which include the need for Government's withdrawl from non-core sectors like fertilizers."

80. The Committee note that regarding PPCL, the Disinvestment Commission (DC) has *inter-alia* recommended sale/closure of the Dehradun unit and Saladipura and Amjhore units be sold to a strategic buyer. The Committee were also informed that restructuring of PPCL is under finalisation and approval of competent authority would be taken thereafter. During the course of evidence the Secretary, Fertilisers also informed the Committee that the DoF would be taking a view on the issue within next three months. The closed units of PPCL at Saladipura and Amjhore were supplying quality SSP to farmers in Bihar, Rajasthan and parts of Uttar Pradesh. The Committee recommend that some method may be found out to arrange investment to run these units for meeting the requirement of quality SSP in areas of Bihar, Rajasthan and Uttar Pradesh.

(Recommendation No. 16)

81. About disinvestment in NFL, RCF, PPL, FACT and PPCL the Committee note that these are at initial stages and DoF has informed that the subject is being handled by the newly created Department of Disinvestment. The Committee are also informed that the objective of disinvestment is a part of Government strategy towards public sector to encompass judicious mix of strengthening strategic units, privatizing non-strategic ones through gradual disinvestment and devising rehabilitation strategy for weak units. The Committee desire that while taking decision for disinvestment in fertilizer PSUs, the Government should consider the availability of fertilizers at affordable prices to small and marginal farmers not only for the present but in future also.

(Recommendation No. 17)

D. Import of LNG

82. The fertilizer industry wants that the new feed stock policy should give priority to the sector for supply of natural gas. Since the natural gas is the most cost effective fuel, naturally, the industry's argument is genuine. The Department of Fertilizer in an effort to examine the possibility of import of LNG primarily for consortium of fertilizer producers alongwith other interested economic operators, had consitituted a Core-Group to study this aspect. Regarding the progress made in this regard, the Department apprised the Committee in a written note:—

"The Core Group constituted by the Government under the Chairmanship of Mr. U.S. Awasthi, Managing Director, IFFCO to examine the proposal of importing Liquefied Natural Gas (LNG) for manufacture of urea submitted its report in March, 1999. After examination of the report, the proposal for preparation of Detailed Feasibility Report (DFR) was submitted by DOF for consideration of the Committee of Public Investment Board (CPIB). This proposal was considered by CPIB in its meeting held on 8.3.2000 which has suggested to DOF to examine the following options before a decision to incur expenditure on preparation of DFR could be considered:

(a) The option of delivery of LNG through an integrated supply chain *vis-a-vis* purchase of LNG from suppliers;

(b) The option of owning the entire integrated chain *vis-a-vis* different configurations of the project where only those components are owned which cannot be hired out (eg., landing terminal, regassification plant, gas pipeline etc.);

(c) Individual feasibility of each of the four components of the project with different variations (such as different lengths of pipelines etc.);

(d) Option of dedicated supplies to fertilizer units *vis-a-vis* the option of sale to any consumer;

(e) Location of East-Coast *vis-a-vis* the location on the West Coast;

(f) Any other option which in the opinion of the Department, can be feasible;"

83. The Committee appreciate the efforts made in this regard and hope that the proposal would be pursued expeditiously. The Committee recommend that no financial constraint should come in the way for achieving the target. The Committee also recommend that Government should accord the same status to Fertilizer Sector in allocation of LNG as has been accorded to Power.

(Recommendation No. 18)

NEW DELHI;
17 *April*, 2000
28 *Chaitra*, 1922 *(Saka)*

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

APPENDIX I

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
1999-2000

Seventh sitting 30.3.2000

The Committee sat from 1500 hrs. to 1730 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ramchander Bainda
3. Shri Padam Sen Choudhary
4. Shri Dilip Kumar Mansukhlal Gandhi

Smt. Sheela Gautam

6. Shri Shriprakash Jaiswal
7. Shri P. Mohan
8. Shri B.K. Handique
9. Shri Mohan Rawale
10. Shri Arjun Sethi

Shri Shyama Charan Shukla

12. Shrimati Kanti Singh
13. Shri Prabhunath Singh
14. Shri Shankersinh Vaghela
15. Shri B. Venkateshwarlu
16. Shri Rajesh Verma
17. Dr. Girija Vyas

Rajya Sabha

18. Shri Ahmed Patel

19. Shri H. Hanumanthappa

20. Shri Dipankar Mukherjee

21 Shri K. Kalavenkata Rao

22. Shri Gaya Singh

23. Dr. (Smt. Joyasree Goswami Mahanta

SECRETARIAT

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

Representatives of Department of Fertilisers

Shri A.V. Gokak, Secretary

2. Shri Ravi Mathur, Joint Secretary

3. Shri Suresh Chandra, Joint Secretary and Financial Adviser

4. Shri D.K. Sikri, Joint Secretary

5. Shri Pradeep Singh, ED (FICC)

Representatives of public sector undertakings and other organisations

1. Shri U.K. Sen, CMD, FCI

2. Shri J.L. Nehru, CMD, HFC

3. Shri Dinesh Singh, CMD, NFL

4. Shri P.K. Awasthi, CMD, PPCL

5. Shri H. Mishra, CMD, PPL

6. Shri U.S. Awasthi, MD, IFFCO

7 Shri P.P. Singh, MD, KRIBHCO

8. Shri O.N. Kapur, CMD, PDIL
9. Shri V.N. Rai, CMD, FACT
10. Shri N.Y. Mahajan, CMD, MFL
11. Shri D.K. Verma, CMD, RCF

The Committee took oral evidence of the representatives of the Ministry of Chemicals and Fertilisers, Department of Fertilisers, in connection with examination of Demands for Grants for 2000-2001.

2. During the course of evidence, the main issues which came up for discussion included non-utilisation of planned funds during the first three years of Ninth Plan, present status of the projects for which Government has already accorded in principle approval, status of Indo-Oman project, demand and supply projection of fertilisers in the years to come, subsidies, import of fertilisers, question of removal of quantity restrictions and its affect on indigenous industry, retention price scheme, revival of sick fertiliser units and disinvestment/sale of NFL.

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

The Committee then adjourned.

APPENDIX II

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
1999-2000

Tenth Sitting 11.04.2000

The Committee sat from 1130 hrs. to 1230 hrs.

PRESENT

Shri Mulayam Singh Yadav *Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Ananda Mohan Biswas
4. Shri Ajay Singh Chautala
5. Dr. (Smt.) C. Suguna Kumari
6. Shri Padam Sen Choudhary
7. Smt. Sheela Gautam
8. Shri Pawan Singh Ghatowar
9. Shri Shriprakash Jaiswal
10. Smt. Nivedita Mane
11. Shri B.K. Handique
12. Shri Ashok Pradhan
13. Shri Mohan Rawale
14. Shri Prabhunath Singh
15. Shri D.C. Srikantappa
16. Shri Tarlochan Singh Tur
17. Shri Shankersinh Vaghela
18. Shri B. Venkateshwarlu
19. Shri Rajesh Verma
20. Dr. Girija Vyas

Rajya Sabha

21. Shri Ahmed Pate
22. Smt. Basanti Sarma
23. Shri Anil Kumar
24. Shri P. Soundarajan
25. Shri Gaya Singh
26. Prof. Ram Gopal Yadav

SECRETARIAT

1	Shri Brahm Dutt	*Deputy Secretary*
	Shri J.N. Oberoi	*Under Secretary*

3. The Committee considered, approved and adopted the following Draft Reports with some verbal changes:

(i)

(ii)

(iii) 6th Report on 'Demands for Grants of the Ministry of Chemicals and Fertilisers, Department of Fertilisers.

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

4. The Committee also authorised the Chairman to get these changes included in the Reports and after factual verification by the concerned Ministries/Departments present the same to the Parliament in the Current Session.

The Committee then adjourned.