21

IMPORT AND DISTRIBUTION OF FERTILIZERS

MINISTRY OF AGRICULTURE (DEPARTMENT OF FERTILIZERS)

PUBLIC ACCOUNTS COMMITTEE 1990-91

TWENTY FIRST REPORT

NINTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

TWENTY FIRST REPORT

PUBIC ACCOUNTS COMMITTEE
(1990-91)

(NINTH LOK SABHA)

IMPORT AND DISTRIBUTION OF FERTILIZERS

MINISTRY OF AGRICULTURE DEPARTMENT OF FERTILISERS

[Action Taken on the 167th Report of Public Accounts Committee (8th Lok Sabha)]

Presented to Lok Sabha on 27 Feb. 1991

[Laid in Rajya Sabha on 27 Feb, 1991]

LOK SABHA SECRETARIAT
NEW DELHI

January, 1991/Magha, 1912 (Saka)

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Page	Para	Line	For	Read
Inner cover page		2	Pubic	Public
Contents page		Last line	on 1.11.1991	on 11.1.1991
1	2	4	peen	been
2	7	4	accruate	accurate
3	7	5	th meetings	the meetings
4	Below para 10		fentiliser	fertiliser
20	Table	1	1984-86	1984-85
22	Second para	9	canufacturers	manufacturers
31	3.7	1	wit hvarious	with various
33	4.5	5	in stransit	in transit
43	Last para	2	tre	the
54	Recommendation-	5	contevt	context
57	Appendix-I (Sl.No.1)	4	accruate	accurate
59	Sl.No.4	Para No.	14	19

CONTENTS

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(1990-91)

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Appointed w.e.f. 10-1-91 vice Shri Kamal Morarka ceased to be member of the Committee on **his appointment as a Minister of State.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twenty-First Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 167th Report (Eighth Lok Sabha) on Import and distribution of Fertilisers.

2. The Committee have reiterated their earlier recommendation that the total expenditure on normal and special subsidy for import and sale of fertilisers should be clearly depicted as a separate item in Government accounts.

3. The Committee have also regretted that the recommendation made by them as far back as in April 1989 for investigation into a matter of public importance namely, the selection of technology for fertiliser plants and the necessity for and circumstances under which a foreign collaboration which provide for transfer of technology was being continued even after the lapse of almost a decade, was reported to be under consideration. The Committee have therefore emphasised that the entire issue of technology should be remitted to on Expert Committee for through investigation without further loss of time and the outcome thereof may be reported to them at the earliest.

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 11 January, 1991. Minutes of the sitting form Part II of the Report.

5. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix I of the Report.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
January 31, 1991.
Magha 11, 1912 (*S*).

SONTOSH MOHAN DEV
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations/observations of the Committee contained in their Hundred and Sixty-Seventh Report (Eighth Lok Sabha) on paragraph 4 of the Report of the Comptroller & Auditor General of India for the year 1984-85, Union Government (Civil) on 'Import and Distribution of Fertilisers' relating to the Ministry of Agriculture (Department of Fertilisers).

2. The Hundred and Sixty-Seventh Report of the Committee was presented to Lok Sabha on 28 April, 1989 and contained 26 recommendations/observations. Action Taken Notes on all these recommendations/observations have peen received from the Ministry of Agriculture. The Action Taken Notes have been broadly divided into four categories as under:

(i) Recommendations and observations that have been accepted by Government:

Sl. Nos. 1, 3, 6, 12, 14, 19

(ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from the Government:

Sl. Nos. 4, 5, 7, 8, 9, 10, 11, 15.

(iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:

Sl. Nos. 2, 13, 22—26.

(iv) Recommendations and observations in respect of which Government have furnished interim replies:

Sl. Nos. 16, 17, 18, 20, 21.

3. The Committee expect that the final replies, in respect of the recommendations/observations for which only interim replies have been furnished, will be submitted by the Ministry expeditiously.

4. In the succeeding paragraphs the Committee deal with action taken on some of their recommendations/observations.

Need for scientific determination of import level of fertilisers (Sl. No. 2, Para 2.17)

5. Underlining the need for scientific determination of the import level of fertilisers, the Committee in their recommendation had observed as under:

"The Committee have been informed that the import level for each year is determined by the Committee of Secretaries and within that limit, the Steering Committee regulates the import, after taking periodical stock of the supply and demand position. The Committee, however, note from the minutes of the meetings of the Steering Committee for the years 1981-82 and 1982-83 that the minutes do not indicate the assessment of demand in terms of number of tonnes needed, extent of indigenous production, stock position etc. before a particular level of import was decided. All that the minutes say are that a review of needs was done and that the Steering Committee decided at a particular level of import. The Committee regret to note that the Steering Committee failed to apply themselves with the seriousness required for such an important task. The Committee urge that assessment of actual needs for import should be made on the basis of reliable data in respect of the consumption needs and the minutes of the meetings should indicate, an overall assessment with facts and figures so that it will be feasible to identify where the assessment failed for appropriate remedial action in future".

6. In their Action Taken Note on the aforesaid recommendation the Ministry have stated as under:

"The recommendations of the Committee are noted. It is assured that efforts are continuously being made to improve the monitoring of consumption needs, production and imports. Even during 1989-90 the imports of MOP were scaled down by two lakhs tonnes after the demand and supply position was reviewed by the Steering Committee."

7. While the Committee appreciate the efforts being made by the Ministry to improve the monitoring of consumption needs, production and imports of fertilisers, there is need for evolving ways and means to make the assessment system more accruate and reliable.

In this context it is to be noted that the projected imports of MOP during 1989-90 had to be scaled down by two lakh tonnes after the demand and supply position was reviewed by the Steering Committee. Precisely for this reasons the Committee had in their earlier recommendation desired that the minutes of th meetings of Steering Committee should clearly indicate the assessment of demand in terms of number of tonnes needed, extent of indigenous production, stock position etc. This will enable an objective assessment of the total requirements. The Committee, therefore, reiterate that in future the minutes of Steering Committee should indicate facts and figures leading to the assessment of demand in terms of number of tonnes needed, extent of indigenous production and stock position etc.

Need for exhibition of normal and special subsidy in Government accounts.

(*Sl. No.* 13—*Para* 5.9)

8. Emphasising the need for showing the normal and special subsidy allowed by the Government on the import and sale of fertilisers distinctly in Government accounts, the Committee had made the following recommendation:

"The Committee understand that special rebates that are allowed for clearance of accumulated stock are not separately exhibited in Government Account because the information on rebate allowed to FCI has been given with reference to the accounts of FCI. In view of the position the Committee recommend that the Government should indicate separately in their accounts the normal subsidy and special subsidy paid."

9. In their Action Taken Note the Ministry have stated as under:

"In Government Accounts the expenditure relating to imported fertilizers including handling charges, is shown under the head purchase of fertilisers' below major Head—2401, crop Husbandry. The recoveries realised from the sale of fertilisers are shown as recoveries under the above head. The difference between the expenditure and receipts becomes the invisible subsidy on imported fertiliser. The special Rebates allowed for the indigenous manufacturers were paid by the FCI according to the orders issued by the Government in this regard. The payment so made were to be reimbursed to the FCI based on their Audited statements. The payments towards Special Rebate Scheme amounts to Rs. 76.25 crores. Out of this, an amount of Rs. 7.95 crores has been withheld as the FCI has not furnished the requisite details. The matter is under arbitration. Special rebates are accounted for in the handling charges paid to FCI. Special Rebates allowed to FCI being an item of expenditure for the disposal of old stocks of imported fertiliser, the expenditure thereon has been booked rightly under the Head 'Purchase of fertilisers' under which the entire expenditure relating to imported fertilisers is booked."

10. While the Committee in their original report had made a specific recommendation that the Government should indicate separately in their accounts the normal subsidy and special subsidy paid, the Ministry, it is observed from the Action Taken Note, have evaded the issue. Under the system of accounting in vogue the expenditure relating to import of fertilisers including handling charges is booked under the Head "Purchase of Fertilisers". Similarly the special Rebates are accounted for in the handling charges paid to F.C.I. It is, however, not indicated anywhere as to what is the total expenditure incurred by the Government towards the normal and special subsidy paid by the Government for the import and sale of fertilisers. The Committee had therefore desired that the total expenditure on normal and special subsidy for import and sale of fertilisers should be clearly depicted as a separate item in Government accounts. The Committee cannot but reiterate their earlier recommendation.

Use of foreign technology in fentiliser plants

(*Sl. No.* 16 *and* 17—*Paras* 8.7 *and* 9.12)

11. In para 8.7 of their 167th Report, the Committee had noted that the technology of M/s. C. F. Braun had been recommended for two new plants by the Secretaries Committee but was recommended for only one of the two plants by an Expert Committee. The Cabinet Sub-Committee was, however, reported to have rejected the technology of M/s. C. F. Braun for both the plants for certain specified reasons in favour of Haldo Topsoe technology. The Committee had felt that the decision to reject the technology of M/s. C. F. Braun was not based on any objective and proven criteria and had recommended that the entire issue may be thoroughly investigated by an Expert Committee.

12. Again in paragraph 9.12 of the Report the Committee had noted that when in 1980 Government decided to adopt Haldor Topsoe technology the agreement had been entered into on the basis of

transfer of technology. Notwithstanding the reported absorption of technology, the Committee were surprised to note that the foreign exchange requirements continued to be at a high level of about 30 per cent. The Committee had accordingly desired that the necessity for and circumstances under which the foreign collaboration had been continued at present level should be investigated by a Committee.

13. In their Action Taken Note the Ministry of Agriculture (Deptt. of Fertilizers) have stated that the recommendation of the PAC to the effect that the entire issue of technology may be thoroughly investigated by an Expert Committee was under consideration.

14. The Committee regret to note that the recommendation made by them as far back as in April 1989 for investigation into a matter of public importance namely, the selection of technology for fertilizer plants and the necessity for and circumstances under which a foreign collaboration which provided for transfer of technology was being continued even after the lapse of almost a decade, was reported to be under consideration. The Committee cannot but emphasise that the entire issue of technology should be remitted to an Expert Committee for thorough investigation without further loss of time and the outcome thereof may be reported to them at the earliest.

Excessive handling charges paid to FCI and high storage and transit losses incurred by FCI.

(Sl Nos. 22—26, Paras 13.7—13.11)

15. Commenting on the high cost of handling charges paid to FCI, the Committee had in paragraph 13.7 of their report *inter-alia* observed that the decision to finance imports through banking channels was most unfortunate as it inflated the cost of fertilizers. The Committee was alarmed to note that as against the cost of Rs. 2079 per tonne of imported fertilizers in 1981-82, the cost of handling charges paid to FCI was as much as Rs. 1621. According to the Committee this increase had mainly been due to the fact that FCI which was made "principal" and entrusted with the import of fertilizers had no marketing net work and therefore could not compete with the indigenous manufactures who were also inducted to handle imported fertilizers.

16. Justifying their decision to finance the imports through banking channels with the FCI acting as a "principal" instead of a mere handling and transport agent in fertilizers import operation, the Ministry stated that with such large imports of fertilizers it had become necessary to reconsider the method of financing of stocks

on the high seas and the stocks in the FCI godowns. This decision besides other advantages had enabled the FCI to finance the stocks held by them largely by the banks and thereby relieved the central budget a good deal of strain inherent in the system of financing at that time.

17. In paragraphs 13.9 and 13.10 of the report the Committee had observed that the storage and transit losses in the case of FCI were very high being upto 3.64 percent in 1981-82 against the normative losses allowed on this account of 1.5 per cent. The Committee had also noted that a dispute had arisen between FCI and the Ministry of Agriculture on the total losses suffered by FCI in handling imported fertilizers. This had also resulted in delay in liquidating the entire stock of fertilizers held by FCI by 30-9-1984 leading to further losses on account of high inventory carrying cost and interest claims. The Committee had felt that as the dispute between the Ministry and FCI had lingered on for years, it should be sorted out expeditiously.

18. In their action taken note the Ministry have stated that the dispute between the FCI and the Ministry of Agriculture had been referred to arbitration on 21-6-89 and the award was still awaited. The Ministry have also stated that action for disposal of balance fertilizers with FCI was being taken up vigorously by FCI.

19. The Committee are unhappy to note that the dispute arising out of the excessive handling charges payable to the FCI as also the high storage and transit losses incurred by the FCI on account of handling of imported fertilizers could not be sorted out between the FCI and the Ministry of Agriculture in an amicable manner. As a result the dispute had to be referred to arbitration, which the Committee feel is not a proper method of resolving disputes between a parent body and a public sector undertaking under its administrative control. The Committee wish this had been avoided.

Now, however, as the dispute had been referred to Arbitration, the Committee will like the Ministry to ensure that the arbitration proceedings are expedited and the further progress made in the matter intimated to the Committee at the earliest.

The Committee would also like the Ministry to draw appropriate lessons from the handling of this particular case and ensure that such cases do not recur in future.

Necessary action for disposal of balance fertilizers (both fresh and sub-standard quality) lying with FCI should be expedited and the progress reported to the Committee.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

In paragraph 34 of the C&AG's Audit Report (Civil) for the year 1970, it was pointed out that there were excessive imports of fertilizers during the three years ended 1968-69 due to over estimation of the consumption needs and that as on 1st April, 1969 there was an accumulation of 11.53 lakh tonnes of fertilizers valued at Rs. 200 crores. On examination of the aforesaid audit paragraph the Committee had emphasised the need for realistic provisioning based on the actual consumption of each kind of fertilisers and had recommended that the Government shall devise a proper scientific machinery to collect the data regarding actual consumption of fertilizers for the accurate assessment of future needs as the Government were not in the know of the extent of actual consumption of fertilizers throughout the country. The Committee are distressed to note that instead of learning lesson from the earlier over provisioning of fertilisers, Government have allowed a similar situation of excessive imports due to over-estimation of demand to recur during 1981-82 and 1982-83 resulting in accumulation of stocks valuing Rs. 391.88 crores in total disregard of the Committee's recommendation to exercise due caution in provisioning of fertilisers. The Committee attach great importance to implementation of their recommendations and hope that the Government will take all necessary steps to avoid recurrence of such unpleasant situations in future.

[S. No. 1 (para No. 2.16) of Appendix IV to Hundred and Sixty-seventh report of PAC (8th Lok Sabha)]

Action taken

The recommendations of the Committee have been noted.

2. It may, however, be mentioned in this connection that long term projections of fertilizers requirement/consumption are based on agricultural production targets. The foodgrain production target is first fixed for a Plan period, and fertiliser consumption targets are fixed in such a manner that it is possible to achieve the foodgrains production targets.

3. However, a much more detailed exercise is undertaken for working out the short term season-wise requirements of fertilisers. The requirement of fertilisers for Kharif (April—September) and for Rabi (Oct.—March) seasons are assessed separately, before the commencement of each crop season.

4. The assessment of fertilizer requirement is initially made by each State Government based on area under different crops, the likely coverage under the high yielding varieties and other development programmes, irrigation facilities, existing level of fertiliser consumption, special programmes if any, and other factors like availability of credit and infrastructural facilities.

5. With effect from Rabi 1986-87, however, the Lead Fertiliser Suppliers Scheme is being implemented under which Lead Fertiliser Suppliers are appointed one for each State and one for each District *inter alia* for assessing the requirements of fertilisers. Thus the assessment of requirement of fertilisers made from Kharif 87 is a joint exercise of the State Governments, Lead Fertilisers Suppliers, the Fertiliser Industry represented by Fertiliser Association of India and the Central Government.

6. The table below shows the assessment made and the consumption achieved/estimated since 1987-88: —

(Lakh tonnes N+P+K)

Year	Kharif			Rabi			Total		
	Assessed requirement	Consumption	% of consumption to assessed requirement	Assessed requirement	Consumption	% of consumption to assessed requirement	Assessed requirement	Consumption	% of consumption to assessed requirement
1987-88	46·46	38·90	83·7	52·88	51·22 (Est.)	96·9	99·34	90·12 (Est.)	90·7
1988-89	49·60	52·03	104·9	62·46	58·33 (Est.)	93·4	112·06	110·36 (Est.)	98·5
1989-90	57·21	57·26	100·1	64·76	64·71 (Anticipated)	99·9	121·97	121·97 (Anticipated)	100·00

7. It will be seen from the above, that after the practice of joint exercise by the State Government and the Lead Fertiliser Supplier for each State was introduced, effectively commencing from Kharif '87 season, the system of assessment of requirement of fertilisers has been considerably refined and the assessments made thereafter are very close to the estimated consumption each season. The opening stocks of fertilisers at the beginning of each year has also come down recently, despite a severe drought in 87-88 as is evident from the Table below:—

(In lakh tonnes) N+P+K

Date	Stocks at the beginning of the year	% of opening stocks to consumption during the year
1-4-87	38·24	42
1-4-88	36·80	33
1-4-89	28·01	23

8. Taking into account the vast expanse of the country and the great differences in agro-climatic zones and the critical role which the monsoons play, it is felt that the closing stocks at about 25 to 30 per cent of the consumption requirement, are reasonable.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC dated 29-1-1990]

Recommendations

The Committee deplore the fact that in preparing import plans opening stocks were taken on the lower side in 1981-82 and 1982-83 by 7.78 lakh tonnes. The stocks of fertilisers held by manufacturers to the extent of 2.93 lakh tonnes as in February 1981 were also not taken note of on the plea that according to the procedure followed for planning import of fertilisers, the entire indigenous stocks allocated for sale were taken to have been consumed during the year of production. These lapses were the main reason for excessive import of fertilisers during 1981-82 and 1982-83. This is, to put it mildly, the negation of objective of planning. At this stage the Committee can only suggest that Government should draw appropriate lesson from such mistakes so that this type of mistake is not repeated.

[Sl. No. 3, (Para No. 2.18) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha]

Action Taken

The observations have been noted for future compliance.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC dated 29-1-1990]

Recommendations

In recent years fertiliser industry has been passing through a critical phase with heavy built up of inventories. Projected demand did not materialise as the country faced unprecedented droughts and excessive imports all through the Eighties aggravated the problem greatly. The Ministry of Agriculture cannot absolve itself from the responsibility of the glut of fertilisers as it has developed mainly due to faulty assessment of demand. The gravity of over assessment will be evident from the fact that according to the industry, consumption was over estimated by 16.92 lakh tonnes in 1985-86 *i.e.* by over 16 per cent on the projected consumption. Till 1985-86 the Ministry of Agriculture had been projecting yearly demand on the basis of requirements indicated by the States who have been stated to be putting up 'more ambitious requirements as they did not like to show lesser achievements than what have been committed to the Centre and they had no financial stake in projection of demand.' Now this exercise is stated to have been refined to some extent. The Committee note that the reasons adduced now are no more than a repetition of the reasons given to the Committee in 1970-71 when excessive imports for a period of 3 years were examined by the Committee. The Committee's examination and the facts brought out by the Audit amply bring out the fact that Ministry of Agriculture notably failed to formulate a proper methodology for assessing the demand correctly. The exercises done each year lacked scientific analysis in depth though it was not a difficult task to assess the consumption realistically. The Committee are strongly of the view that demand assessment was taken up in a casual and perfunctory manner which cost avoidable losses to the exchequer.

[S. No. 6 (para 4.9) of Appendix IV to hundred and sixty-seventh report of PAC (8th Lok Sabha)]

Action taken

As explained in the Action Taken Note on the recommendations contained in para 2.16 of the report, the system of assessment of requirement of fertilisers has been suitably improved with effect from Kharif'87.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC dated 29-1-1990]

Recommendations

The Committee note that cooperative and public sector organisations had to allow discounts and rebates to the extent of Rs. 145.63 crores for liquidation of their stock. The corresponding position for private organisations is not known to Government. In the context of the extent of distress sales that have been resorted to, the Committee need hardly emphasise their earlier recommendations for a seientific assesment of need, regulations of imports *etc.*

[Sl. No. 12 (Para No. 5.8) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha)]

Action Taken

Noted for future guidance.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC dated 29-1-1990]

Recommendations

The Committee are unhappy over the attitude of the Government in refusing to place the documents before the Committee and feel that no public interest would have suffered if the documents had been placed before it. The Committee hope that the Government would not take such rigid stand in future.

[Sl. No. 14 (Para No. 6.12) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha)]

Action Taken

The observation has been noted.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2|89-FA|FIC, dated 29.1.1991].

Recommendations

The Committee note that between 1978-89 to 1984-85 subsidy paid to the industries for sale of fertilisers at controlled prices amounted to Rs. 3500 crores, in 1985-86, Rs. 1600 crores, in 1986-87, Rs. 1700 crores and in 1987-88, Rs. 3000 crores. Considering the substantial outgo, the Committee recommend that the application of the retention price formula and the correctness of subsidy paid to each manufacturer should be subjected to appropriate audit check by the C&AG of India and that the results of audit reported to Parliament.

[Sl. No. 19 (Para No. 11.8) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action taken

Government accept the recommendation.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No 15-2/89-FA/FTC, dated 29-1-1990]

CHAPTER III

RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM THE GOVERNMENT

Recommendations

The Committee note in this regard from the minutes of the Steering Committee meetings that one of the considerations for continuance of import was to utilise Grants|Aids as also balance of trade with Rupee Payment Areas. It is, however, seen that during 6 years ended 1987-88, over two thirds of imports were against Free Foreign Exchange. The Committee are surprised that the Ministry could deem it proper to advance the plea of obligation to rupee payment areas. The Committee are dismayed to note that suitable reductions were not made in orders placed in regard to Free Foreign Exchange imports during 1981-82 and 1982-83, so as to offset the level of import to be maintained against Aids/Grants, and BPA. The Committee recommend that the reasons for not making appropriate reductions in orders for import from Free Foreign Exchange areas be investigated and findings reported to them.

[Sl. No. 4, (Para No.2.19) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha)]

Action Taken

Import of finished fertilisers are made by MMTC on the basis of quantities indicated by Ministry of Agriculture and cleared by Committee of Secretaries. The following tables show import source-wise of fertilisers during the years 1981-82 and 1982-83 and Trade Plan Provision against Rupee Payment Area (RPA) sources:

Qty. Lakh MT

	1981-82				1982-83			
	FFE	RPA	Grants	Total	FFE	RPA	Grants	Total
MOP .	7.16	3.72	—	10.88	6.87	3.87	—	10.74
DAP . . .	8.30	—	—	8.30	1.41	—	—	1.41
UREA .	15.76	2.69	1.61	20.06	3.30	1.23	2.81	7.34
SOP . . .	0.39	0.06	—	0.45	0.10	—	—	0.10
	31.61	6.47	1.61	39.69	11.68	5.10	2.81	19.59

Trade Plan Provision Against RPA Source

(Qty lakh MT)

MOP	Country	1981-82		1982-83	
		TPP	AI	TPP	AI
	GDR	3.50	3.42	3.50	3.87
	USSR	1.05	0.30	1.15	—

(Qty. '000 MT)

Urea	Country	1981		1982	
		TPP	AI	TPP	AI
	USSR	300	33	300	39
	GDR	80	81	60	51
	Romania	100	83	40	36
	Czechoslovakia	22	—	22	—
	Poland	60	—	40	—

It would be observed that in respect of GDR the full Trade Plan Provision was utilized whereas only 0.30 lakh MT of MOP as against 1.05 and 1.15 lakh MT provided for year 1981 and 1982 was imported as a trial shipment in 1981-82 from USSR. The Ministry of Agriculture was to test and approve the quality of MOP for further import on regular basis. Since the trial shipment could not meet the specifications, no further import was made from USSR. In 1987, another trial cargo of 30,000 MT was taken from USSR. After testing, it was found that the quality of MOP had improved. The Department recommended import of MOP from USSR and this is going on a regular basis. During the current year, 5.5 lakh MT of MOP is likely to be imported against the TPP of 1.65 lakh MT only.

As regards Urea, it would be seen from the above table that MMTC tried to cover maximum quantity of Urea from rupee payment countries, but those countries were not able to offer more quantities.

It would, thus, be observed from the above that we had imported the entire available quantity of fertilisers from RPA sources in 1981-82 and 1982-83 and only the balance quantity was imported from FFE area. DAP was not available with rupee payment countries. MMTC, after persistent efforts, has succeeded this year, i.e. 1989, in importing a quantity of 2.26 lakh MT of DAP of USA origin through GDR, with whom we have rupee payment arrangements.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29.1.1990]

Recommendation

The Committee recommend that this unnecessary import of 8.30 lakh MT of DAP may be probed in depth with a view to fix responsibility.

[Sl. No. 5 (Para No. 3.2) of Appendix IV to 167th Report of PAC (8th Lok Sabha)]

Action Taken

The assessment of the total requirement of fertilizers is made on the basis of targetted production of crops during the year under normal monsoon conditions and purchases are so timed that the bulk of arrivals from abroad should be during the period July—September so that the material reaches the farmers well in time for meeting the requirements during the Rabi season when the demand for DAP is high. Some quantity is usually contracted for early to avoid bunching of contracts and arrivals. The demand for fertilizers is reviewed from time to time during the season keeping in view the trend of the monsoon. If the monsoon is good the offtake is also good. Failure of the monsoon throw the import plans out of gear. It may be relevant to mention that the MMTC is the canalizing agency for import of the authorised quantity of DAP and it takes some time for floating of tenders/negotiations and finalisation of contracts. All precautions are taken while monitoring the consumption and import of fertilizers to keep the imports to the minimum.

2. The average consumption in 1978, 1979 and 1980 of 4.75 lakh tonnes, 4.87 lakh tonnes and 5.7 lakh tonnes respectively of imported DAP should not be considered in isolation but should be considered alongwith the consumption of indigenous DAP and other phosphatic fertilizers produced in the country. A statement indicating

the lifting of imported DAP, indigenous production, import consumption and closing stocks of phosphatic fertilizers for the years 1978-79, 1979-80 and 1981-82 (Kharif and Rabi) is given below to facilitate appreciation of the situation in its proper perspective:—

inFigures lakh tonne.

	Phosphatic Fertilizers in terms of P_2O_5							
Year	Lifting of imported DAP	Indigenous production of DAP	Production	Imports	Total (Col. 4+5)	Consumption	Closing Balance as on 31st January	
							Pool+Non Pool	+Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1978-79	4.75	2.29	7.70	2.43	10.13	11.06	0.94 + .88	= 1.82
1979-80	4.87	2.69	7.57	2.37	9.94	11.51	1.08 + .62	= 1.70
1980-81	5.70	2.56	8.41	4.52	12.93	12.14	1.77 + .90	= 2.67

3. The pool (imported) fertilizer stocks not only meet part of the normal consumption of fertilizers but also act as a buffer stock when necessary. It would be seen from the table given above that the total of indigenous production plus import of phosphate during the three years, *i.e.*, 1978-79 to 1980-81, was 10.13, 9.94 and 12.93 lakh tonnes, respectively. The actual consumption during the three years was 11.06, 11.51 and 12.14 lakh tonnes, respectively. This shows that during the years 1978-79 and 1979-80 the consumption of phosphatic fertilizers was more than production plus imports, thereby indicating draw down of the buffer stocks. During the year 1980-81, the import plus production of phosphate was more than the consumption by 0.79 lakh tonnes. The closing stock of pool fertilizers was much less than the buffer requirement which was around 20 per cent of consumption till 1980-81. Even after including non-pool stocks of phosphatic fertilizers, the closing stock at the end of 1978-79 and 1979-80 was only around 15 per cent of consumption and in 1980-81, it was marginally in excess of 20 per cent of consumption.

4. A review of the DAP price trend in USA during the years 1977 to 1980 revealed that the price during the month of May in each of these years was the lowest and there was a hardening trend after May. In order to ensure that the fertilizer material reached the farmers in time and there was no congestion at the ports, it was considered desirable to import DAP during the period June to November. Further, purchases were made at prices which were

around US $ 8 less than the ruling international price at that time. This would be evident from the minutes of the meeting of the Steering Committee held on 5.5.1981. It would, thus, be seen that the decision to purchase DAP from the USA was on the basis of demand and commercial judgement and not on the basis of the view *viz.* "India buying a smaller tonnage than usual could result in closure of factories which would not be in the interest of the consumer in the longer run", expressed by a member of the Steering Committee. It may not be appropriate to use hind-sight to take note of the fact that the international price of DAP was lower at a later date as it is not possible to foresee price trends of the future accurately. Besides, the fertilizer had to be purchased and delivered latest by October each year and hence there was very little flexibility in choosing the time of purchase.

5. The consumption during the year 1981-82 was 13.22 lakh tonnes of P_2O_5 as against production and import of phosphatic fertilizers of 9.49 lakh tonnes and 3.43 lakh tonnes, respectively.

6. From the position explained above, it will be seen that the import of 8.30 MT of DAP during 1981-82 was based on a fair and reasonable assessment of demand. The Department would, therefore, urge the PAC to reconsider their recommendation to fix the responsibility.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 17.4.1990

Recommendations

It is shocking to note that demand projections of fertilisers had been made by using too simplistic methods and assumptions which are basically devoid of realities. It is distressing that normal weather conditions were assumed persistently when some parts of the country had been experiencing deficient rains consecutively for 2-3 years followed by severe drought all over the country and correctives do not seem to have been applied during the course of the year. Besides, the application of incremental output ratio on previous estimates instead of actuals when various parts of the country had been experiencing inadequate rains was a grave mistake. For instance, shortfall in consumption of 10.62 lakh tonnes in 1983-84 cannot be attributed to drought conditions but considering the fact that consumption in 1982-83 was only 63.88 lakh tonnes, the Committee cannot but feel that raising of target of consumption from

75.94 lakh in 1982-83 to 87.72 lakh tonnes was too ambitious an assessment without taking realities into account. It is unfortunate that the Ministry of Agriculture failed to moderate requirements on scientific basis. It is apparent that faulty planning and gross over-estimation of demand led to indiscriminate imports during the recent years and the Government paid it dearly in terms of heavy foreign exchange outgo, increased burden of subsidies, heavy storage cost etc. The Committee consider it imperative for the forecasting technique to be based on scientific analysis of data with a view to minimise the chances of a mistake. The Committee note in this regard that the fertiliser industry has offered certain suggestions for proper estimation. The Committee recommend that these may be considered and the Central and State Governments may hold dialogue with the industry so as to ensure that estimate of needs is done scientifically, the same is subjected to periodical review and imports strictly regulated according to needs, after taking into account the extent of buffer stock needed at the end of the season.

[S. No. 7 (para 4.10) of Appendix IV to hundred and sixty-seventh report of PAC (8th Lok Sabha)]

Action Taken

The observation of the Committee have been noted. It may, however, be mentioned in this connection that although the COS approves the imports for the year as a whole, the actual quantities to be imported during the year are regulated from time to time by the Steering Committee of Secretaries on import of fertilisers.

2. During these reviews, the prevailing seasonal conditions are, *inter-alia*, kept in view and suitable increases/decreases are made in the quantities approved by the COS. The table below indicates the quantities originally approved by the COS and the quantities actually imported during 1986-87 and 1987-88:—

(In lakh tonnes N.P.K.)

Year	Imports approved by COS	Actual Imports
1986-87	30.00	22.82
1987-88	16.54	9.84

3. As regards the recommendation that the suggestions of the industry regarding estimates of fertiliser requirement may be considered and the Central and State Governments may hold dialogue with the industry so as to ensure that estimates of needs is done scientifically, it may be mentioned that the suggestions received from the FAI are being kept in view while making the assessment of requirements. The Industry and States are being associated at the Zonal Conferences, for formulating the Supply Plan, and also in the Monthly Review Meetings, for monitoring the supplies.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2-89-FA/FIC, dated 29.1.1990]

Recommendation

The Committee are at a loss to understand why timely warnings of industry since as early as 1984-85 to slow down the import of fertilisers were not heeded to. They would like to know the reasons for heavy imports despite warning and the case of mountings inventories to be investigated and a report given.

[Sl. No. 8 (Para No. 4.11) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha)]

Action Taken

Import of fertilisers is planned to bridge the gap between the estimated requirements and the likely availability. In April 1985 the Fertiliser Association of India had expressed its concern that the demand of fertilizers during Rabi 1984-85 had not come up to the anticipated level primarily because of the failure of winter rains and the stocks were mounting since January, 1985. It was, however, noted that during the Rabi 1984-85 season, the Govt. could not meet the demands in full from the States. These were persistent complaints from the State Governments regarding shortage of fertilizers. Some of the States had even brought this to the notice of the Prime Minister during the Rabi 1984-85 season. The main reason for such shortage was that we started the year 1984-85 with very low opening stocks. The Committee of Secretaries had recognised that we should have always about 15 per cent of the requirements of fertilisers as pipeline. The target for fertiliser consumption for 1985-86 was 95.5 lakh tonnes of nutrient and taking into consideration the pipeline stocks of 14 to 19 lakh tonnes of nutrients, the desired level of availability of fertilisers was about 115 lakh tonnes. Adequate and timely availability of fertilisers is essential for increasing the agricultural production. It has also been observed that during a situation of scarcity traders exploit the situation to their advantage.

Taking into consideration all these factors the stocks as on 1-4-85 cannot be considered high. The import plan for fertilisers was continuously reviewed by the Steering Committee and the Committee made reductions, wherever considered necessary. Suggestions, whenever received, from the Fertiliser Association of India are also kept in view. The imports during the years 1984-85 to 1987-88 have shown a downward trend as indicated below:—

(Lakh tonnes of nutrients)

Year	*Import plan approved by the CCS*	*Actual import of fertilisers*
1984-86	37.76	36.24 Lakh tonnes
1985-86	38.04	33.99 lakh tonnes
1986-87	30.00	22.82 lakh tonnes
1987-88	16.54	9.84 lakh tonnes

(It may be noted that the actual imports have been less than the plan approved by the Committee of Secretaries)

No import of urea has been made from 1987-88 onwards except a small quantity to honour some international commitments. No phosphatic fertilisers were imported in 1987-88 in view of the available stocks of this fertiliser. The entire requirement of potassic fertiliser has to be imported as there are no indigenous sources of this fertiliser in the country.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendation

The Committee recommend that a review of the composition of the steering committee may be conducted to see where it represents all interests including indigenous producers and how far it would be necessary to have consultations with indigenous producers before deciding the level of imports.

[Sl. No. 9 (Para No. 4.12) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha)]

Action Taken

The import requirements of fertilisers are assessed by the Department of Fertilisers on the basis of annual consumption targets, the estimated indigenous production and the opening stocks at the beginning of the year. The import requirements are placed before the Committee of Secretaries, which is chaired by the Cabinet Secretary. The final level of import is approved by the Committee of Secretaries after due deliberations. There is a Steering Committee on Import of Fertilisers under the Chairmanship of Secretary, Department of Fertilisers, which periodically reviews and monitors the import of fertilisers against the plan already approved by the Committee of Secretaries and makes suitable downward adjustments, where necessary. The other members of the Steering Committee of Secretaries are:—

1. Member (Traffic), Railway Board
2. Secretary, Department of Agriculture & Cooperation
3. Secretary, Department of Economic Affairs
4. Secretary, Department of Surface Transport
5. Secretary, Ministry of Commerce
6. Chairman, MMTC

The Steering Committee considers and advises on the following:—

(1) General strategy of purchase of fertilisers;

(2) Phasing of purchase action;

(3) Phasing of deliveries;

(4) Review periodically the purchase action taken in the light of domestic production and trends of consumption;

(5) Lay down guidelines within which commercial action is to be processed;

(6) Handling of fertilisers at ports and move to centres of consumption;

(7) Problems relating to import of rock phosphate and sulphur and other raw materials required for the production of fertilisers.

As will be seen from the composition of the Steering Committee, it is a high-powered committee and its deliberations are secret in nature because of the sensitiveness of the terms of reference. The views of the indigenous manufacturers are ascertained informally, if necessary, at the time of formulating our import proposals. Imports are needed to bridge the gap between the projected demand and the estimated production. Of course, the entire requirement of potassic fertiliser is met by imports as there is no known commercially viable indigenous source of potash. Agricultural production targets and consumption targets of different inputs, including fertilisers, are fixed jointly by the Planning Commission, Department of Agriculture & Cooperation and the respective State Governments. The Statewise requirements of fertilisers are determined in consultation with the respective State Governments. The representatives of the Planning Commission, Department of Fertilisers and the Fertiliser industry participate in the discussions in the conferences held for the purpose.

The annual production plan of the indigenous manufacturer is discussed in depth with each indigenous manufacturer and the indigenous production is closely monitored on a month to month basis by the Department of Fertilisers. As will be seen from item (4) of the terms of reference of the Steering Committee, the purchase action is taken only after taking into account the actual production and the trend of consumption. In view of the above and in view of the sensitiveness of the commercial decisions in purchase, the association of the indigenous canufacturers or the Fertiliser Association of India with the Steering Committee is not considered to be in public interest.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendations

The Committee also recommend that the circumstances under which imports were allowed to be released in 1986 for consumption even before indigenous production was fully allocated should be investigated and responsibility fixed.

[Sl. No. 10 (Para No. 4.13) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha)]

Action Taken

As the consumption of fertilisers, during Rabi 1986-87, was expected to be more than the indigenous production, it was decided to issue ECA in respect of pool fertilisers also. (The actual production during the year 1986-87 was 16.60 lakh tonnes, import: 3.55 lakh tonnes and consumption: 21.05 lakh tonnes in terms of P205 nutrient). While taking the above decision, it was kept in view that the production of fertiliser during the months of February-

March, 1987 would not be available for consumption during the peak period, *i.e.*, October-December, 1986 and will have to be carried forward to the next kharif season.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendations

The Committee are surprised to note that Government have blamed FCI for accumulation of old stocks in 1983-84 stating that FCI lacked a well-knit marketing system. The Committee note in this regard that the services of FCI were utilised essentially for port clearance operations and storage at places specified by Government and they were to deliver the fertiliser to those to him Government have authorised . In the circumstances, the Committee consider it highly improper on the part of the Government to try to pass on the responsibility for accumulation of old stocks to FCI instead of owning it and taking corrective measures. The Committee have been informed in this regard that the Government have no idea of the age of the stocks held on their behalf. Such a situation is hardly in keeping with the system of efficient management. The Committee recommend that urgent steps are called for to ensure that Government, as the owner of the fertilisers in FCI's custody, ascertain periodically the accumulation of old stocks, ensure their first issue before fresh arrivals are allowed to be lifted and regulate the accumulations within the prescribed buffer stock livels.

[Sl. No. 11 (Para No. 5.7) of Appendix IV to 167th Report of PAC (Eighth Lok Sabha)]

Action Taken

A brief history as to how FCI was assigned the work of handling and distribution of imported non-potassic fertiliser is given below in order to look into the issue in its proper perspective.

Prior to 1968, the Regional Directors (Food), Ministry of Food and Agriculture were handling fertilisers at the ports and moving them to the various States as a part of their work of handling of food and its distribution. With the coming into being of Food Corporation of India in 1965, the work was transferred to the FCI. The final transfer of the port operations and the port infrastructure to the FCI from the control of Regional Director (Food) took place in December, 1968. With effect from 1-3-76 FCI, who were acting as agents of the Government, were made owners of the fertiliser stocks as to enable them to obtain finance for their fertiliser operations from the Banking Sector.

2. When FCI were made owners of the fertiliser stocks an agreement was entered into with FCI in 1976 by Govt. setting out terms and conditions for handling and distribution of Non-Potassic fertilisers. As per para 2.16 (Ann-I) of the terms and conditions, the FCI were required to maintain an efficient and economical handling and distribution system for fertilisers. As per para 2.4, they were required to arrange buffer and intermediate storage in ports, port depots and at inland depots. They were free to arrange storage as per their requirements. They were also free to handle fertilisers at their discretion subject to directives issued by the Govt. with regard to allotments made by them and subject to any instructions issued by the Ministry regarding priority, proportion etc. Though orders of allotment of fertilisers to the various states were issued from time to time, FCI did not take necessary action to dispose of the fertilisers with reference to the allocation orders issued from time to time by the Ministry. In other words the FCI did not take necessary steps to maintain an efficient and economical handling and distribution system as per the agreement entered into with them in 1976, when the ownership was transferred to them. In the circumstances, the conclusion drawn by the Committee that the Government are trying to pass on the responsibility for accummulation of old stocks with FCI merits reconsideration. The disposal of fertilisers by FCI fell considerably in 1981-82. To liquidate the stocks, Govt. decided that the old stocks held by FCI should be disposed of and allowed 4 indigenous manufacturers to lift the fertilisers held by FCI by giving some incentives on ownership basis. This scheme did not bring about the desired result in that only 1.5 lakh tonnes could be disposed of. Hence, a Special Rebate Scheme with more concessions was introduced in June, 1983 allowing 11 indigenous manufacturers to lift the fertilisers and dispose them of under certain conditions. The scheme proved to be successful in that 13.19 lakh tonnes could be disposed of by the indigenous manufacturers on ownership basis. It may be interesting to note that FCI could dispose of only about one lakh tonnes of fertilisers only through their registered dealers and institutional agencies. It will thus be seen that all posible action was taken from time to time by the Govt. to have the stocks held by FCI disposed of.

All these facts have been brought to the notice of the arbitrator in connection with the arbitration proceedings pending between FCI and the Ministry.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2|89-FA|FIC, dated 29.1.1990]

ANNEXURE

TERMS AND CONDITIONS FOR HANDLING & DISTRIBUTION OF FERTILISER BY FOOD CORPORATION OF INDIA AS PRINCIPALS ON OWNERSHIP BASIS.

1. *GENERAL*:

1.1 *Role of Ministry and Food Corporation of India*:

In order to enable Food Corporation of India (hereinafter to be referred to as 'FCI') to acquire bank credit for fertiliser handling and buffer stocking operations, as decided by Government of India, FCI will, with effect from 1.3.1976, handle all non-potassic imported fertilisers (hereinafter to be called 'Fertiliser') as principals on the basis of ownership of the material. They will, however, continue to work under the guidance of the Government of India in the Ministry of Agriculture (Department of Agriculture) (hereinafter to be referred to as 'Ministry' or as 'Department of Agriculture') whose instructions will be binding on the FCI.

1.2 *Exclusions*:

Handling of all non-potassic fertilisers by FCI will be subject to any exclusions decided by the Ministry provided that no major change would be made without due notice to Food Corporation of India.

1.3 *Taking over of ownership of existing pool fertiliser stocks by Food Corporation of India*:

In respect of the existing pool fertiliser stocks as on 1.3.1976 at ports (both in berthed|and unberthed ships), port depots and inland depots, ownership will be transferred from Ministry to FCI as per book balances and corresponding money values. In respect of existing sub-standard fertiliser, the question of ownership and basis of monetary valuation will be decided jointly in consultation with Financial Adviser of the Ministry. Central Warehousing Corporation and State Warehousing Corporation units holding the existing pool stocks on behalf of the Ministry as on 1.3.1976 will be accountable to FCI for the stocks declared by them as per book balances. In respect of fresh arrivals, i.e., ships arriving at Indian ports on or after 1.3.1976, FCI will acquire ownership of the cargo by opening irrevocable letters of credit in favour of the Ministry. Write off sanctions in respect of differences between ground stocks and book balances, if any, prior to 1.3.1976 will continue to be dealt with the Ministry. With regard to difference between book balances and actual ground stocks as on 1.3.1976, for Ministry will adjust the value of the difference against the payment due from the F.C.I. for the fertiliser material. This adjustment will be made after the FCI have sent the proposal and after the Ministry have examined the same and found them in order. The difference would be adjusted, as far as possible, within three months of the receipt of the proposals from Food Corporation of India.

1.4 *Godowns owned by the Ministry*:

All fertiliser godowns owned by the Ministry at different ports and inland depots will be taken over by FCI with effect from 1.3.1976 on book value to be assessed by the CPWD. Whether this amount will be contributed by Ministry to FCI as Equity will be examined in consultation with Ministry of Finance.

1.5 *Discretion to F.C.I.*

Subject to the provisions of this document and any other directives issued by the Ministry, FCI will be free to handle fertilisers at their discretion.

2 *FUNCTIONS OF F.C.I.*:

2.1 *Nomination of discharging ports*:

Port nomination of non-potassic fertiliser vessels to be handled by FCI, will be done by FCI except for any changes that the Ministry might indicate.

2.2. *Unloading and handling at ports*:

FCI will unload fertilisers from ships and handle them at the ports. All arrangements, including stevedoring, lighterage, loading| unloading etc. in connection with these operations will be done by FCI.

2.3 *Despatch from ports*:

FCI will acquire ownership of fertiliser on the highseas, handle these at the ports and despatch them to destinations as per Despatch instructions given by the State Government and other allottees or to buffer and intermediate storage at ports, port depots or inland depots as the case may be.

2.4 *Storage*:

FCI will arrange for buffer and intermediate storage in ports, port depots and at inland depots. They will be free to arrange storage as per their requirements subject to any specific directives regarding method of handling, locational pattern etc. by the Ministry.

2.5 *Supplies to allottees*:

Supplies of fertiliser to the allottees|sub-allottees will be made by FCI in keeping with the allotments made by the Ministry and subject to any instructions issued by the Ministry regarding priority, proportion etc. FCI will also allow 60 days credit to the State Governments|Agencies|Allottees from the date of despatch of the material including 5 days to be allowed for processing of papers and documents. Supplies will only be made on the receipt of irrevocable letters of credit from the allottees|sub-allottees. If the allotment and despatch instructions are more than the availability of fertiliser stocks, FCI will made supplies proportionately to different State Government agencies, subject to such instructions regarding weightages, etc. which may be given by the Ministry from time to time and subject to operational constraints.

2.6 *Determination of unloaded quantity*:

In the case of bulk fertiliser shipments, quantity unloaded and received by FCI will be determined by draft survey except where irrangements for mechanised weighment are in force/introduced. If B|L quantity is less than the quantity indicated by the draft survey, Bill of lading quantity will be taken as the quantity unloaded and received by the FCI. In the case of bagged fertilisers, this quantity will be determined as *per Port Out Turn Report and Survey shortage.*

(—Added vide addendum No. 12-77|78-MSHU dt. 1.3.76)

2.7 *Demurrage/Despatch*:

Demurrage|Despatch in respect of fertiliser shipment will be on FCI's account, except that demurrage resulting purely from preberthing detention due to non-availability of berth for the ship in question will be on Ministry's account. In respect of FOB Contracts in which ships are fixed by TRANSCHART finalisation of laytime statements and authorisation of payment will be made by TRANSCHART as at present. High Commission of India, London will make payment of demurrage in respect of foreign flag vessels on account of Department of Agriculture.

In case of ships under C&F contracts, Food Corporation of India will compile the statement of facts along with all relevant documents and forward the same to the Department of Agriculture so that the time sheets are finalised. Ocean Freight will not have to be paid by Food Corporation of India—

—Amended vide amendment No. 12-77|68-MSHP dated 2.12.80. 'Demurrage/Despatch in respect of fertiliser ships handled by Food Corporation of India will be on Department of Agriculture Account'.

The above amendment will take effect from 1.4.78. —subsequently amended vide amendment No. 12-77/68-MSHP dated 30-3-81.

2.8 *Voyage shortage claims*:

Since the Bill of Lading in favour of the Ministry and FCI will pay on the basis of landed quantity, voyage shortage claims will be processed by FCI and decided by the Ministry. In this connection legal documents in local courts will be signed on behalf of President of India by FCI officials to be nominated as Regional Directors (Fertilisers) by the Department of Agriculture on the same lines as is being done by Regional Directors (Food) at present or by FCI officials to be given Power of Attorney by the Ministry. Plaints in respect of suits to be filled in this connection will have to be signed by Regional Directors (Fertilisers) or by the authorised FCI officials on Power of Attorney on behalf of the President of India. In respect of fertiliser arriving, in damaged condition, claim will be lodged by the Ministry against the suppliers in keeping with the Surveyors report and necessary compensation in keeping with the Surveyors report, will be given to FCI.

2.9 *Disposal of sub-standard fertiliser*:

Disposal of sub-standard fertiliser will be done by the FCI at their descretion but keeping in view the provisions of the Fertiliser Control Order and subject to any directives issued by the Ministry from time to time.

2.10 *Purchase of gunny bags*:

Gunny bags, Polythene liners, jute twin etc. required for packing bulk fertiliser will be purchased by FCI through DGS&D or any other agency they consider suitable.

2.11 *Operation and maintenance of unloading and handling Projects equipments at Ports*:

FCI will maintain and operate bulk fertiliser unloading and handling projects and equipments installed or purchased by the Ministry at different ports except if indicated by the Ministry to the contrary in respect of particular port. The cost of operation and maintenance will be on FCI's account and will be built into the remuneration of FCI on the basis of full utilisation of the equipment. This will be subject to the use of these facilities being allowed to other agencies handling potassic fertiliser, fertiliser raw material like rock phosphate etc. as decided by the Ministry. Hire charges from other users as decided by the Ministry will be recovered by FCI and passed on to the Ministry.

2.12 *Submission of periodical reports and data*:

FCI will furnish the data required by the Ministry. They will also submit the reports and returns as indicated and prescribed by the Ministry from time to time. Correspondence if any with other Ministries will be endorsed to the Department of Agriculture to keep them informed and to enable them to deal with any reference from those Ministeries in future.

2.13 *Facilities for spot checks by Ministry officials*:

FCI will provide facilities and assistance in any spot checks of operations by officials of the Ministry.

2.14 *Taking over of surplus personnel in the Ministry, if any*:

If as a result of taking over the handling of fertilisers by FCI on ownership basis, any personnel whose lien is borne in the Ministry of Agriculture, including Pay and Accounts Office is rendered surplus, they will to the extent possible, be taken over by FCI in not lesser than equivalent grades subject to the willingness of the personnel concerned.

The number and grades of staff which would be rendered surplus consequent to the change over will be worked out and the arrangement for absorption in the FCI will be finalised jointly.

2.15 *Sale Price*:

FCI shall supply fertiliser at such prices as may be fixed by the Government from time to time.

2.16 *Maintenance of an efficient and economical fertiliser handling .. and distribution system*:

FCI will maintain an efficient and economical handling and distribution system.

3.0 *Function of the Ministry*:

3.1 *Overall Policy*:

Overall policy in respect of handling, distribution storage etc. will be decided by the Ministry.

3.2 *Allotments*:

The Ministry will assess the requirements of fertiliser of the States and other agencies, periodically and on the basis of the assessment, periodical allotment will be made under intimation to Food Corporation of India.

3.3 *General terms and conditions of supply*:

The Ministry will decide the General terms and conditions of supply to allottees after taking into account the views of FCI also in the matter. The existing instructions on the subject will continue till they are changed by Ministry.

3.4 *Weightages and priorities to different States etc.*:

Ministry will decide any weightages and priorities to be given to any States/Agencies at the time of allotment of supply.

3.5 *Bagging specifications*:

Bagging specifications for different types of fertilisers will be decided by the Ministry who will take into consideration various factors like chemical and physical properties of different types of fertilisers effects of handling and transportation and storage etc.

3.6 *Mechanised handling project and equipment*:

Provision of fertiliser mechanised unloading and handling projects and equipment will be planned, processed, financed and executed by the Ministry who will consult FCI also while planning these. On completion of the projects, the Ministry will hand them over for operations and maintenance to FCI, Port Trust or any other organisation to be decided in each case. The ownership of these projects and equipment will remain with the Ministry and these will utilised by FCI/IPL and other users as indicated by the Ministry.

3.7 *Liasion with other Ministries*:

The Ministry will keep liasion wit hvarious other Ministries regarding fertiliser port handling, distribution, movement and other problems as found necessary. In particular it will maintain liasion with the Railway Board regarding clearance of fertiliser by rail from different ports and interior depots and with the Ministry of Transport and Shipping for berths and other port facilities required for expeditious and efficient handling of all fertilisers.

3.8 *Disputes between FCI and State Governments/Agencies*:

Any unresolved disputes between FCI and State Government or other allottees will be referred to the Ministry for decision.

3.9 *Voyage losses*:

In voyage loss cases, the Ministry will take decisions regarding the filling of the suit or referring to arbitration or for dropping of the claim. FCI will, however, process the cases through Regional Directors (Fertiliser) or FCI officials through Power of Attorney in consultation with the local Law-Ministry Units. Write-off sanctions also will be issued by the Ministry if they are beyond the delegated powers of the Regional Director (Fertiliser) or the authorised FCI officials.

3.10 *General monitoring and watch of operations*:

The Ministry will do the general monitoring of and keep a watch on fertiliser discharge, handling, transportation and distribution operations.

3.11 *Endorsement of shipping documents*:

After intimation regarding opening of irrevocable L/C in respect of each shipment is received from the Bank by the Ministry, the Bill of lading will be endorsed in favour of FCI and handed over to them so that they can take delivery of the cargo of each shipment and handle the vessels. Other shipping documents will also be forwarded to FCI alongwith the endorsed B/D.

3.12 *Credit to FCI:*

The Ministry will give 60 days credit to FCI from the date of completion of unloading of each ship including 5 days to be allowed for processing of papers and documents. The LC opened by FCI will be encashed accordingly.

3.13 *General Average:*

General Average cases will be dealt with by the Ministry in consultation with the ISM, London. If any contribution is to be made in this regard it will be done by the Ministry.

3.14 *Fixation of Price:*

The selling prices of fertiliser will be fixed by the Government from time to time for all categories of consumers/buyers.

4.0 *TRANSITIONAL ARRANGEMENTS:*

4.1 *Ships completed discharge prior to* 1-3-1976.

For ships which completed discharge prior to Zero hours of 1-3-1976, the Remuneration as far as port handling is concerned will be on the basis of the old system prevailing upto 29-2-76.

4.2 *Discharging ships on* 1-3-1976:

For vessels which arrived and commenced discharge prior to 1-3-1976 and are still under discharge the basis for payment of remuneration will be same as in the revised procedure.

4.3 *Ships commencing discharge after zero hours of* 1-3-76:

Ships which will commence discharge after zero hours on 1-3-1976 will be dealt with by FCI under the revised system and remuneration for these will be paid on the basis of the revised system.

4.4 *Fertiliser stocks and gunny bags as on* 1-3-1976:

All the stocks of fertilisers and gunny bags including HIPE bags, polythene liners and jute twine, including sub-standard fertiliser, second hand gunny bags, at ports, port depots and at inland depots and also stocks in transit will be taken over by FCI as per book balances. Valuation of fertiliser stocks will be done as per para 1.3 and of other material as per book or depreciated value as decided by Financial Adviser of the Ministry. As for the balance supply of gunny bags, polythene liners, jute twine as on 1-3-1976 against the indents placed by the Ministry with the DGS&D, the Ministry will inform DGS&D to supply these to FCI but the cost of balance supply will be realised from FCI by DGS&D direct.

4.5 *Stocks in Transit as on* 1-3-76:

Figures of stocks despatched to any buffer storage godowns prior to 1-3-76, but received at the buffer storage godowns after zero hours of 1-3-76, will be added to the stocks on 1-3-76 for determining the stocks taken over by the FCI. Similar procedure will apply to other materials like bags, twine etc in stransit as on zero hours of 1-3-76.

4.6 *Existing agreements and arrangements:*

All agreements executed and arrangements made by the Ministry with parties other than FCI will be honoured by FCI till the date of expiry of such agreements/arrangements. For example, storage/sections isued for SWS/CWC by the Ministry will be honoured till the date of their expiry. Any further agreement or arrangements on or after the expiry of the existing agreements/ arrangements will be done by the FCI on conditions to be negotiated and decided by them. Similarly any accommodation taken by FCI on or after 1-3-76 from SWC/CWC will be taken on the terms to be finalised by FCI.

4.7 *Existing instructions:*

All instructions issued by the Ministry to Zonal Office of FCI, and Managing Directors of SWC/CWC will be treated as valid until cancelled or amended by FCI Headquarters under intimation to the Ministry. Instructions within the purview of the role of the Ministry as per this document will be amended by FCI Head Office only with prior concurrence of the Ministry.

5.0 *HANDLING CHARGES PAYABLE TO FCI*:

5.1 *Pre-determined per tonne sum:*

FCI will be paid by the Ministry handling charges for their functions on a pre-determined lump sum per tonnes basis taking into account the actual cost of various elements of operations in the past.

This will not include certain fixed and statutory items of payment like customs duty etc. which will be reimbursed on actuals. This will also not include the handling charges for the handling of the existing stocks already on the ground as at zero hours of 1-3-76 for which handling charges will be fixed separately for different categories of such stocks taking into accounts their locational stage and the expenditure already incurred on various earlier stages of handling. The handling charges in all cases will be decided by the Financial Adviser of the Ministry.

5.2 *Review of handling charges in the light of factuals*:

The handling charges to be allowed to FCI for a particular year as per sub-para 5.1 above will be reviewed after the close of the year in the light of the actual expenditure incurred by FCI. If the actual handling charges incurred by the FCI as per the audited accounts turn out to be different, the handling charges for the year in question will be adjusted accordingly, subject to satisfactory reasons for any increase in handling charges being given by FCI.

5.3 *Handling changes with effect from* 1-3-76:

As regards the handling charges to be paid from the date of the immediate change over i.e. 1-3-76, it will be fixed in the first instance provisionally by FA of the Ministry till the final figures are arrived at by him. These final figures will have retrospective effect from 1-3-76 and will be subject to the review indicated in para 5.2 above.

6.0 *ACCOUNTS AND PAYMENTS*:

6.1 *Amount to be paid by the FCI*:

For the stocks being taken over, the FCI will pay to Ministry the value of the fertiliser on the basis of pool issue price (as applicable to State Governments) minus the handling charges as applicable vide pare 5 above. For fertiliser sold to certain allottees at prices higher than the State Government price, corresponding difference in amount will be refunded to the Ministry by demand draft.

6.2 *Payment by FCI for ground stocks as well as stocks in the vessels at zero hours on* 1-3-76:

For all the stocks of fertilisers at the Wharf, transit sheds, port godowns, inland depots, stocks in transit (as per para 4.5) and also stocks in the holds of the discharging ships. FCI will pay to the Ministry the value on the basis indicated in para 6.1 above (pool issue price as applicable to the State Governments minus the handling charges indicated as in para 5). In regard to the stocks in the holds of the discharging ships also payment will be made through LCs.

6.3 *Payment by FCI for waiting and berthed (excluding discharging ships) ships at zero hours on 1.3.76*

For ships waiting for berthed without commencing discharge at zero hours on 1.3.76, FCI will open irrevocable letter of credit in favour of the Ministry at New Delhi for the bill of lading quantity as per procedure indicated in para 6.1 above.

6.4. *Payment by FCI for ships arriving after zero hours of* 1.3.76:

For ships arriving at Indian Ports after zero hours of 1.3.76, FCI shall open irrevocable letter of credit in favour of the Ministry at New Delhi 15 days before estimated arrival of each vessel exécept that in case where 15 days are not available from the date of issue of instructions for the change in system, LC may be opened immediately on issue of the instructions. The LC will cover an amount as indicated in para 6.1 above.

6.5 *Final payment due by FCI in respect of shipments*:

After the quantity unloaded from a ship has been determined as per para 2.6 above the final amount payable by FCI to Ministry for that shipment will be determined in the following way:

1. Cost of Bill of Lading quantity	X
2. Handling charges on BL quantity	Y
3. Amount covered by LC	X—Y
4. Cost of quantity landed (as per para 2.6 above)	Z
5. Handling charges on landed quantity	W
6. Final amount payable by FCI	X—Z
7. Amount to be reimbursed by Ministry to FCI	(X-Y)-(Z-W)

Amount to be reimbursed by the Ministry to FCI as indicated above will be adjusted in the final invoice of that shipment provided the relevant documents indicated in item 4 above are received from the FCI by the Ministry within the credit period indicated in para 3.12 above or otherwise in the invoice of the earliest possible shipment.

6.6 *Price variation*:

On every price revision ordered by the Ministry, FCI shall debit or credit to the Ministry as the case may be the price differential on stocks held by FCI as to closing of the day prior to the revisions of price becoming effective so as to ensure that they do not undergo loss or get unintended benefit due to these.

7. *CVIL CREDIT NOTES*:

7.1 *Despatch by FCI*:

FCI will return all the unutilised Civil Credit Notes as at zero hours on 1.3.76 to the Ministry and use their firm credit notes for despatch or fertilisers by rail after zero hours on 1.3.76.

7.2 *Despatch by CWC/SWC*:

Since the warehouses of SWC|CWC are scattered all over the country, it may not be possible for FCI to reach their firm credit notes to the outlying warehouses and also get the specimen signatures of the individual warehousemen, approved by the Railways by 1.3.76. The Ministry will, therefore, allow FCI to use Civil Credit notes for rail despatches of fertiliser by CWC|SWC upto 31.3.76. The amount on account of rail freight involved in such despatches under civil credit notes during 1.3.76 to 31.3.76 will be paid by FCI to the Ministry. The unutilised civil credit notes with SWC/CWC as on 1.4.76 will be refunded to the Ministry.

8.0 *PERIOD OF REVISED ARRANGEMENTS*:

These terms and conditions will be valid for one year with effect from 1.3.76 after which the position will be reviewed.

9.0 *SETTLEMENT OF ANY DISAGREEMENT*:

In the event of any disagreement, the decision of the Government in the Department of Agriculture will be final.

Recommendation

The Committee note that a policy decision was taken in 1980 by the cabinet sub-Committee that there should be two sets of technologies and this policy decision is also supported by the industry. The Committee, however, note that though in pursuance of this policy, two technologies one of M|s. Haldor Topsoe and the other of M|s. Pullman Kellog were selected in 1980, in the plants established after 1980, only the technology of M|s. Haldor Topsoe was adopted. The Committee also understand that compared to units with Haldor Topsoe technology, the one established with Kellog technology has a lower energy consumption and better capacity utilisation. Due to non-production of documents for scrutiny by the Committee, the matter could not be investigated by the Committee. However, from the material made available to them, the Committee are not convinced that the continuous preference shown for Haldor Topsoe technology has been based on objective criteria.

The Committee recommend that the reasons for non-implementation of policy decision to have more than one technology should be investigated, as also the circumstances responsible for the preference to Haldor Topsoe, notwithstanding the better performance in the plant established with Kellog technology and responsibility fixed. The Committee further recommend that the cost of wrong decision if any, to the country should be quantified as also its effect on fertiliser pricing.

[Sl. No. 15 (Para No. 7.8) of Appendix IV to 167th Report of PAC (*Eighth Lok Sabha*)]

Action Taken

The recommendation of the PAC can be divided into two parts:

(i) As against the policy decision taken by the Government in 1980 that there should be two sets of technologies for Ammonia. For the gas based plants, only the technology of Halder Topsoe was adopted in plants subsequent to 1980. The Committee recommends that the reasons for non-implementation of the policy decision to have more than one technology should be investigated and responsibility fixed. (ii) The Committee noted that compared to the units based on the Haldor Topsoe technology, the one established with Kellog technology has a lower energy consumption and higher capacity utilisation. The Committee recommend that notwithstanding the better performance of the plant established with Kellog technology, the circumstances responsible for the preference of Haldor Topsoe technology should be investigated and the cost of wrong decision, if any, to the country should be quantified as also its effect on fertiliser pricing.

Regarding point (i), it is stated that a decision was taken in a meeting held by the Finance Minister on 12-10-83 that the Ammonia plants in the Central Public/Cooperative sectors and the State sector would adopt Topsoe technology and the three private sector plants would go in for Kellog and Topsoe technology with both technologies getting due representation. The above decision was taken in the interest of commonality of technology in the public/cooperative/state sector projects.

In a subsequent meeting held by the Finance Minister on 8-12-83 it was further decided that as regards the plants in the private sector, a decision on the Ammonia technology would be taken by the parties concerned in consultation with the Ministry of Chemicals & Fertilisers.

In regard to point (ii), it can be said that production or energy consumption in a particular unit not only depends on the technology but also maintenance of the plant and the infrastructure of the unit. It so happened that for the Thal plant which was not having a high level of production as compared to that of Hazira, there was difficulty from the very beginning with regard to the quality of water supplied by Maharashtra Industrial Development Corporation (MIDC). The water treatment plant was designed based on the specifications of raw water given by MIDC before the start of the project. However, when the actual supply of water materialised it was from a different source; as a result one of the impurities in water viz., colloidal silica was on the high side as compared to the design. This found its way into the steam used for driving various turbines of the compressors and resulted in the deposits in the turbine decreasing their efficiency and output and increasing the consumption of energy. There was also a problem of corrosion in various water cooled coolers resulting in break-down and low production coupled with high consumption of energy. RCF have since taken remedial action to arrest the ingress of colloidal silica into the plant and also changed many of the coolers which had corroded. As a result, the performance has been steadily improving. However, the performance of the subsequent plants based on Topsoe technology at Vijaipur and Aonla has been very good. The Vijaipur plant has been performing at 109 per cent capacity utilisation from April to September, 1989 and the energy consumption has been around 8.34 million K. Cal. per tonne of Ammonia. The Aonla plant has performed at 118 per cent capacity utilisation from April to September, 1989 and the energy consumption has been around 8.2 million K. Cal. per tonne against the guaranteed achievement of 7.74 million K. Cal. per tonne of Ammonia. As against this, the performance of the Hazira plant has been in the range of 8.7 to 8.8 million K. Cal. per tonne of Ammonia in the two quarters of the current year.

It would thus be seen that the selection of Topsoe technology is not directly responsible for the performance of Thal as the same technology used in Vijaipur and Aonla plants has shown much better results as shown above. There is, therefore, no question of any wrong decision in regard to the technology.

As far as fertiliser pricing is concerned, it may be clarified that the norms of consumption of the Thal plant are no more than those of the Hazira plant and so the Thal plant is not getting anything more than the Hazira plant from consumption point of view.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

CHAPTER IV

RECOMMENDATIONS AND OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee have been informed that the import level for each year is determined by the Committee of Secretaries and within that limit, the Steering Committee regulates the import, after taking periodical stock of the supply and demand position. The Committee, however, note from the minutes of the meetings of the Steering Committee for the years 1981-82 and 1982-83 that the minutes do not indicate the assessment of demand in terms of number of tonnes needed, extent of indigenous production, stock position etc. before particular level of import was decided. All that the minutes say are that a review of needs was done and that the Steering Committee decides at a particular level of import. The Committee regret to note that the Steering Committee failed to apply themselves with the seriousness required for such an important task. The Committee urge that assessment of actual needs for import should be made on the basis of reliable data in respect of the consumption needs and the minutes of the meetings should indicate, an overall assessment with facts and figures so that it will be feasible to identify where the assessment failed for appropriate remedial action in future.

[Sl. No. 2 (Para No. 2.17) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action Taken

The reommendations of the Committee are noted. It is assured that efforts are continuously being made to improve the monitoring of consumption needs, porduction and imports. Even during 1989-90 the imports of MOP were scaled down by two lakh tonnes after the demand and supply position was reviewed by the Steering Committee.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendation

The Committee understand that speial rebates that are allowed for clearance of accumulated stock are not separately exhibited in Government account because the information on rebate allowed to FCI has been given with reference to accounts of FCI. In view of the position the Committee recommend that the Government should indicate separately in their account the normal subsidy and special subsidy paid.

[Sl. No. 13 (Para No. 5.9) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action Taken

In Govt. Accounts, the expenditure relating to imported fertilisers including handling charges is shown under the Head 'Purchase of fertilisers below Major Head-2401, Crop Husbandry. The recoveries realised from the sale of fertilisers are shown as recoveries under the above Head. The difference between the expenditure and receipts become the invisible subsidy on imported fertiliser. The Special Rebates allowed for the indigenous manufacturers were paid by the FCI according to the orders issued by the Govt. in this regard. The payments so made were to be reimbursed to the FCI based on their Audited statements. The payment towards Special Rebate Scheme amounts to Rs. 76.25 crores. Out of this, an amount of Rs. 7.95 crores has been withheld as the FCI has not furnished the requisite details. The matter is under arbitration. Special Rebates are accounted for in the handling charges paid to FCI Special rebates allowed to FCI being an item of expenditure for the disposal of old stocks of imported, fertiliser, the expenditure thereon has been booked rightly under the Head 'Purchase of fertilisers' under which the entire expenditure relating to imported fertilisers is booked.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendation

The Committee are unhappy to note that with a view to relieve Central budget from deficit on account of financing fertilizers import, Ministry of Finance decided in 1976 to finance its imports through banking channels. This decision led to steep increase in handling charges of imported fertilizers. The finance charges alone which were negligible earlier as no interest liability to banks etc. was there, rose manifold from Rs. 126.40 in 1978-79 to Rs. 732.95

in 1981-82. Thus, the Committee find that decision to finance imports through banking channels was most unfortunate as it inflated the cost of fertilizers. It is alarming to note that as against the cost of Rs. 2079/- per tonne of imported fertilizers in 1981-82, cost of handling charges paid to FCI was @ Rs. 1621/-. Charges on account of port-handling and its dues, transit and storage losses, storage charges and contingencies also increased substantially. This increase had been mainly due to the fact that Food Corporation of India which was made principals and entrusted with the imports of fertilizers had no marketing net-work and could not compete with the indigenous manufacturers who were also inducted to handle imported fertilizers since 1978-79 under multi-agency system. So the stocks with FCI rose leading to highest cost on storage and financing charges.

[Sl. No. 22 (Para No. 13.7) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)

Action Taken

1. Central Government's budgetary deficit as on August, 1975 stood at Rs. 1234 crores. A large part of this deficit was on account of the financing of the fertilizers Pool and stocks of imported food. The procedure for financing the fertilizers pool was examined and the main difficulty arising out of the procedure in vogue at that time was that it was very difficult to get an accurate picture regarding the extent of financing of ferilizers pool operations by the Central Government at any point of time. Secondly, the existing system of raising debits by the Chief Pay & Accounts Officer against some State Governments was time consuming and resulted in delayed payment to Government of India. Apart from the above, it was seen that the Government funds blocked on imported fertilizers varied substantially from time to time accordingly to (i) volume of imports coming in (ii) sale of fertilizer to the States depending on agricultural season, fertilizers prices etc.; and (iii) outstanding dues from the State Governments on accounts of procedural delays. The combined effect of these factors contributed in blocking of Central funds at that time.

2. With such large fertilizers imports, it became necessary to reconsider the method of financing of stocks on the high seas and stocks in the FCI godowns. It was felt that while a base level stock with the FCI even at the end of an agricultural season could be regarded as a permanent reserve deserving Government financing, the build-up stocks over this base reserve before an agricultural

season ought to be financed by the banks according to the cardinal principles of bank financing. In order to put this principle in action, FCI was entrusted with role of a 'Principal' instead of a mere handling and transport agent in fertilizer import operations. It was felt that this proposed arrangement would also improve the procedure and cut down delays in recoveries from the State Governments as the FCI as 'Principal' would then be responsible for such recoveries and maintenance of the accounts thereof.

3. A Committee was appointed by the Department of Agriculture and Cooperation to go into the question of expediting the recovery of sale proceeds from State Govenments within the system in vogue at that time. It was found that the FCI was a debtor to the Government of India to the extent of Rs. 250 crores due to various difficulties experienced by them in recovery of dues from various quarters. The main reason why the FCI could not pay this amount to the Government was owing to the fact that the banks did not agree to finance their outstandings with State Governments which were more than six months old and the rising requirements of funds for the Kharif procurement. A related question, which was drawing the attention of the Government was how the buffer stocks, which were likely to emerge by the beginning of 1976, were to be financed. On this account FCI required Rs. 300-400 crores. The Reserve Bank of India had naturally pleaded its inability to finance this stock. This issue was considered by the Committee of Economic Secretaries in a meeting held on 1.7.1975 and the Committee recommneded that the work of handling and distribution of imported fertilizers should be handled by the FCI as "Principals" on ownership basis. This decision, besides other advantages, would enable FCI to finance the stocks held by them largely by the banks and thereby relieve the Central Budget a good deal of strain inherent in the system of financing at that time.

4. The growth of fertilizers consumption was quite good upto 1978-79 which increased from 17.8 lakh tonnes in 1968-69 to 51.17 lakh tonnes in 1978-79. The indigenous production of fertilizers had increased with more number of factories coming up and the indigenous manufacturers had developed their own marketing net work. The FCI, however, did not provide an efficient and economic handling and distribution system as per clause 2.16 of the agreement entered into by them with the Government of India when they were made Principals of the fertilizers. FCI's handl-

ing charges were to be paid on actuals subject to satisfactory explanation for excess expenditure incurred by FCI. Since the indigenous production of fertilizers had increased and the manufacturers had developed their own marketing net work, multi agency system was introduced in May, 1978 inducting HFC, SPIC, MCF and IPL for handling non-potassic fertilizers at ports which were near their factories and near their marketing zones so as to reduce the cost of handling as well as to handle the imported fertilizers with more efficiency.

5. In the light of the above it will be seen that the Government adopted a pragmatic approach in entrusting the handling of imported fertilizers to FCI as 'Principals' from 1976. Under these circumstances, the conclusions drawn merit reconsideration.

[Ministry of Agriculture (Deptt. of Fertilizers) O.M. No. 15-2/89-FA/FIC, dated 29.1.1990]

Recommendation

The Committee are uphappy about this state of affairs and particularly because concerted effort appears to have not been made by the Department of Fertilizers and the FCI to reduce the cost on this account.

[Sl No. 23, (Para No. 13.8) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action taken

The Multi Agency System was introduced by the Government in May, 1978 so as to reduce the cost of handling as well as to improve the efficiency of handling of imported fertilizers. But FCI's sales were adversely affected because they could not compete with the newly introduced agencies on account of the following reasons:—

(a) Absence of any adequate marketing network with the FCI; and

(b) Low acceptability of the material with the FCI due to non-standardized weight and the poor quality of bags used.

Due to the above factors, FCI's sales were slower in comparison to other handling agencies and tre position worsened sharply after 1980-81. As a result of this, the FCI was carrying an inventory of 16.78 lakh tonnes of material in May, 1982. To reduce the inventory carrying cost of the FCI, the following steps were taken by the Government for the disposal of the old stocks lying with the FCI from time to time:—

(i) Allocation of shipments to the FCI was stopped from 1982-83;

(ii) Subsequent to the above, FCI was asked to set up its own marketing organisation with a dealer network;

(iii) Apart from the above, some incentives in the form of special rebate and standardisation charges, etc. were given in September, 1982 on FCI's stocks lifted by indigenous manufacturers;

(iv) Since the above scheme did not bring the desired result, a Special Rebate Scheme was introduced in June, 1983 to clear these stocks; and

(v) thereafter in August, 1984, FCI were finally instructed to liquidate the remaining stocks by 30-9-1984 failing which no inventory carrying cost would be paid to it.

As a result of the above concerted efforts made by the Government, the bulk of the stocks lying with the FCI had been liquidated. The total stock at the end of March, 1986 came down to 1.34 lakh tonnes. This has reduced the interest liability of the Government which would have been payable to the FCI on the huge stocks held by them.

In August, 1986, it was also made clear by the Department of Agriculture & Cooperation that the FCI should take their own decision in their best commercial judgement and dispose of the remaining non-standard material keeping in view the provisions of the Fertilizer (Control) Order, 1985. However, FCI failed to dispose of the entire stocks, both sound and unsound, for which it is entirely responsible. The FCI is still holding stocks to the tune of about 0.94 lakh tonnes (November, 1989). In the circumstances pointed out above, the conclusions drawn merit reconsideration.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendation

The storage and transit losses in the case of FCI was also quite high at around 1.96 per cent of value in 1976-77. It further went upto 3.64 per cent in 1981-82. The normative loss allowed on this account was 1.5 per cent. It involves 3.28 lakh tonnes of material valued at Rs. 69.20 crores and had been a point of dispute between FCI and the Ministry of Agriculture for many years and has been referred to arbitration. The Committee would like the Ministry to get the arbitration award expedited as well as devise the ways and means to reduce the storage and transit losses to a relatively low and acceptable figure.

[Sl. No. 24, (Para No. 13.9) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action taken

The dispute between the FCI and this Ministry has been referred to Arbitration on 21-6-1989. The award is still awaited. The Arbitrator has been requested to expedite the matter. Further progress will be intimated to the PAC.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendation

The Committee further note that there was some dispute between FCI and the Ministry of Agriculture on total losses suffered by FCI in handling imported fertilizers and the accounts of the same have not been rendered. The FCI also could not comply with the directive of the Ministry to liquidate entire stocks of fertilizers by 30-9-1984 and it has preferred an inventory carrying cost and interest claims amounting to Rs. 16.88 crores for the period 1-10-1984 to 31-3-1985 and of Rs. 23.55 crores for the year 1985-86. The Committee trust that these disputed points lingering on for years would be sorted out expeditiously. They would like to be apprised of the latest position in this regard.

[Sl No. 25, (Para No. 13.10) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action taken

The position has been explained in the Action Taken Note against Para 13.9.

[Ministry of Agriculture (Deptt. of Fertilisers) O. M. No. 15-2/89-FA/FIC, dated 29-1-1990]

Recommendation

The Committee are at the same time dismayed that Food Corporation of India could not liquidate the stock by 30th September, 1984 in spite of demand in the market and directive by the Ministry of Agriculture. The Committee considers that this was due to the inability of Food Corporation of India to develop an adequate distribution and marketing net work. The Committee are of the view that this matter has not so far received proper attetntion of the Ministry of Supply and the Food Corporation of India and recommend that the matter be studied in depth and appropriate remedial measures taken expeditiously.

[Sl. No. 26 (Para No. 13-11) of Appendix IV to 167th Report of PAC (8th Lok Sabha)]

Action taken

The primary task of the Food Corporation of India is handling foodgrains mainly wheat and rice. Historically the Food Corporation had inherited the work of handling fertilizers from the erstwhile Regional Directorate of Food and in view of the infrastructure available with the Food Department and later with the Food Corporation of India for handling imported goods at the major ports, the FCI handled fertilizers on behalf of the Government of India earlier on agency and later from 1-3-76 as principals. The need, therefore, for developing adequate distribution and marketing net work exclusively for fertilizers by the Food Corporation of India was not felt.

2. FCI has explained that for the reasons stated below it could not liquidate the stocks by 30th September, 1984:—

(i) As per he procedure in vogue, allotments for supply of fertilizers were issued by the Deptt. of Agriculture and it was only on the basis thereof that the stock could be released by the FCI. In the past, despite huge inventory of stocks held by the FCI, the Deptt. of Agriculture & Co-operation had been issuing unmatching allotments ex-FCI. Even after the allotments were made by the Ministry of Agriculture for various seasons the State Govt. had not been issuing full-re-allotments in favour of their institutional agencies/reallottees with the result that the actual lifting from FCI stocks was affected.

(ii) In October, 1982, a quantityt of 2.40 lakh tonnes of Urea/DAP was allotted in favour of the manufacturers. As per the terms of sale, the stocks, if any, left unlifted on the expiry of 180 days were to be treated as transferred to the manufacturers concerned on the book balance. A quantity of 0.81 laks tonnes was left unlifted by the mnuacturers on the expiry of 180 days, but the same could not be transferred to them on book balance because the LC towards the cost of these stocks was not opened by the manufacturers concerned despite the agreed terms. The final decision regarding transfer of these stocks to the manufacturers has not been conveyed by the Department of Agriculture & Cooperation so far (February, 1990).

(iii) These stocks were allotted to the manufacturers under very liberalised terms besides allowing them inventory carrying cost upto Rs. 120/- per tonne per month for Urea and Rs. 195/- per tonne per month for DAP from June, 1983 which had never been allowed earlier while issuing allotments of pool fertiliser. Though these allotments were made, the manufacturers/agencies did not lift the stocks despite attractive terms.

(iv) FCI was earlier being used as a buffer holding agency. It was only in April, 1982 that the FCI was authorised by the Deptt. of Agriculture & Cooperation to establish its own marketing set up and appoint dealers for retail sale of fertilizers. About 1,000 dealers had since been appointed by the FCI in various States besides opening 50 retail outlets at the FCI's own centres for direct supply of fertilizers to the farmers. After the marketing net work had been established by the Corporation, a ban was imposed by the Punjab State Government for sale of DAP by the Corporation through its retail dealers. A similar ban/restriction on the sale of FCI's Urea and DAP through retail dealers in UP was enforced by UP State Government in September, 1983. Though approached a number of times, the Ministry of Agriculture was not able to persuade the Punjab and UP State Governments to lift the ban/restrictions. Consequently, ever after the diversification of marketing activities by the FCI and establishment of a well spread dealers net work, FCI could not dispose of fertilisers in retail. The ban/restriction by the Punjab and UP State Govenments was not in force since November, 1988 when FCI started disposing off its left over sound fertilisers from November, 1988 onwards.

(v) After FCI had generated demand for its fertilizers, it was planned to move surplus fertilibers from Rajasthan in July, 1983 (where the same had been lying without any demand for the last four years) to Andhra Pradesh. But the said movement was disallowed by the Department of Agriculture & Cooperation k.e.f. 29-9-1983 thereby causing another difficulty in the disposal of fertilizers by the FCI.

(vi) Eeven though the manufacturers had defaulted to lift the stocks against their earlier allotments, they were allotted 10.50 lakh tonnes of Urea and DAP by the Department of Agriculture & Cooperation sometimes even by effecting reductions. As per the revised allotments conveyed by the Department of Agriculture & Cooperation as on 15th November, 1983, 13.26 lakh tonnes of Urea and DAP were allotted in favour of the manufacturers agencies. This had adversely affected the pace of lifting and the disposal of the stocks from FCI godowns.

(vii) Stocks were lying in remote areas without lifting by the allottees. The necessity to collect at one focal point and get it repacked also was time consuming. As the stocks were quite old, they had become lumpy and were suspected to be sub-standard by visual appearance, and become cause for rejection by reallottees. Ananlysis of Nutrient content by reputed laboratories had also become necessary and so disposal had become slow in this process. In pursuance of the Deptt. of Agri. & Coopn.'s directions, vide letter No. 17-7/85-CT. II dt. 9-4-86 for getting the stocks analysed, in association with their inspectors, FCI vide letter dt. 30-4-1986 issued instructions to all the field officers for drawal of samples and get the same analysed in Faridabad Lab. In the meanwhile it was informed by the Deptt. of Agriculture & Coopn. vide their letter No. 17-7/85/CT. II dt. 30-5-86 that the work relating to fertilisers was transferred to Deptt. of Fertilizers. The Deptt. of Fertilisers vide their lr. No. 4-1/86-FA|Recc A&B dt. 3-10-86 expressed their inability for checking the quality of fertilisers for want of adequate arrangements. FCI however, on its accord already issued instructions to the field officers to go ahead with the process of drawal of samples without waiting for and associated representatives of the Deptt. of Fertilisers. Accordingly the work of drawal of samples was started and samples forwarded to Fertiliser control Laboratory, Faridabad. The process of drawal of samples was time consuming and was not an easy task as most of these left over stocks were not in free flowing conditions and had solidified in many cases and the containers were poor texure torn and tattered due to undue long storage and adverse atmospheric conditions. The Fertiliser Control Laboratory (F.C.L.) Faridabad also used to take months to analyse the samples & communication of the result. However, this process was continued and resultant sound stocks were arranged disposal through tender enquiry/negotiations as per the Deptt. of Agriculture & Coopn.'s approval conveyed on 19-4-89. With the result these left over sound fertilisers, are also under disposal to various private parties etc.

3. The FCI also commenced handling of imported fertilisers on its commercial account from July, 1984 in addition to the imported fertiliser handled on behalf of the Ministry of Agriculture. The FCI had been making continuous efforts for disposal of the imported fertilisers held by it on behalf of Ministry of Agriculture and on its commercial account. The disposal of fertilisers stocks started declining with the withdrawal of special rebate scheme in June, 1985. The FCI brought the matter to the notice of the Ministry of Agriculture in the periodical meetings and the Deptt. of Agriculture & Cooperation decided in May, 1986 that the stocks (2.26 lakh tonnes) lying with the Corpn. as on 1-6-86 being notionally transferred to four public sector fertilisers companies on agreed terms and conditions which stipulated that these companies would lift the stocks by December, 1986. However, due to poor response from them, FCI could dispose of very little quantity (0.30 lakh tonnes) between June and December 1986. Finding little response from these fertiliser companies, the Department of Agriculture & Coopn. after reviewing the position with the companies in February 1987 decided to allow more liberalised concessions including credit period of 5 months till Sept. 87. Despite these liberalised terms, these fertiliser companies could lift very negligible quantity (0.08 lakh tonnes). In September, 1988, it was decided by the Committee of Secretaries that FCI would consider suitable offers of discount as a "trade off" against inventory carrying cost to fertilisers companies as on incentive for disposal of the old imported stocks of fertilisers. Accordingly, FCI offered (Nov. 1988) additional concession to fertilisers companies, institutional agencies and fertilisers dealers registered under Fertiliser Control Order (FCO) but by this also the disposal of further quantity was very minimum.

4. Finding the poor response from the State Governments and its agencies and also fertilisers dealers under FCO, the Corporation had

made proposal in Feb. 1989, to the Deptt. of Agriculture for allowing the Corporation to dispose off the balance stock to public/private sector|cooperatives|companies, mixing|granulating units and private dealers licensed under FCO on the basis of rebates to be offered or through best available prices to be obtained as a result of tender enquiry or through negotiations. The sales were to be made in addition to the normal allocations and free of any restrictions placed regarding obtaining EC allocations/sub-allocations from the State Govt. The Deptt. of Agriculture in April, 1989 conveyed their no objection to the FCI's proposal for disposal of its un-sold stocks, barring CAN, through tender enquiry or negotiations. In April, 1989, the FCI had a total 1.14 lakh tonnes of sound fertilisers stocks, out of which 50,082 tonnes (including 9014 MT of CAN) were of old fertilisers held on behalf of Ministry of Agriculture. By adopting sale through tender/negotiations, the Corporation finalised contracts for disposal of 90,619 tonnes of sound fertilisers out of a total quantity of 1.14 lakh tonnes (including CAN) as on 15-11-89. A quantity of 0.63 lakh tonnes was already lifted by the parties upto the end of Feb. 1990 and the balance 0.28 lakh tonnes is under lifting. Out of balance qty. of 0.14 lakh tonnes of Fert., excluding 0.09 lakh tonnes of CAN, 4812 tonnes became sub-standard and was transferred to sub-standard account of Fertiliser. FCI is making efforts to dispose off balance qty. of 0.09 lakh tonnes. Instructions for disposal of sound CAN (9014 MTs) stocks are awaited from the Department of Agriculture & Cooperation (Upto Feb. 1990).

In the case of sub-standard fertilisers, out of a total quantity of 67388 tonnes, contracts have been entered into for 45,175 tonnes and quantity of 21591 tonnes was lifted till 28-2-90 and the balance qty. 23584 tonnes is under lifting. Action for disposal of balance fertilisers of 27025 tonnes (including fresh receipt of sub-standard fertilisers of 4812 tonnes added during April 1989 to February 1990) available is also being taken up vigorously by FCI.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA|FIC, dated 17-4-1990)

CHAPTER V

RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES.

Recommendation

The Committee note that the technology of M/s. C. F. Braun was recommended for two new plants by the Secretaries Committee but was recommended for one of the two new plants only by an Expert Committee, there being no agreement in the Expert Committee on the choice of technology for the other plants. The Cabinet sub-Committee, is however, reported to have rejected the technology of M|s. C.F. Braun for both the plants for certain specified reasons. From the information available to the Committee, it seems that reasons for rejection were not based on reliable performance figures or sound arguments. On the other hand, technically preference should have been for C.F. Braun technology rather than Haldor Topsoe technology when the decision was taken. The Committee regret to mention that their efforts to examine the matter independently has not been completed due to non-production of documents to which reference has been made before. In the circumstances, the Committee have to come to the conclusion on the basis of the materials available to them, that the decision to reject technology of M/s. C.F. Braun was not based on any objective and proven criteria and recommend that the entire issue may be thoroughly investigated by an Export Committee.

[Sl. No. 16 (Para No. 8.7) of Appendix IV to 167th Report of PAC (8th Lok Sabha)]

Action Taken

The recommendation of PAC to the effect that the entire issue of technology may be thoroughly investigated by an Expert Committee is under consideration. Further progress in the matter will be intimated to the P.A.C.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 17-4-1990)]

Recommendation

The Committee have been informed that when in 1980, Government decided to adopt Haldor Topsoe technology, the agreement was on the basis of transfer of technology. The Committee have also been informed by the industry that "a competent technological base has progressively been built up in the country for absorption of all assortment of imported technologies." In regard to establishment of plants, the Committee understand that had we continued with 900 tonnes capacity plants, no import of plant would be needed whereas for bigger size plants of 1350 tonnes, designing would need to be done by foreign contractors. Notwithstanding the reported absorption of technology, and agreement for transfer of technology by Haldor Topsoe, the Committee are surprised to note that foreign exchange requirement continues at a high level of about 30 per cent. Here again Committee's efforts to examine the issues independently failed due to non-production of documents. The Committee recommend that the necessity for and circumstances under which foreign collaboration is continued at present level may be investigated by a Committee.

[Sl. No. 17, (Para No. 9.12) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action Taken

It is not true that for 900 tpd plant no import of plant would be needed as would be seen from the statement at table 'A' in para 9.9 of the Report. There are some highly specialised equipment and machinery, instrumentation, pipes, valves and fittings which, regardless of the size (900 or 1350 tpd), are required to be imported. Nor is it true that for bigger size plants of 1350 tpd designing would have to be done by the foreign contractor. The fact of the matter is that for both 900 tpd and 1350 tpd plants there exists indigenous capability of design and engineering but since these designs have not been proven in actual operation, no entrepreneur would be prepared to make use of these designs. It is a fact that both PDIL and FEDO have absorbed the technology for Ammonia under their respective transfer of technology agreements. Since the promoters want the performance guarantee from the licensors of the technology, it is necessary that the basic design is also taken from them. Rest of the design engineering and procurement work is being done by the Indian engineering contractors. It may be mentioned that for the Shahjahanpur fertiliser project being implemented by Bindal Agro, PDIL is the prime consultant and only the basic design and limited expatriate supervision will be required from the overseas process picennors.

There is no direct relationship between the transfer of technology and the quantum of foreign exchange requirement for a project. Technology accounts for hardly 4 per cent of the total cost of the project. The major element in foreign exchange requirement is equipment which is necessarily to be imported. The Committee did not ask for any specific document pertaining to this aspect and so there is no question of non-production of relevant documents in this regard. The observation in the last sentence of the Para has been noted and further information will follow.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 17-4-1990)]

Recommendation

The Committee were informed in 1970 that for cost effectiveness, it would be necessary to establish big size plants. The Committee are now informed that prices of feed stocks/raw materials fuel etc. are centrally administered and hence industry have no control. Because of high cost of fertilizer plants, provisions for depreciation and interest on borrowings are high for big size plants. The Department have also stated that a specialised group had assessed a 900 tpd plant cheaper than a 220 tpd plant but have not compared the cost between a 1350 tpd and 900 tpd plant. According to industry, it is debatable as to which of the three — small, medium or big — is cost effective. The Committee consider it unfortunate as well as evidence of negligence the Government that on the cost effectiveness of small, medium and big plants Department themselves are still not on safe grounds on the basis of firm and meaningful cost data. Now that plants of all types are already in existence, the Committee recommend that a comparative study on cost effectiveness of the plants including the cost of infrastructure required to be set up for each type of plant may be conducted, so that the issue is placed on a proper perspective and appropriate policy decision can be taken for the future.

[Sl. No. 18 (Para No. 10.11) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action Taken

The specialised group which assessed that a 900 tpd plant was cheaper than a 220 tpd plant consisted of experts from the industry, Planning Commission and Projects and Development India Ltd., a Design & Engineering Organisation. The view ascribed to the Industry that it is debatable as to which of the three — small, medium or big is cost effective is not shared by the Department generally. However, the views expressed by the Department in its reply to the Committee in Sub-para 2 of para 10.7 wherein it was stated that there would be instance where existing smaller size plants may be required in replacement of an old plant of similar capacity, taking advantage of the existing infrastructure are reiterated. Government would consider proposals for smaller plants in such cases on merit.

The comparison of 900 tpd vs 1350 tpd was done in the 70's which resulted in the choice of 1350 tpd size for the gas based plants.

The recommendation of the Committee has been noted and if the studies already conducted on the size of the plant are not found adequate, more studies would be conducted. In any case, Department will arrange for updating of the studies keeping in view technological developments and also cost of transportation of raw materials, infrastructure and cost of distribution of fertilizers. The PAC will be apprised of the updated position.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2|89-FA|FIC, dated 29.1.91]

Recommendation

The Committee note that despite substantial increase in prices of inputs that go in manufacture, cost of establishment of new plants, the interest and depreciation charges thereon, the fertiliser prices have very rightly been pegged at a specified level for encouraging better foodgrain production. Viewed in this contevt, the Committee are convinced that it is inescapable to pay subsidy for survival of the indigenous industry. As, however, it is claimed by the industry that major portion of outgo by way of subsidy returns to Government Coffers by way of freight, taxes duties, etc., the Committee recommend that the feasibility of effecting reduction in cost of production by adjustment of levies on administered inputs may be conducted, so that the cost of production does not get unduly inflated, thereby requiring payment of more subsidy.

[Sl. No. 20 (Para No. 11.9) of Appendix IV to 167th Report of PAC (8th Lok Sabha]

Action Taken

The Department fully agrees with the views of the Committee that the cost of production should not be unduly inflated on account of the levies on administered inputs. The Department has been constantly pursuing this matter with the concerned Ministries. We have again written to the Ministries forwarding the PAC's recommendation and requesting them to reconsider the administered prices of fertiliser inputs in pursuance of the recommendation of the Committee. Copies of the replies received from the Department of Power, Ministry of Energy; Department of Revenue, Ministry of Finance and Ministry of Petroleum & Natural Gas are enclosed. [Not enclosed]

The entire gamut of fertilizer subsidy has been referred to the Planning Commission for a detailed study. This recommendation of PAC has been sent to the Planning Commission for consideration while making their recommendation.

It may also be stated that the fixation of gas prices for the period from 1st April, 1989 has been referred by the Government to the Bureau of Industrial Costs and Prices (BICP). This Department has requested the BICP to consider a concessional price for gas used by fertilizer industry as compared to price for other users in view of the direct impact of high gas prices on fertilizer subsidy. This recommendation of the PAC has also been sent to the BICP for consideration while making their recommendation.

Final position in this matter will be reported to the PAC.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 13-2|89-FA|FIC, dated 17.4.1990]

Recommendation

Service charges at the rate of 1.5 per cent of turnover paid to MMTC appear to be on higher side. Though percentage-wise it might not appear to be so, yet it has amounted to Rs. 19.32 Crores in 1984-85 against Rs. 3.12 Crores paid in 1974-75 with the increased volume of imported fertilisers. The MMTC's claim that commodity-wise overhead expenses have not been maintained and therefore, these are always related to turnover and a percentage thereof might be a good commercial proposition, yet it is not a fair practice for a prime public sector undertaking who has been entrusted to handle all the imports of a commodity on behalf of the country on monopoly basis. The Committee trust that an alternative satisfactory system, taking into account increased volume and value of fertilisers and also the fact that MMTC has been sole agency in handling fertiliser imports would be evolved soon to impart greater cost effectiveness to the transactions.

[Sl. No. 21 (Para No. 12.8) of Appendix IV to 167th Report of Public Accounts Committee (Eighth Lok Sabha)]

Action Taken

The recommendation is under active consideration in consultation with MMTC and Ministry of Commerce. Further progress will be intimated to the Public Accounts Committee.

[Ministry of Agriculture (Deptt. of Fertilisers) O.M. No. 15-2/89-FA/FIC, dated 29-1-1990]

NEW DELHI; SONTOSH MOHAN DEV

January 31, 1991 *Chairman*

Magha 11, 1912 (S) *Public Accounts Committee*

Appendix I

Statement of Conclusions/Recommendations

Sl. No.	Para No.	Ministry/Deptt. concerned.	Recommendation conclusions
1	2	3	4
1	7	Ministry of Agriculture (Deptt. of Fertilisers)	While the Committee appreciate the efforts being made by the Ministry to improve the monitoring of consumption needs, production and imports of fertilisers, there is need for evolving ways and means to make the assessment system more accruate and reliable. In this context it is to be noted that the projected imports of MOP during 1989-90 had to be scaled down by two lakh tonnes after the demand and supply position was reviewed by the Steering Committee. Precisely for this reason the Committee had in their earlier recommendation desired that the minutes of the meetings of Steering Committee should clearly indicate the assessment of demand in terms of number of tonnes needed, extent of indigenous production, stock position etc. This will enable an objective assessment of the total requirements. The Committee, therefore, reiterate that in future the minutes of Steering Committee should indicate facts and figures leading to the assessment of demand in terms of number of tonnes needed, extent of indigenous production and stock position etc.

1	2	3	4
2	10	Minisery of Agriculture Deptt. of Fertilisers	While the Committee in their original report had made a specific recommendation that the Government should indicate separately in their accounts the normal subsidy and special subsidy paid, the Ministry, it is observed from the Action Taken Note, have evaded the issue. Under the system of accounting in vogue the expenditure relating to import of fertilisers including handling charges is booked under the Head "Purchase of Fertilisers". Similarly the special Rebates are accounted for in the handing charges paid to F.C.I. It is,, however, not indicated anywhere as to what is the total expenditure incurred by the Government towards the normal and special subsidy paid by the Government for the import and sale of fertilisers. The Committee had therefore desired that the total expenditure on normal and special subsidy for import and sale of fertilisers should be clearly depicted as a separate item in Government accounts. The Committee cannot but reiterate their earlier recommendation.
3	14	-do-	The Committee regret to note that the recommendation made by them as far back as in April 1989 for investigation into a matter of public importance namely, the selection of technology for fertiliser plants and the necessity for and circumstances under which a foreign collaboration which provided for transfer of technology was being continued even after the lapse of almost a decade was reported to be under consideration. The Committee cannot but emphasise that the entire issue of technology should be remitted to

1	2	3	4
			an Expert Committee for thorough investigation without further loss of time and the outcome thereof may be reported to them at the earliest.
4	14	Ministry of Agriculture (Deptt. of Fertilisers)	The Committee are unhappy to note that the dispute arising out of the excessive handling charges payable to the FCI as also the high storage and transit losses incurred by the FCI on account of handling of imported fertilizers could not be sorted out between the FCI and the Ministry of Agriculture in an amicable manner. As a result the dispute had to be referred to arbitration, which the Committee feel is not a proper method of resolving disputes between a parent body and a public sector undertaking under its administrative control. The Committee wish this had been avoided. Now, however, as the dispute had been referred to Arbitration, the Coommittee will like the Ministry to ensure that the arbitration proceedings are expedited and the further progress made in the matter intimated to the Committee at the earliest. The Committee would also like the Ministry to draw appropriate lessons from the handling of this particular case and ensure that such cases do not recur in future. Necessary action for disposal of balance fertilizers (both fresh and sub-standard quality) lying with FCI should be expedited and the progress reported to the Committee.

PART II

MINUTES OF THE 19TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 11-1-1991 IN COMMITTEE ROOM 'C' PARLIAMENT HOUSE ANNEXE

The Committee sat from 1500 hrs. to 1600 hrs.

PRESENT

Shri Sontosh Mohan Dev—*Chairman*

MEMBERS

2. Shri Mallikarjun
3. Shri Manjay Lal
4. Shri Kailash Meghwal
5. Shri M. S. Pal
6. Shri Ajit Kumar Panja
7. Shri Janardhana Poojary
8. Shri H. Hanumanthappa
9. Shri Sunil Basu Ray
10. Dr. Nagen Saikia
11. Shri Vishvjit P. Singh
12. Shri Rameshwar Thakur
13. Shri A. N. Singh Deo

SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary.* ..
2. Shri G. S. Bhasin—*Director (PAC).* ..
3. Shri B. S. Johar—*Under Secretary.*
4. Shri K. C. Shekhar—*Assistant Director.* ..

REPRESENTATIVES OF AUDIT

1. Shri S. Soundarajan—*ADAI.* ..

2. Shri S. B. Krishnan—*Principal Director.*

3. Shri A. K. Menon—*DG Defence Audit.*

4. Shri V. A. Mahajan—*DG Telecom Audit.*

5. Shri D. S. Iyer—*DG (ESM)*

6. Shri T. Sethumadhavan—*Principal Director.*

7. Shri K. Krishnan—*Director.*

8. Mrs. Ajanta Dayalun—*Director.*

9. Mrs. Sudarshana Talpatra—*Director.*

2. The Committee considered the following draft Reports and adopted the same subject to certain modifications and amendments as indicated in Annexures *I-II*.

(i) ** ** ** **

(ii) ** ** ** **

(iii) ** ** ** **

**(iv) Draft Report on Action Taken on the 167th Report of PAC (8th LS) re: Import and Distribution of Fertilizers.

3. The Committee authorised the Chairman to finalise these draft Reports in the light of verbal changes and minor modifications/amendments arising out of factual verification by the audit and present the reports to the House.

4. ** ** ** **

5. ** ** ** **

The Committee then adjourned.

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*Not appended.

**Adopted without any amendment.

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