

SEVENTH REPORT  
STANDING COMMITTEE ON  
PETROLEUM & CHEMICALS  
(1999-2000)

(THIRTEENTH LOK SABHA)

DEMANDS FOR GRANTS  
(2000-2001)

MINISTRY OF CHEMICALS & FERTILISERS  
(DEPARTMENT OF FERTILISERS)

*[Action taken by Government on the recommendations contained in the  
Sixth Report of the Standing Committee on Petroleum & Chemicals  
(1999-2000) on Demands for Grants (2000-2001) of the  
Ministry of Chemicals & Fertilisers,  
Department of Fertilisers]*

*Presented to Lok Sabha on 25.8.2000*

*Laid in Rajya Sabha on 25.8.2000*



**LOK SABHA SECRETARIAT  
NEW DELHI**

*August, 2000/Sravana, 1922 (Saka)*



## CONTENTS

COMPOSITION OF THE COMMITTEE		
COMPOSITION OF THE SUB-COMMITTEE ON FERTILISERS ..		(v)
INTRODUCTION		(vii)
CHAPTER I	Report	1
CHAPTER II	Recommendations which have been accepted by the Government .....	10
CHAPTER III	Recommendations which the Committee do not desire to pursue in view of the Government replies .....	14
CHAPTER IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee .....	17
CHAPTER V	Recommendations in respect of which final replies of the Government are still awaited ...	21
APPENDICES		
	Minutes of the Third sitting of the Sub-Committee on Fertilisers a Sub-Committee of Standing Committee on Petroleum & Chemicals (1999-2000) held on 22nd August, 2000. ....	29
II.	Extracts of Minutes of the Thirteenth sitting of the Standing Committee on Petroleum & Chemicals (1999-2000) held on 22nd August, 2000. ....	31
III.	Analysis of Action Taken by the Government on the recommendations contained in the Sixth Report (13th Lok Sabha) of the Standing Committee on Petroleum & Chemicals (1999-2000) on Demands for Grants 2000-2001 relating to Ministry of Chemicals & Fertilisers, Department of Fertilisers. ....	33

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

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Ashok Argal
3. Shri Ramchandra Baidya
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Dr. (Smt.) C. Suguna Kumari
7. Shri Padam Sen Choudhary
8. Shri T.T.V. Dhinakaran
9. Shri Dilipkumar Mansukhlal Gandhi
10. Shrimati Sheela Gautam
11. Shri Pawan Singh Ghatowar
- \*12. Shri B.K. Handique
13. Shri Shriprakash Jaiswal
14. Shrimati Nivedita Mane
15. Shri Punnulal Mohale
16. Shri P. Mohan
17. Shri Ashok Pradhan
18. Shri Mohan Rawale
- \*\*19. Dr. Bikram Sarkar
20. Shri Shyama Charan Shukla
21. Shrimati Kanti Singh
22. Shri Prabhunath Singh

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\* Nominated in lieu of Shri Vilas Muttemwar, M.P., Lok Sabha *w.e.f.* 24th January, 2000.

\*\* Nominated to serve as Member of the Committee *w.e.f.* 26th July, 2000.

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

*Rajya Sabha*

- \*31. Shri Ram Nath Kovind
32. Shri Anil Kumar
- \*\*33. Shri Mool Chand Meena
34. Dr. (Smt.) Joyasree Goswami Mahanta
- \*\*\*35. Shri Dipankar Mukherjee
36. Shri Ahmed Patel
37. Shri Mukesh R. Patel
- \*\*\*\*38. Shri Suresh Pachouri
- \*39. Shri Ravi Shankar Prasad
40. Shri K. Kalavenkata Rao
41. Shrimati Basanti Sarma
- \*\*42. Shri Rajiv Ranjan Singh
43. Shri Gaya Singh
44. Shri P. Soundararajan
45. Prof. Ram Gopal Yadav

SECRETARIAT

- |                     |                             |
|---------------------|-----------------------------|
| 1. Dr. A.K. Pandey  | <i>Additional Secretary</i> |
| 2. Shri John Joseph | <i>Joint Secretary</i>      |
| 3. Shri Brahm Dutt  | <i>Deputy Secretary</i>     |
| 4. Shri J.N. Oberoi | <i>Under Secretary</i>      |
| 5. Shri A.K. Shah   | <i>Committee Officer</i>    |

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- \* Nominated to serve as Member of the Committee *w.e.f.* 16th May, 2000.  
\*\* Nominated to serve as Member of the Committee *w.e.f.* 5th May, 2000.  
\*\*\* Nominated to serve as Member of the Committee *w.e.f.* 24th April, 2000.  
\*\*\*\* Nominated to serve as Member of the Committee from Committee on Defence *w.e.f.* 5th May, 2000.

COMPOSITION OF THE SUB-COMMITTEE ON FERTILISERS,  
A SUB-COMMITTEE OF STANDING COMMITTEE  
ON PETROLEUM & CHEMICALS

- Shri Mulayam Singh Yadav — *Chairman*
2. Shri Dipankar Mukherjee — *Convenor*
  3. Shri Ramchandra Binda
  4. Shri Ananda Mohan Biswas
  5. Shri Ajay Singh Chautala
  6. Shri Padam Sen Choudhary
  7. Shri Dilipkumar Mansukhlal Gandhi
  8. Shri Punnulal Mohale
  9. Shri Suresh Pachouri
  10. Shri Ravi Shankar Prasad
  11. Shri K. Kalavenkata Rao
  12. Shri Rajiv Ranjan Singh
  13. Shri P. Soundararajan
  14. Shri D.C. Srikantappa
  15. Shri Rajesh Verma
  - \*16. Dr. Bikram Sarkar

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\*Nominated as a member of the Sub-Committee on Fertilisers *w.e.f.* 11th August, 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 Seventh Report on Action Taken by Government on the recommendations contained in Sixth Report of the Standing Committee on Petroleum and Chemicals (1999-2000) (Thirteenth Lok Sabha) on Demands for Grants of the Ministry of Chemicals and Fertilisers, Department of Fertilisers for the year 2000-2001.

2. The Sixth Report of the Committee was presented to Lok Sabha on 25th April, 2000. Replies of Government to all the recommendations contained in the Sixth Report were received on 17th August, 2000. The Sub-Committee on Fertilisers considered the Action Taken Replies received from the Government and considered and adopted the Report at their sitting held on 22nd August, 2000.

3. The Standing Committee on Petroleum & Chemicals (1999-2000) considered and adopted this Report at their sitting held on 22nd August, 2000. The Committee place on record their appreciation of the work done by the Sub-Committee on Fertilisers.

4. An Analysis of the Action Taken by Government on the recommendations contained in the Sixth Report (Thirteenth Lok Sabha) of the Committee is given at Appendix III.

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

NEW DELHI;  
22 August, 2000  
31 *Shravana*, 1922 (*Saka*)

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

## CHAPTER I

### REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in Sixth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (1999-2000) on Demands for Grants relating to Ministry of Chemicals and Fertilisers, Deptt. of Fertilisers for the year 2000-2001 which was presented to Lok Sabha on 25th April, 2000.

2. The Action Taken notes have been received from the Government in respect of all the 18 recommendations contained in the Report. These have been categorised as follows:

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

Sl. Nos. 3, 4, 9, 14 and 17.

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

Sl. Nos. 5, 7 and 15.

- (iii) Recommendations/observations in respect of which reply of the Government have not been accepted by the Committee:

Sl. Nos. 6, 10 and 11

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

Sl. Nos. 1, 2, 8, 12, 13, 16 and 18.

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

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

#### A. Demand and Availability of Fertilisers—Clearance of Pending Projects

##### Recommendation (Sl. No. 1, Para Nos. 15 & 16)

5. The Committee had noted with distress that out of the approved 9th Plan (1997-2002) outlay of about Rs. 11000 crore, the amount spent by the Department of Fertilisers during the first three years *viz.* (1997-2000) was only of the order of Rs. 2450 crore, which amounted to only 20% of the approved Plan Outlay. Reportedly the shortfall had been due to delay in clearances of four mega Fertiliser 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 to about 5900 crore besides the Indo-Oman Project.

During the course of evidence of the representatives of Department of Fertilisers the Secretary (Fertilisers) had admitted before the Committee that the gap between allocation and expenditure was very big. Expressing anguish over the delay in clearance of these Projects the Committee had recalled that earlier also similar reasons were advanced for non-utilisation of Plan funds and the position had rather worsened. The Committee were not convinced with the claims of the Department that they had 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 had passed but no tangible further progress had been made. The Committee had earlier recommended that the Government should accord absolute and final approval to these projects. The Committee reiterated their recommendation and hoped that this would be accorded within two and a half months as assured by the Secretary, Fertilisers.

6. The Government in their reply have stated that the Cabinet Committee on Economic Affairs (CCEA) in its meeting held in April, 1999, had given its 'In Principle' approval to the four pending projects for additional urea capacities subject to investment appraisal by Public Investment Board (PIB) based on a proposal formulated and submitted by the Department of Fertilisers to the CCEA. Accordingly, investment appraisal of these projects was undertaken by the PIB in July, 1999. The conclusions/observations of the PIB relate *inter-alia* to the need to stagger implementation of these projects due to limited demand supply gap forecast. Based on this observation of the PIB as also the desirability of encouraging use of LNG as feedstock for future urea capacity additions in the country to reduce the incidence of subsidy, a proposal has been formulated by DOF for taking a final decision on the projects by the Government. All efforts are being made to expedite the final decision on the issue.



7. The Committee note with dismay that four mega fertilisers projects at Nellore, Hazira, Thal and Gorakhpur have not been cleared finally. The Committee in their 12th Report (12th Lok Sabha) on Demands for Grants of Department of Fertilisers for 1999-2000 presented to the House on 22nd April, 1999 had recommended early clearance of these projects. The Committee in their Action Taken Report presented to the House on 10th March, 2000 on the recommendations contained in their 12th Report expressed concern over cost escalation of pending projects. The Committee had also asked for clearance of these projects within two and half months as assured by Secretary (Fertilisers) *i.e.* by mid July, 2000. Department of Fertilisers on their part has stated that after these projects were 'In principle' approved by CCEA, Public Investment Board appraised these projects in July, 1999. PIB had *inter-alia* observed to stagger implementation of these projects due to limited demand supply forecast. Deptt. of Fertilisers has also informed that in order to reduce the incidence of subsidy and in the light of PIB's observation, a proposal has been formulated for taking final action in this regard.

8. The Committee feel that the Government has taken inordinately long time in according final approval to these projects. The Committee note that PIB appraised these projects in July, 1999 and thereafter there is no tangible progress in final clearance even though more than a year has gone by since then. The Committee strongly believe that either the Government should accord final approval or after recording reasons reject the proposals. There should be a time frame for taking decisions on such matters to avoid cost over run. The Committee once again recommend that clearance to these projects be accorded without any further delay.

#### B. Early Decision on Indo-Oman Fertilisers Project

##### Recommendation (Sl. No. 2, Para No. 17)

9. About the Oman-Indian Fertiliser Project, the Committee felt that it was 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 in view of limited gas reserves in the country. The Committee also felt since Project has been pending for long, the Government must take a decision in the matter expeditiously.

10. The Government in their reply have informed that the Government have approved the revised and restructured Oman-India Fertiliser Project on 20.6.2000. Depositing before the Committee in connection with examination of KRIBHCO, Secretary, Department of Fertilisers stated in the context of Indo-Oman Project that there are some outstanding issues which need to be resolved. Amongst the other issues, the main issues are liability of the Sultanate of Oman for failure of supply of Natural Gas and OMIFCO's liability for failure to supply urea. In addition to these issues, he admitted that KRIBHCO has also some reservations which need to be solved.

11. The Committee note that the Government have restructured capital of the Indo-Oman Fertiliser Project on 20.6.2000. The Committee caution the Government that while resolving the outstanding issues, care should be taken that liability clause should not be uneven. The Committee also desire that before the financial closure of the project, all the reservations of KRIBHCO should be resolved to their satisfaction.

#### C. Withdrawal of Urea Price-hike

##### Recommendation (Sl. No. 6, Para No. 38)

12. The Committee had observed that subsidy should be seen in the international perspective where even the developed countries were extending very high level of farm subsidy to support their farmers. The Committee were also of the view that subsidy was a necessary mechanism to ensure availability of fertilisers to farmers at affordable rates. The Committee had, therefore, strongly recommended that the increase in prices of urea should be withdrawn immediately.

13. In their reply the Government have informed that the price of fertilisers like Urea, Di-Ammonium Phosphate (DAP), Murate of Potash (MoP) and complexes were increased in the Budget 2000-2001. The decision to increase the Maximum Retail Price (MRP) of fertilisers was necessitated by considerations of fiscal sustainability. Even at the present price levels, substantial quantities of subsidy/concession would continue to be paid in the case of urea and decontrolled Phosphatic and Potassic fertilisers.

The relatively low price of urea/nitrogen *vis-a-vis* P&K fertilisers had resulted in nutrient application becoming imbalanced after 1992. Keeping this fact in view, the Report of Working Group on Critical Agricultural Inputs-Fertilisers for the formulation of Ninth Plan had suggested that the price of urea could be increased by 30% during 1996-97 and thereafter 10% each year from 1998-99. As against this, the price increases effected have been much lower. The prices fixed in Budget 2000-01 are significantly lower than what it would have been if the recommendation of the Working Group had been followed. Despite the recent increase, selling price of urea in India is among the lowest in the Asian region.

14. The Committee are not satisfied with the reply of the Government that decision to increase Maximum Retail Price (MRP) of fertilisers was necessitated by considerations of fiscal sustainability. The Committee feel that since the per capita income of farmers in the country is still low, their low purchasing power will affect the food production in the country in a big way. On the contrary, farmers with high per capita income in developed countries are being highly subsidised for using more and more of fertilisers. The Committee are of the view that if increase in price hike of urea is necessitated by considerations of fiscal sustainability, it can be attained by cutting other Government expenditures in other areas. The Committee, therefore, reiterate that increase in price of urea be withdrawn.

#### D. Recovery of Excess Subsidy

##### Recommendation (Sl. No. 8, Para No. 43)

15. The Committee were dismayed to note that during the last one year (*i.e.* from April, 1999 to March, 2000), there had been no concrete progress on the question of recovery of excess amounts paid so far from certain fertiliser manufacturing units on account of understatement of installed capacities of concerned organisations. The Committee noted that the Committee constituted by the Government (Purohit Committee) had submitted its Report to the Government in November, 1999. Keeping in view the importance of the subject, where Government was to recover money from fertiliser units including units in private sector, the Committee desired that a time frame of 6 months should be fixed to recover Government money from the concerned organisations.

16. In their reply the Government have informed that an Expert Committee, under the Chairmanship of Dr. G.B. Purohit, the then Consultant in the Department of Fertilisers, was constituted in April, 1999 to recommend the reassessed capacities of all urea units, irrespective of the feedstock used, and to indicate financial implications of reassessment of capacity from different cut off dates. Expert Committee submitted its Report in November, 1999. Expert Committee worked out reassessed capacities of urea units on the basis of five different methods and financial implications from five different cut off dates.

Since the Expert Committee did not give a unanimous recommendation with regard to method of reassessment to be adopted, the Department has now constituted a Committee under the Chairmanship of Dr. Y.K. Alagh *vide* Resolution dated 19.5.2000. The Committee has been asked to advise the Government about the method to be adopted for reassessment of capacity of urea units, the cut off date for effecting recoveries against urea manufacturing units and other important issues arising out of the report.

Final reassessment of capacities of urea units will be carried out after receipt of Dr. Alagh Committee's Report and Government's decision thereon. Pending this, the Government have reassessed the capacities of urea units on the basis of one of the methods suggested by the Expert Committee, as an interim measure, *w.e.f.* 1.4.2000. Accordingly, a downward revision in the retention prices of urea units has been carried out. Annual savings arising from interim reassessment of capacity will be around Rs. 450 crore.

17. The Committee note with satisfaction that the Government on 19th May, 2000 have constituted a Committee under Chairmanship of Dr. Y.K. Alagh to advise the Government for adopting the method of reassessment of capacity of urea units, cut off date for recoveries against urea manufacturing units etc. The Committee also appreciate the efforts of Department of Fertilisers in reducing the retention prices of urea units, as an interim measure leading to a saving of Rs. 450 crore. Since the final reassessment of capacities of urea is to be carried out only after receipt of Dr. Alagh Committee Report and Government decision thereon, the Committee hope that Government will not delay effecting recoveries of excess amount of subsidy thereafter.

#### **E. Subsidy on Import of Urea**

##### **Recommendation (Sl. Nos. 10 and 11, Para Nos. 49 and 50)**

18. The Committee had noted that a provision of Rs. 500 crore net has been made for import of 21 lakh tonnes of urea. The Committee were apprised 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. Based upon the data available before the Committee, it was felt that in the 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 which in the opinion of the Committee was not necessary when the country had capability to achieve 100% self-sufficiency in the production of urea.

19. In their reply the Government have stated that the Government's policy had aimed at achieving maximum possible degree of self-sufficiency in production of nitrogenous fertilisers and meet only the residual requirement from imports. The role of imports has been to bridge the gap between the demand and indigenous availability. The high cost of production of urea from plants based on Naphtha/fuel oil is adding considerably to the subsidy burden which has gone up from Rs. 6235 crore in 1995-96 to Rs. 8750 crore in 1999-2000. Subsidisation of high cost urea plants has consequential impact on the fiscal deficit. There is thus need to contain subsidy as well as the outgo of foreign exchange. Both the considerations are important. This can be achieved by striking a balance between availability from indigenous production with that of imports, especially when price of imported urea is cheaper compared to the cost of production from Naphtha/fuel oil based plants. 100% self-sufficiency in urea may not be desirable looking to the costs involved.

20. The Committee do not subscribe to the views of the Government that 100% self-sufficiency in urea may not be desirable looking into the costs involved. In the Committee's opinion this sort of mindset is hampering the expansion proposals of Public Sector Urea Industry. The country's need of urea is increasing 3 to 4 per cent a year whereas the indigenous production is not increasing correspondingly. Above all the precious foreign exchange of the country should be preserved and used only for strategic core sectors like defence. The Government should accord priority in increasing domestic production so as to achieve complete self-sufficiency.

#### **F. Revival of HFC and FCI**

##### **Recommendation (Sl. No. 13, Para Nos. 69 and 70)**

21. The Committee noted that since HFC and FCI companies were referred to BIFR in 1992 as sick companies, most of the units of these companies have either been closed down or production of some of these had been suspended except Sindri unit of FCI and Namrup III unit of HFC. The Committee expressed their unhappiness to note that the Government could not finalise and implement their revival plans even after a lapse of over 8 years. The Committee were not amused to hear from the Secretary, Fertilisers that revival packages could not be finalised due to change of Government. Similarly, these were being referred repeatedly to Inter-Ministerial Consultations. The Committee were constrained to believe that Government were not serious about finalising the revival plan and the Department of Fertiliser was not playing a proactive role. The Committee, however, hoped as promised by the Secretary, there would be a positive outcome within 2 to 3 months time. The Committee had asked the Government to apprise them 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.

22. In their reply the Government have informed that they (Government) are very serious about finalising the revival packages for the various units of HFC and FCI. The revival packages approved in April '95 could not be taken up for want of a funding tie up. Later, the revamp of the Namrup unit of HFC was approved in October '97. However, in view of the various constraints, the complexity of the problems that need to be tackled, the magnitude of the investment, and the practice of seeking concurrence/approval of the impacted Ministries/Departments, it has not been possible to arrive at the final decision quickly. The complexities relating to the 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. 4209.45 crore in the case of HFC and at Rs. 5862.95 crore in the case of FCI which necessitate huge investments without any commensurate results in terms of sustained and viable operations of these plants. Despite this, Government have approved the revival of the Namrup unit of HFC, which is a low cost gas based urea production unit. Out of approved investment of Rs. 350 crore for its revamp the Government, have already released an amount of Rs. 74.69 crore and a provision of Rs. 80 crore has been made for the year 2000-01. In addition, Government's sacrifices to the tune of Rs. 1120.60 crore in terms of write-off of GOI Plan/Non-Plan Loan and accrued interest thereon have already been effected. Similarly, the Government continues to support the operational needs of the Sindri unit of FCI, in addition to providing funds required by it for essential renewals and replacements. So far funds to the tune of Rs. 154 crore for this purpose have been released and a provision for Rs. 20 crore has been made during the current year. These efforts of the Government towards the revival of Sindri unit of FCI have led to an increased production of 3.06 LMT of urea against the targetted production of 2.45 LMT during 1999-2000.

And, in principle, approval has been accorded to KRIBHCO to set up the fertiliser plant at the site of FCI Gorakhpur plant.

The comprehensive rehabilitation packages for the remaining units of HFC and FCI based on unit-wise techno-economic viability have been finalised and will be submitted to the competent authority for consideration.

23. The Committee regret that the revival plan of the HFC/FCI is being delayed and assurances held out before the Committee are not being fulfilled. The Committee in their 12th Report (12th Lok Sabha) presented to House on 22nd April, 1999 had regretted that Government had not come out with positive proposal regarding revival of HFC/FCI. The Committee in their Action Taken Report (3rd Report, 13th Lok Sabha) presented to the House on 10th March, 2000 expressed satisfaction over finalisation of comprehensive rehabilitation proposals on stand alone basis (leaving Haldia Project of HFC) and its submission to competent authority for approval and for final sanction of BIFR. The Committee had, however, recommended to the Government to pursue the proposals diligently so that HFC/FCI unit were revived at the earliest.

The Government in their final action taken note laid on the Table of House on 8th August, 2000 informed about steps proposed by BIFR at its hearing held on 16th March, 2000 for revival of HFC/FCI units. The steps include preparing unit-wise statement of assets and liabilities of HFC/FCI (excluding Haldia Project of HFC) as on 31.3.2000 for their possible privatisation either in full or in part, revival of Barauni and Durgapur through sale of these PSUs, outright sale of Haldia Project, further technical examination for necessary repairs and modernisation of Sindri unit and ascertaining possible contribution of Talchar and Ramagundam unit of FCI.

The Government have also informed that in the meantime revised rehabilitation packages for remaining units of HFC/FCI have been finalised for submission to competent authority in Government thereafter for sanction of BIFR. This is repetition of what is being told to the Committee during the past.

24. The Committee find that the action taken reply of the Government does not say anything new. The Committee reiterate that specific time-bound action plan for revival of HFC/FCI units must be firmed up immediately by the Government.

## CHAPTER II

### RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

#### Recommendation (Sl. No. 3, Para 18)

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 exercise 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.

#### Reply of the Government

The Plan targets are fixed considering the likely expenditure on the on-going schemes and expenditure on new schemes likely to be approved by the Government. The shortfall in achievement of Plan targets during the years 1998-99 and 1999-2000 was mainly due to the delay in approving the new schemes by the Government. The Government had given an 'in principle' approval to the four pending projects of additional urea capacities subject to investment appraisal by Public Investment Board. The total cost of these four projects is Rs. 5922 crores. Appraisal of these projects was undertaken by the PIB in July, 1999. Based on the conclusion/observations of the PIB, a proposal has been formulated for taking a final decision on the project by the Government. All efforts are being made to expedite the final decision in the issue.

2. Incidentally, while the Department of Fertilizers is putting all its efforts to get the new planned projects cleared as early as possible, with the addition of fresh capacity elsewhere and good utilization of existing capacity the availability of fertilizers in the country has been quite satisfactory and the requirements from different parts of the country have been fully met even as the imports have declined considerably. It is expected that the projected increase in the requirements in future can be fully met with the clearance of these projects in due course.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]



**Recommendation (Sl. No. 4, Para 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 area of office expenses, tours and travels, etc., so that need for revision of budget estimates at a later stage does not arise.

**Reply of the Government**

The expenditure in 1999-2000 has been contained at the level of Rs. 5.13 crore in line with the recommendation of Standing Committee. The recommendation that budget provision of Rs. 5.77 crore under the head "Secretariat-Economic Service" of the Department of Fertilizers during the current year may not be exceeded, is taken note of.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers O.M.  
No. 5(5)/1999 Fin-II, dated 17th August, 2000]

**Recommendation (Sl. No. 9, Para No. 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.

### **Reply of the Government**

As regards the issue of manipulation of capacity as a punishable offence under the process of Law, the Ministry of law has opined that it is possible to proceed under the provisions of Indian Penal Code provided there was adequate material against urea manufacturing units to show that they had deliberately made false declarations about the capacity of plants in order to get unlawful gains for the respective units. The Department has referred the matter to CBI for investigation of the evidence available with a view to determining of whether a *prima-facie* case is made out against concerned units under the relevant sections of the Indian Penal Code.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers O.M.  
No. 5(5)/1999 Fin-II, dated 17th August, 2000]

### **Recommendation (Sl. No. 14, Para No. 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.

### **Reply of the Government**

Recognising the fact that the Namrup Units of HFC based on low cost feedstock (gas) are viable, the Department of Fertilizers is going ahead with the implementation of the Namrup Revamp Project *w.e.f.* 2.11.98 at an estimated cost of Rs. 350 crores. Government have so far released Rs. 74.69 crore for the implementation of this project and a provision of Rs. 80 crore has been made during 2000-2001. The implementation of the project is regularly monitored by this Department with a view to ensure that the project is completed within the scheduled time period.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers O.M.  
No. 5(5)/1999 Fin-II, dated 17th August, 2000]

**Recommendation (Sl. No. 17, Para No. 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.

**Reply of the Government**

Disinvestment in fertilizer PSUs by itself is not likely to adversely affect production or availability of fertilizers to the consumers including small and marginal farmers. Further, while moving towards the ultimate goal of decontrol/deregulation, the Government of India would take into account, to the best possible extent, its fiscal capacity on the one hand and the affordability of the farmers, especially the small and marginal ones, on the other.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

### CHAPTER III

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

##### **Recommendation (Sl. No. 5, Para No. 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.

##### **Reply of the Government**

The Chief Executives of fertilizer PSEs/Cooperative Societies have been asked to devise suitable system for monitoring expenditure at their level in the areas pointed out by the Committee. Simultaneously, Government nominees on the Board, have also been asked to periodically review the details of expenditure during the meetings of the Board of Directors. They have been further asked to keep the Department informed in case there was need for instructions to PSUs/Cooperative Societies for observing economy. The monitoring of expenditure independently by the Department through quarterly review meetings may not be desirable after it has been reviewed by the Board of Directors and the Government nominee. This may amount to interference in their autonomy for decision making on expenditure which are within the purview of management of PSUs/Cooperatives.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

**Recommendation (Sl. No. 7, Para No. 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.

**Reply of the Government**

The percentage increase in prices of urea and MOP has been of the order of 15% and that of DAP about 7%. Increase in the price of urea to this extent results in bare 1% increase in the cost of cultivation. Even if the price increase in the P&K fertilizers is taken into account, the total impact on the cost of cultivation is likely to be less than 1.55%, which is not expected to affect the agricultural production in the country.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

**Recommendation (Sl. No. 15, Para No. 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 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 interest of poor farmers. Accordingly, the Committee recommend that Government should take effective measures to revive all these units and make them viable.

### Reply of the Government

The Government shares the concern shown by the Committee about increasing losses in some of the public sector undertakings as fertilizer units are the backbone of self-reliance in agriculture production in the country. The overall domestic production of nitrogenous and phosphatic fertilizers in terms of nutrient value has increased from 113.35 lakh MT to 142.89 lakh MT from 1995-96 to 1999-2000. As regard FACT and PPL, there has been no down turn in the production of fertilizers in these units. In fact, PPL has been able to achieve 109% and 104% of capacity utilization in fertilizer production during 1998-99 and 1999-2000. FACT, has also touched an all time high of 101% and 119% of capacity utilization in respect of "N" and "P<sub>2</sub>O<sub>5</sub>" in the last financial year. Besides, the Government provided budgetary support of Rs. 35 crore and Rs. 10 crore to FACT and PPL in 1999-2000 to undertake essential capital expenditure on minor schemes for renovation/modernization/renewal towards improving the health and overall performance of their aging plants. The Government is currently formulating comprehensive financial restructuring schemes for extending financial reliefs concessions to these two Companies namely FACT and PPL.

Consequent to decontrol of phosphatic fertilizers in August 1992, PPCL started incurring losses, which were further increased due to the discontinuation of import substitution scheme in August 1998. The Company has been declared as 'sick unit' by the BIFR in April 2000. Despite suspension of operations in all units of PPCL, there is no adverse impact on the availability of rock phosphates for direct application and SSP in the market. PDIL is predominantly an engineering, design and consultancy organization which has been incurring losses primarily due to the unviable operations of its Catalyst Division and non-commercial nature of the R&D Division. In July 1997, the BIFR had approved a rehabilitation scheme for PDIL, however, the company could not achieve the targets projected in the scheme. A revised rehabilitation scheme for PDIL is also under formulation for submission to the competent authority in the Government and thereafter to the BIFR. There is, as already stated no shortage of nitrogenous and phosphate fertilizers on account of recent additions to capacity.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

## CHAPTER IV

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

#### Recommendation (Sl. No. 6, Para No. 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 fertilizers to farmers at affordable rates. The Committee therefore strongly recommend that the increase in prices of urea should be withdrawn immediately.

#### Reply of the Government

The price of fertilizers like Urea, Di-Ammonium Phosphate (DAP), Murate of Potash (MoP) and complexes were increased in the Budget 2000-2001. The decision to increase the Maximum Retail Price (MRP) of fertilizers was necessitated by considerations of fiscal sustainability. Even at the present price levels, substantial quantities of subsidy/concession would continue to be paid in the case of urea and decontrolled Phosphatic and Potassic fertilisers.

The relatively low price of urea/nitrogen *vis-a-vis* P&K fertilizers had resulted in nutrient application becoming imbalanced after 1992. Keeping this fact in view, the 'Report of Working Group on Critical Agricultural Inputs—Fertilizers for the formulation of Ninth Plan' had suggested that the price of Urea could be increased by 30% during 1996-97 and thereafter 10% each year from 1998-99. As against this, the price increases effected have been much lower. The prices fixed in Budget 2000-01 are significantly lower than what it would have been if the recommendation of the Working Group had been followed. Despite the recent increase, selling price of urea in India is among the lowest in the Asian region.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II dated 17th August, 2000]

#### Comments of the Committee

Please *see* Para 14 of Chapter I of the Report.

**Recommendation (Sl. No. 10, Para No. 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 estimate 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.

**Reply of the Government**

The Government's policy has aimed at achieving maximum possible degree of self-sufficiency in production of nitrogenous fertilizers. To bridge the future demand supply gap, a proposal to establish 4 new domestic projects is being processed for obtaining final clearance. However, the scope for future capacity addition in the production of urea using natural gas (the most efficient feedstock) is limited due to depleting reserves of natural gas in the country. The Govt. have therefore, been encouraging Indian companies to establish joint venture facilities in other countries that have rich reserves of raw materials/feedstock required for fertilizer production. The Govt. have recently approved the setting up of a joint venture fertilizer project in Oman. Feasibility of setting up facility for liquified natural gas (LNG) to meet the demand of indigenous fertilizer units and projects is also being explored to augment the above efforts. As of now, the country has achieved near self-sufficiency in production of nitrogenous fertilizers. The projected gap between demand and supply of urea in the year 2002-2003 and thereafter would be adequately taken care of by proposals of the four projects for production of urea which are under the Government's consideration.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

**Comments of the Committee**

Please see Para 20 of Chapter I of the Report.



### Recommendation (Sl. No. 11, Para No. 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.

### Reply of the Government

The policy of the Government has so far been to achieve maximum degree of self-sufficiency in nitrogen production and meet only the residual requirement from imports. In other words the role of imports has so far been to bridge the gap between demand and indigenous availability. This policy which has been pursued under the overall umbrella of Retention Price Scheme, has led to increase in indigenous production capacity of urea. From 128 lakh MT in 1991-92, the indigenous production of urea has gone up to 198.79 lakh MT in 1999-2000. Correspondingly, imports have shown a decline as can be seen from the Table below:

Year	Quantity (LMT)
1995-96	37.81
1996-97	23.28
1997-98	23.89
1998-99	5.56
1999-2000	5.33

2. With the increase in indigenous capacities over years, the country has achieved nearly 95% of self-sufficiency in urea. The installed capacity in the country for urea is 204.5 lakh MT currently. Of this, nearly 122.46 lakh MT is gas based while 82.94 lakh MT capacity of urea is based on Naphtha/fuel oil. The retention price ranges from nearly Rs. 9500/MT to nearly Rs. 14000/MT on an average in case naphtha based plants. In the fuel oil based plants, except for GNFC retention price of the remaining plants is between Rs. 9600/MT to Rs. 11000/MT. This is very high if compared to price of production

from plants based on gas or price of imported urea. The high cost of production of urea from plants based on Naphtha/fuel oil is adding considerably to the subsidy burden which has gone up from Rs. 6235 crores in 1995-96 to Rs. 8750 crores in 1999-2000. Subsidisation of high cost urea plants has consequential impact on the fiscal deficit. There is thus need to contain subsidy as well as the outgo of foreign exchange. Both the considerations are important. This can be achieved by striking a balance between availability from indigenous production with that of imports, especially when price of imported urea is cheaper compared to the cost of production from Naphtha/fuel oil based plants. 100% self-sufficiency in urea may not be desirable looking to the costs involved. The better course will be that after providing for the minimum self-sufficiency which is strategically important, balance requirement is met from imports. This view has been echoed by the High Powered Fertilizer Pricing Policy Review Committee (HPFPPRC) as well as Planning Commission during discussions on the Demand-Supply of urea. HPFPPRC has observed the following in its Report:

“...It would be wrong to view imports as merely a residuary element to bridge the gap between requirements and indigenous production on a year to year basis. It can be made to serve other important purposes. The timing and arrival points can be so managed that they serve deficit areas thereby avoiding large leads and crisis cross movements as at present. Imports can also be used to build bufferstocks at strategic locations for meeting unanticipated shortages anywhere.”

The Planning Commission has also been consistently of the view that minimum imports of the order of 10-15 lakh MT of urea should be made to take advantage of low international prices. A long term perspective of the fertilizer sector would have to take into account the need to contain the burgeoning amounts of subsidy by import of fertilizers whenever international fertilizer prices are cheaper as compared to that of domestic urea and also the possibility of international prices of fertilizers registering a sharp increase on account of India's presence in the international market owing to its large requirements.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

#### **Comments of the Committee**

Please see Para No. 20 of Chapter I of the Report.

## CHAPTER V

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

#### Recommendation (Sl. No. 1, Para Nos. 15 and 16)

The Committee are distressed to note that out of the approved 9th Plan (1997-2002) outlay of about Rs. 11000 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), RCFs Thal Project (Rs. 1332 crore) and KRIBHCO's Hazira Project (Rs. 1318 crore) totalling to about 5900 crore besides the Indo-Oman Project.

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.

#### Reply of the Government

The Cabinet Committee on Economic Affairs (CCEA) in its meeting held in April, 1999, had given its 'in principle' approval to the four pending projects for additional urea capacities subject to investment appraisal by Public Investment Board (PIB) based on a proposal formulated and submitted by the Department of Fertilizers to the CCEA. Accordingly, investment appraisal of these projects was undertaken by the PIB in July, 1999. The conclusions/observations of

the PIB relate *inter-alia* to the need to stagger implementation of these projects due to limited demand supply gap forecast. Based on this observation of the PIB as also the desirability of encouraging use of LNG as feedstock for future urea capacity additions in the country to reduce the incidence of subsidy, a proposal has been formulated by DOF for taking a final decision on the projects by the Government. All efforts are being made to expedite the final decision on the issue.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

#### **Comments of the Committee**

Please *see* Para Nos. 7 & 8 of Chapter I of the Report.

#### **Recommendation (Sl. No. 2, Para No. 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.

#### **Reply of the Government**

The Government have approved the revised and restructured Oman-India Fertilizer Project on 20.6.2000.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II dated 17th August, 2000]

#### **Comments of the Committee**

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

#### **Recommendation (Sl. No. 8, Para No. 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.

### Reply of the Government

An Expert Committee, under the Chairmanship of Dr. G.B. Purohit, the then Consultant in the Department of Fertilizers, was constituted in April 1999 to recommend the reassessed capacities of all urea units, irrespective of the feed stock used, and to indicate financial implications of reassessment of capacity from different cut off dates. Expert Committee submitted its report in November, 1999. Expert Committee worked out reassessed capacities of urea units on the basis of five different methods and financial implications from five different cut off dates.

Since the Expert Committee did not give a unanimous recommendation with regard to method of reassessment to be adopted, the Department has now constituted a Committee under the Chairmanship of Dr. Y.K. Alagh vide Resolution dated 19-5-2000. The Committee has been asked to advise the Government about the method to be adopted for reassessment of capacity of urea units, the cut off date for effecting recoveries against urea manufacturing units and other important issues arising out of the report.

Final reassessment of capacities of urea units will be carried out after receipt of Dr. Alagh Committee's Report and Government's decision thereon. Pending this, the Government have reassessed the capacities of urea units on the basis of one of the methods suggested by the Expert Committee, as an interim measure, w.e.f. 1.4.2000. Accordingly, a downward revision in the retention prices of urea units has been carried out. Annual savings arising from interim reassessment of capacity will be of around Rs. 450 crore.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

### Comments of the Committee

Please see Para No. 17 of Chapter I of the Report.

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

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 fertilizers industry. The Committee were informed that 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.

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).

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.

#### **Reply of the Government**

Urea is currently under statutory price and movement control and production of urea is under Retention Price Scheme (RPS). To study the impact of removal of Quantitative Restrictions (QRs) on the fertilizer sector and to evolve strategy for combating its adverse impacts, if any, Government has set up a "Task Force" under the Chairmanship of Secretary, Department of Fertilizers. The Task Force has representatives from Ministry of Commerce, Fertilizer Association of India (FAI), Confederation of Indian Industry (CII), Fertilizer Industry besides Experts in the field of WTO related matters. The terms of reference of the 'Task Force' are as follows:—

- (i) Study and evaluate the provisions of the Agreement on Agriculture and other WTO Agreements which can impact on the fertilizer sector in the context of removal of quantitative restrictions;
- (ii) Study and recommend the options available which can be pursued in the interest of maintaining the maximum required level of self-sufficiency of fertilizers and which are essential in the interest of food security of the country;

- (iii) Study and recommend the bound tariff rates on urea and recommend the revision in the bound rate of DAP after taking into account the need to give reasonable protection to the indigenous industry on the one hand and make it efficient and competitive on the other.
- (iv) Study and recommend the arrangements which should be put in place for imports of urea after the lifting of quantitative restrictions with effect from 1st April, 2001.

The Task Force has been given three months period to submit its recommendations.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

**Recommendation (Sl. No. 13, Para No. 69-70)**

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 loan to PSUs. The Committee also find that out of Rs. 328 crore Rs. 56.50 crore have been proposed for investment and Rs. 272.00 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 of 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.

The Committee are not amused to hear from the Secretary, Fertilizers that revival packages could not be finalized 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.

### Reply of the Government

It may be stated the Government is very serious about finalising the revival packages for the various units of HFC and FCI. The revival package approved in April' 95 could not be taken up for want of a funding tie up. Later, the revamp of the Namrup Unit of HFC was approved in Oct' 97. However, in view of the various constraints, the complexity of the problems that need to be tackled, the magnitude of the investment, and the practice of seeking concurrence/approval of the impacted Ministries/Departments, it has not been possible to arrive at the final decision quickly. The complexities relating to the 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. 4209.45 crore in the case of HFC and at Rs. 5862.95 crore in the case of FCI which necessitate huge investments without any commensurate results in terms of sustained and viable operations of these plants. Despite this, Government have approved the revival of the Namrup unit of HFC, which is a low cost gas based urea production unit. Out of approved investment of Rs. 350 crore for its revamp, the Government have already released an amount of Rs. 74.69 crore and a provision of Rs. 80 crore has been made for the year 2000-01. In addition, Government's sacrifices to the tune of Rs. 1120.60 crore in terms of write-off of GoI Plan/Non-Plan Loan and accrued interest thereon have already been effected. Similarly, the Government continues to support the operational needs of the Sindri Unit of FCI, in addition to providing funds required by it for essential renewals and replacements. So far funds to the tune of Rs. 154 crore for this purpose have been released and a provision for Rs. 20 crore has been made during the current year. These efforts of the Government towards the revival of Sindri Unit of FCI have led to an increased production of 3.06 LMT of Urea against the targeted production of 2.45 LMT during 1999-2000.

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

The comprehensive rehabilitation packages for the remaining units of HFC & FCI based on unit-wise techno-economic viability have been finalised and will be submitted to the competent authority for consideration.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin-II, dated 17th August, 2000]

### Comments of the Committee

Please see Para Nos. 23 and 24 of Chapter I of the Report.



**Recommendation (Sl. No. 16, Para 0)**

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 the restructuring of PPCL is under finalisation and approval of the 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 recommended 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.

**Reply of the Government**

The Government agree with the recommendation of the Committee that quality SSP should be made available in areas of Bihar, Rajasthan and Uttar Pradesh. Demand for SSP in the country has however not shown encouraging trend over the years, especially after its decontrol and for this reason the capacity utilization of SSP producing units in the industry has remained below 55% in this period. It may further be submitted that apart from  $P_2O_5$ , SSP is also a source of Sulphur, in spite of this it remain less competitive as compared to DAP due to lower content of  $P_2O_5$  (only 16%). Further, with the disparity in subsidies/concessions, SSP is loosing its market.

2. The Government had initiated steps to revive the production of quality SSP in Rajasthan and its neighbouring areas by deciding to hand over the operational control of Saladipura unit of PPCL to Indian Potash Limited (on partial wet lease basis with a guaranteed annual lease rent). However, BIFR meanwhile directed PPCL to seek its permission before handing over the Saladipura Unit to IPL. The permission from BIFR is still awaited.

3. The Department had also explored the possibility of take over of Amjhore Unit by any profit making PSU/Cooperative Society or their consortium. KRIBHCO had shown initial interest in taking over the Amjhore unit of PPCL and was advised to carry out a detailed due diligence exercise. KRIBHCO entrusted due diligence study to a reputed financial institution namely, ICICI. The decision of KRIBHCO on the diligence study of ICICI is awaited. Further action will be taken on receipt of KRIBHCO's response.

Ministry of Chemicals & Fertilisers, Department of Fertilisers  
O.M. No. 5(5)/1999 Fin.-II. dated 17th August. 2000

**Recommendation (Sl. No. 18, Para No. 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 fertiliser sector in allocation of LNG as has been accorded to Power.

**Reply of the Government**

The observations made by the Committee of Public Investment Board in its meeting held on 8.3.2000 on the proposal of import of LNG for fertiliser sector were discussed in a meeting held by Secretary (Fertilisers) on 24.3.2000.

A Core Group has been constituted by Department of Fertilisers *vide* order dated 26.5.2000 for preparation of the Detailed Feasibility Report (DFR) for import of LNG for fertiliser production. The Core Group while preparing DFR will take into account the various observations made by the Committee of PIB in its meeting held on 8.3.2000. The Core Group has been asked to submit its report within a period of 6 months. Further, the Government is also examining all aspects of the LNG Policy for the country including the fertiliser sector. Hence, the issue of according the status to fertiliser sector in allocation of LNG at par with the power sector would be decided by the Government as a part of the overall LNG Policy for the country.

[Ministry of Chemicals & Fertilisers, Department of Fertilisers,  
O.M. No. 5(5)/1999 Fin.-II, dated 17th August, 2000]

NEW DELHI;  
22 August, 2000  
31 Sravana, 1922 (Saka)

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

APPENDIX I

SUB-COMMITTEE ON FERTILISERS

A SUB-COMMITTEE OF STANDING COMMITTEE ON  
PETROLEUM & CHEMICALS (1999-2000)

Minutes  
Third Sitting  
22.08.2000

The Sub-Committee met from 1530 hrs. to 1600 hrs.

PRESENT

Shri Dipankar Mukherjee — *Convenor*

MEMBERS

*Lok Sabha*

2. Shri Ajay Singh Chautala
3. Shri Padam Sen Choudhary
4. Shri D.C. Srikantappa
5. Shri Rajesh Verma
6. Dr. Bikram Sarkar

*Rajya Sabha*

7. Shri Ravi Shankar Prasad
8. Shri Rajiv Ranjan Singh

SECRETARIAT

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

At the outset, Convenor, Sub-Committee on Fertilisers welcomed the Members to the sitting of the Sub-Committee. The Convenor also welcomed Dr. Bikram Sarkar, a new Member on his nomination to Sub-Committee on Fertilisers.

2. Thereafter, the Sub-Committee considered and adopted the Draft Action Taken Report on action taken by the Government on the recommendations contained in the Sixth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (1999-2000) on Demands for Grants of Ministry of Chemicals & Fertilizers, Deptt. of Fertilisers for 2000-2001.

3. The Sub-Committee authorised the Convenor to finalise the Report and submit this to the Chairman for consideration by the Standing Committee on Petroleum & Chemicals.

*The Sub-Committee then adjourned.*

## APPENDIX II

### STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

#### Minutes Thirteenth Sitting 22.08.2000

The Committee met from 1600 hrs. to 1700 hrs.

#### PRESENT

Shri Dipankar Mukherjee — *In the Chair*

#### MEMBERS

#### *Lok Sabha*

2. Shri Ajay Singh Chautala
3. Dr. (Smt.) C. Suguna Kumari
4. Shri Padam Sen Choudhary
5. Shrimati Sheela Gautam
6. Shri Pawan Singh Ghatowar
7. Shri B.K. Handique
8. Shri Shriprakash Jaiswal
9. Shrimati Nivedita Mane
10. Shri P. Mohan
11. Shri Mohan Rawale
12. Dr. Bikram Sarkar
13. Shri Shyama Charan Shukla
14. Shrimati Kanti Singh
15. Shri Prabhunath Singh
16. Shri D.C. Srikantappa
17. Shri Rajesh Verma
18. Dr. Girija Vyas

*Rajya Sabha*

19. Shri Ram Nath Kovind
20. Shri Ravi Shankar Prasad
21. Shrimati Basanti Sarma
22. Shri Rajiv Ranjan Singh
23. Shri Gaya Singh

## SECRETARIAT

- |                     |                         |
|---------------------|-------------------------|
| 1. Shri Brahm Dutt  | <i>Deputy Secretary</i> |
| 2. Shri J.N. Oberoi | <i>Under Secretary</i>  |

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2. Thereafter, the Committee considered and adopted the Draft Action Taken Report on action taken by the Government on the recommendations contained in the Sixth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (1999-2000) on 'Demands for Grants of Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for 2000-2001 as adopted by Sub-Committee on Fertilisers.

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4. The Committee also authorised Chairman to finalise the Report after factual verification from the concerned Ministry and present it to the Parliament.

*The Committee then adjourned.*

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\* Matters not included in the Report.

### APPENDIX III

[Vide Para 4 of the Introduction)

*Analysis of the Action Taken by Government on the recommendations contained in the Sixth Report of the Standing Committee on Petroleum & Chemicals (1999-2000) (Thirteenth Lok Sabha) on 'Demands for Grants-2000-2001 relating to Ministry of Chemicals & Fertilisers, Department of Fertilisers'*

(i) Total No. of Recommendations	18
(ii) Recommendations that have been accepted by the Government ( <i>vide</i> recommendations at Sl. Nos. 3, 4, 9, 14 and 17)	5
Percentage to total	27.77%
(iii) Recommendations which the Committee do not desire to pursue in view of Government's reply ( <i>vide</i> recommendations at Sl. Nos. 5, 7 and 15)	3
Percentage of total	16.66%
(iv) Recommendations in respect of which replies of the Government have not been accepted by the Committee ( <i>vide</i> recommendations at Sl. Nos. 6, 10 and 11)	3
Percentage of total	16.66%
(v) Recommendations in respect of which final replies of the Government are still awaited ( <i>vide</i> recommendations at Sl. Nos. 1, 2, 8, 12, 13, 16 and 18)	7
Percentage of total	38.88%