

# ELEVENTH REPORT

## STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1994-95)

TENTH LOK SABHA

MOLASSES—DISTRIBUTION & PRICING

MINISTRY OF CHEMICALS & FERTILIZERS  
(DEPTT. OF CHEMICALS &  
PETROCHEMICALS)



सत्यमेव जयते

*Presented to Lok Sabha on\_\_\_\_\_*

*Laid in Rajya Sabha on\_\_\_\_\_*

LOK SABHA SECRETARIAT  
NEW DELHI

*February, 1995/Magha, 1916 (Saka)*

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**COMPOSITION OF THE STANDING COMMITTEE  
ON PETROLEUM & CHEMICALS (1994-95)**

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33. Shri Mohd. Masud Khan
34. Shri Pasumpon Tha. Kiruttinan
35. Shri G. Y. Krishnan

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\* Ceased to be Member of the Committee consequent upon retirement from Rajya Sabha w.e.f. 1st July, 1994. Renominated to the Committee w.e.f. 12th July, 1994.

- 36.\*\* Shri Bhagban Majhi  
37.\*\*\* Shri Tulasidas Majji  
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- |                         |                           |
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| 3. Shri Brahm Dutt      | — <i>Under Secretary</i>  |

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\*\* Nominated to the Committee w.e.f. 21st April, 1994.

\*\*\* Nominated to the Committee w.e.f. 18th April, 1994. Expired on 21st September, 1994.

\$ Nominated to the Committee w.e.f. 11th April, 1994.

\$\$ Nominated to the Committee w.e.f. 16th November, 1994.

## INTRODUCTION

1. The Chairman of Standing Committee on Petroleum & Chemicals (1994-95) having been authorised to submit the Report on their behalf, present this Eleventh Report on the Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) on "Molasses—Distribution & Pricing."

2. The Committee took evidence of the representatives of Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) at their sitting held on 9th November, 1994.

3. The Committee considered and adopted the Report at their sitting held on 25th January, 1995.

4. The Committee wish to express their thanks to the officers of Ministries of Chemicals and Fertilizers (Deptt. of Chemicals & Petrochemicals) who appeared and placed their considered views before the Committee on the subject.

5. For facility of reference, the recommendations & conclusions of the Committee have been printed in thick type.

NEW DELHI;  
*February 13, 1995*  

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*Magha 24, 1916 (Saka)*

SRIBALLAV PANIGRAHI,  
*Chairman,*  
*Standing Committee on*  
*Petroleum & Chemicals.*

**PART I**  
**BACKGROUND ANALYSIS**

*A. Production vis-a-vis demand of Molasses*

Molasses is a by-product in the manufacture of sugar and is mainly used for production of alcohol. About 90% of molasses go into production of alcohol (Rectified Spirit) and the remaining 10% go into manufacture of cattle feed, fodder and chemicals like Citric Acid. Molasses is also used in foundries. At present, in States where there is no prohibition on production and consumption of alcoholic beverages, roughly 50% of the alcohol goes for potable use and the remaining 50% for industrial purposes. The industrial use of alcohol is for production of various chemicals like Acetic Acid, Acetic enhydride, Ethyl Acetic, Acetone etc.

Production of molasses is directly linked to the sugar production. The following table shows the production and utilisation of molasses during the last 5 years:—

(In lakh M. tonnes)

Alcohol Year (Dec-Nov.)	Production	UTILISATION		Total
		For Distilla- tion (for pot- able & in- dustrial al- cohol)	For Cattle Feed and others	
1988-89	35.47	32.67	2.80	35.47
1989-90	49.73	42.57	3.38	45.95
1990-91	55.32	44.03	5.33	49.36
1991-92	60.96	44.13	10.48	54.61
1992-93 (Estimated)	51.55	51.59	7.46	59.05

For the year 1993-94 the estimated production was 97 lakh tonnes of sugar and on that basis the production/estimates of molasses were 41 lakh tonnes. During the course of examination on being pointed out by the Committee that during 1992-93 the utilisation of molasses was more than the production, the Secretary, C&PC stated that this was possible as there were carry forward stocks from 1991-92.

Asked whether there were situations in the previous years where molasses was in excess over the demand, the witness replied that if they were to take five year block there was some balance but the year to year fluctuation was so much that it did not indicate any trend.

As regards the future projections of production of molasses, the Deptt. of Chemicals & Petrochemicals stated in a written note that Bureau of Industrial Costs & Prices (BICP) had submitted its Report on 'Industrial Alcohol' in February, 1992 and made the following projections of production of molasses for the years 1994-95 to 2000 A.D.:

Year	Estimate production of Molasses (in million tonnes)
1994-95	5.16
1995-96	5.44
1996-97	5.73
1997-98	6.04
1998-99	6.37
1999-2000	6.72

Goyt. had de-canalised Exports Imports of molasses in September, 1991 and placed it under the Open General Licence (OGL) of the Import Export Policy. The following table shows export of molasses during the last 3 years:—

Year	Quantity Exported (in 000' tonnes)	Value (Rs./lakh)
1991-92	269	3382
1992-93	89	1091
1993-94	15	474

It came out during examination that on the one hand there was export of molasses, on the other it was being imported. The following table shows the import of molasses during the last 3 years:—

Year	Quantity (in MT)
1991-92	1050
1992-93	6176
1993-94 (Provisional)	15408

During the evidence the Committee pointed out that during 1993-94 the quantity of export as also import was about 15000 tonnes.

On being asked whether import of molasses could not be totally eliminated, the Secretary, C&PC replied:—

“Even in the practical way it is not an easy thing to import molasses because it is a bulky material and can be imported from countries like Bangladesh, etc. But normally it does not happen. As far as import of molasses is concerned, it is basically really no factor at all in the whole situation.

Asked further whether there was any difference between the quality of indigenous molasses, and the imported one, the Secretary, C&PC replied:—

“There are three or four grades but it is not because of quality reason that they may be imported.”

Explaining the present import policy, the Deptt. in a note stated that the imports of molasses was under OGL of the current Import Export Policy and hence, anybody could import it without any restriction. However, the only prohibitive factor was the import duty which was 65%. The All India Distillers Association have made a suggestion for duty free import of molasses. Moily Committee had also recommended the abolition of Import duty on molasses.

### *B. Decontrol of Molasses*

Elaborating the Government decision for decontrolling the marketing and distribution of molasses, the Deptt. of Chemicals & Petro-chemicals stated in a note that against the background of adequate availability of molasses and alcohol in the country and its export outside the country during the three years prior to decontrol and also in line with the liberalised policy of the Central Government in other sectors of economy, the Molasses Control Order, 1961 and the Ethyl Alcohol (Price Control) Order 1971 were rescinded on the 10th June, 1993 with a view to removing controls on prices and distribution of molasses and alcohol. It was, however, decided to continue the policy of ban on the creation of additional capacity or expansion in the existing capacity for alcoholic drinks. The legal advice which was taken before rescinding the two Orders was that if the two Orders were rescinded, the States will have no powers to issue similar control orders.

The decontrol order of the Govt. has not been implemented fully by the major sugar producing States viz. Uttar Pradesh, Maharashtra, Tamil Nadu,



**Bihar, Haryana and Karnataka. These States have not adopted fully the decontrol policy of the Central Govt. The present policy being adopted by these States at present is given as under:—**

State	Present Policy
(i) Uttar Pradesh	Uttar Pradesh Government have adopted the policy of partial control. Initially, 30% of molasses was reserved for potable alcohol at controlled prices and remaining 70% was made free within U.P. From 1.1.1994, the percentage of controlled molasses has been increased from 30% to 65% and the balance 35% is free.
(ii) Maharashtra	Maharashtra Government had initially adopted the policy of decontrol but subsequently they put restrictions on the movement of molasses and alcohol. The manufacture of industrial alcohol and potable alcohol has been fixed in the ratio of 65:35. 5% of molasses has been earmarked for cattle feed units.
(iii) Tamil Nadu	The State Government have issued detailed guidelines which provide that there will be no price control on molasses and alcohol. The manufacture of potable alcohol has been restricted to 40% of the total production of alcohol.
(iv) Bihar	Bihar also is one of traditionally surplus States in molasses and alcohol. They continue controlling their molasses and alcohol under the State Acts.
(v) Haryana	They have removed control on 50% of the production of molasses and the remaining 50% is within the control of the State Government and is to be supplied at a fixed price for manufacture of country liquor.
(vi) Karnataka	The State is self sufficient in the production and consumption of molasses and alcohol. Price Control has been removed but the movement control is still retained.

During the course of evidence of the representatives of Deptt. of Chemicals and Petro-chemicals the Committee pointed out that after decontrol of molasses its prices had gone up several times. Reportedly in some cases the prices of molasses had gone up from Rs. 144 per tonne to as high as Rs. 1000-1500 per tonne.

On being asked by the Committee about the events which led to the decision of decontrolling the pricing and distribution of molasses by the Govt., the Secretary C&PC replied:—

“Molasses is a kind of a waste product of the sugar industry and only on that basis some prices were fixed. Even for the best molasses, the price was about Rs. 144 per tonne. So, it was a really low price.

There was no incentive for the sugar industry, which was producing molasses to have proper storage, proper control and infrastructure. A lot of molasses was going waste. The system of inter-State allocation was not functioning properly. Sometimes allocations were not made in time and huge quantities of molasses used to get spoilt. In 1991, the issue of decontrol started in three or four different ways and together it became a decision. The most important basis was that the BICP prepared a report to indicate how we could get more advantage out of export of alcohol product from molasses. That report said that because of the controls there were many hurdles in properly exporting molasses based products. There was no incentive for modernization, there was no certainty about the availability of molasses. It was all dependent on allocations which were very often made on the whims of the Controllers. We were having a situation when on the one hand, almost two lakh tonnes of molasses per annum was found to have gone waste and spoilt and on the other the distillery capacity was not fully utilized. Only 60% of the capacity was utilized. There was not enough molasses given to the actual users. Then, the Government policy of economic liberalization and removal of controls had also come up. Here, the philosophy is that we should do away with as many controls as possible and we should not have a system of one particular industry subsidising the other. If the market forces are allowed to play and the sugar industry can get certain prices for the molasses, then the market forces should determine that price and the chemical industry or the distilleries should take molasses at that price.”

Explaining it further the witness added:—

“It was the responsibility of the Molasses Controllers to allocate the molasses to different users. We really did not have much say in it. The prices of the molasses were determined on the basis of BICP's recommendations from year to year. Thus, the controls which were there had become outdated. All these were found unnecessary, if the hurdles and checks were to be removed. The matter was considered two times by the Committee of Secretaries and on balance of payments they favoured decontrol.

The system was not functioning very well and we used to do the inter-State allocations. But, within the State, it was all dependent upon the Molasses Controllers and sometimes the allocations were not done properly. We were taken to the Supreme Court by one of the parties who said that allocations were not implemented. At that time, the Supreme Court asked us whether we wanted to have more

statutory control in the whole system. That was not possible because we did not have any machinery to implement and also because by this time the new policies of economic liberalization had come and there was consensus among various economic Ministries and Departments on liberalization and removal of controls. We indicated to the Supreme Court that it was not possible to keep the controls and we were thinking of decontrol. During 1991 to April 1993 a lot of exercise was done to examine the legal aspects of decontrol of molasses and industrial alcohol as to whether after the decontrol the States would come into the field and complications would arise. We consulted the Law Ministry and the Ministry of Industry who prepared the basic Paper.

The Attorney-General's advice was also taken. Reliance was placed on the Supreme Court's judgement which also indicated that the legal power for control on molasses and industrial alcohol was only with the Centre."

On being asked as to how the Supreme Court expedited the decontrol decision, the witness replied:—

"Distilleries took us to the Court to say that whatever was allocated to them was not sufficient. First they went to the Court, asking for certain allocation which was not given to them. Then, the Court passed orders and we allocated them certain more quantities, by arranging them the surplus States.

Later on they again went and said that further quantities were required to be allocated from other States. When a particular State had not honour to make available such quantities, we were called in for the enforcement of the whole system. We indicated what our system was. We told that either we could have stringent control or we could have the other policy of decontrol. By that time, the thinking which was going on towards the economic liberalisation policy was to go more towards decontrol. So, we indicated that we were thinking of decontrolling and for that we wanted some time from the Court.

This matter remained before the Court for some time and then finally the Court started monitoring it on almost month-to-month basis, and later day-to-day basis so that quick decision could be taken. By that time we completed all the legal examination and it was felt that the alternative was to go in for decontrol.

Sir, our Ministry had discussed this issue with all sections of industry, e.g., Sugar Industry, distillery Industry etc. and we had all the inputs. They were generally in favour of decontrol."

On being enquired further whether the objectives for which decontrol decision was taken had been achieved, the Secretary, C&PC replied:—

“When we issued decontrol orders indicating the circumstances which led to that, there was one big assumption made and that was that decontrol will actually take place. It means that we were expecting that there would be free movement of molasses and alcohol. We were expecting that the State Government controlling the potable alcohol, would allow the free movement of molasses and industrial alcohol. This would have meant that the sectors which were previously using industrial alcohol for chemical industries, pharmaceutical industries and so on, would not have any less quantities and the market forces would have determined certain prices for molasses which would have been affordable for all the users. After the issue of Decontrol Orders many States did not allow the system to work as envisaged. Some States, in fact, passed even more restricting orders. So, decontrol actually did not come into being.”

The Committee further pointed out that the major sugar producing States were not following the decontrol policy and enquired whether the concerned States were consulted before taking a final decision in the matter. The Secretary, C&PC replied:—

“The Supreme Court called the Attorney-General and said unless the Govt. decided about it within a week, they would haul us for contempt. They were monitoring the matter from week to week. So there was no time for consultation with States.”

He added:—

But we had the views of the three major surplus States viz. U.P., Maharashtra and Tamil Nadu.”

Asked about the views of these 3 States, the witness replied that Maharashtra was in favour of absolute decontrol whereas Tamil Nadu was against decontrol. As far as U.P. is concerned they had said that it should be done when the sugar industry was also decontrolled.

The Committee further pointed out that on the one hand the legal opinion available to the Ministry was that Central Government alone was empowered to issue orders on molasses, on the other different States were having different policy in regard to pricing and movement of molasses.

Explaining it the witness stated:—

“Many of them had entered into excise contracts for which they were bound to supply country liquor of certain quantity at certain prices. That was one of their compulsions. So, with that in view many of them did not want to implement decontrol and have not implemented it.

Now, because of these problems which had arisen on some States they did not comply with our decision. First we had a discussion at the officers' level and then we had a Conference, on the 4th of November 1993 with the Excise Ministers of the States where the purpose was to request all the State Governments to bring their laws and regulations in harmony with the decision of the Central Government. In that Conference, the Excise Ministers of the States constituted a Working Group of Ministers, under the Chairmanship of the Chief Minister of Karnataka, to go into the whole question. The Report of the Working Group has been received and we will have to take a view on it."

On being asked by the Committee whether the Ministry had made any assessment/study to know the impact of the decontrol of molasses in different sectors, particularly in the drugs and pharmaceuticals sector, the witness stated:—

"It is a very difficult question for us to answer. First of all, we cannot say about the price which is prevailing after the decontrol of molasses. We would have understood the situation as to what has happened to the prices after decontrol of molasses, had all the State Governments done it uniformly. That is one point which has to be kept in view. There are some States which have partial decontrol. Some States have not done it at all and the situation is varying from State to State."

He further added:—

In this particular situation there is no doubt that the prices of molasses are bound to shoot up and consequently the prices of alcohol have also gone up. The Uttar Pradesh Government have evolved a system in which the molasses will cost Rs. 400 per tonne for chemical industry, country liquor and cattle feed. The remaining, of course, is a free price. Therefore, it is very difficult for us to indicate the exact price of molasses. But there is no doubt that it has affected the cost of the basic raw materials for the alcohol based chemical industry and other users."

On being further pointed out by the Committee that decontrol policy resulted in increasing the prices of various industrial goods and materials which use molasses as raw materials, the witness stated:—

"In 1993-94, while the prices of industrial alcohol went up as a result of the increase in prices of the molasses, the bulk of the chemical industry producing, Acetic acid and Acetic Anhydride also increased their prices. The price of Acetic acid went up from Rs. 13 per Kg. to something like Rs. 26 per Kg. Some segments of the chemical industry which are making Mono Ethylens Glyel (MEG) no doubt suffered on account of that. But it is difficult to say whether it was due to this reason or not. Even the petrochemical industry which

are making these products also suffered because of the worldwide recession and MEG prices were very much down. So, at the moment, it is extremely difficult for us to say as to whether this happened due to decontrol or not. Once we are able to have some kind of uniformity on the policy and once that system starts working, we will be able to make an assessment."

On being pointed out by the Committee that decontrol policy would result in more potable alcohol production thereby reducing the availability of molasses for industrial and drug sector, the Secretary, C&PC replied:—

"We had issued instructions to all the State Governments to see that after the decontrol of molasses and alcohol, there should be no diversion of molasses for the potable alcohol sector and the interest of the industrial alcohol users and the industry should be protected. That is how, it was done."

The Committee also pointed out that due to better realisation from molasses, sugar industry must be in position to reduce sugar prices as also to give fair price to farmers. Reacting to this, Secretary, C&PC replied that they did not monitor it as it was under Food Ministry. However, the sugar producers must have been benefited as they had reduced the ex-factory price of sugar by 33 paise per Kg. The Moily Committee which submitted its Report on 11th June, 1994 was constituted in November, 1993 with the following terms and references:—

- (i) To harmonise the State Policies for sale and distribution of country liquor with decontrol;
- (ii) To review the Acts and Rules in the States to bring them in line with the objectives of decontrol;
- (iii) To rationalise Acts and Rules to ensure that potable alcohol production is regulated and controlled in a uniform manner in all States.
- (iv) To remove all hindrances to market forces operating freely in respect of molasses and alcohol;
- (v) To suggest interim measures, if any;
- (vi) To suggest measures for checking diversion of molasses for potable alcohol production; and
- (vii) To suggest measures to balance supply of rectified spirit deficit States and also Government supply of country liquor to licenced vendors and chemicals and pharmaceuticals producers.

When asked about the time frame by which the Govt. decision would be taken on Moily Committee Report, the witness stated that further decision would be taken after placing the Moily Committee Report before Excise Minister's Conference likely to be held in December, 1994. Govt. decision

would be based on views of all States so as harmonise the molasses policy all over the country.

On being asked about the latest position, in the matter the Deptt. of C&PC stated (January 95) in a note as under:—

“.....that the Excise Minister's Conference was fixed for the 19th December, to consider the Moily Committee Report. However, this meeting had to be postponed for examination of certain legal issues involved in the recommendations of the Committee. This matter is now with the Ministry of Law (Department of Legal Affairs).”

## PART II

### RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

1. Molasses is a by-product in the manufacture of sugar and its production is directly related to sugar production. Molasses constitute about 42% of the sugar produced. About 90% of Molasses go into production of alcohol (Rectified Spirit) and the remaining 10% go into manufacture of cattle feed, fodder and chemicals like Citric Acid. Molasses is also used in foundries. At present, in States where there is no prohibition on production and consumption of alcoholic beverages, roughly 50% of the alcohol goes for potable use and the remaining 50% for industrial purposes. The industrial use of alcohol is for production of various chemicals like Acetic acid, Acetic enhydride, Ethyl Acetic, Acetone etc. Prices and distribution of Molasses and price of alcohol were being regulated by the Central Government under the Molasses Control Order, 1961 and Ethyl Alcohol Order 1971 respectively upto 10th June, 1993 when the pricing and distribution of Molasses was decontrolled.

2. Explaining the rationale for decontrolling the prices and distribution of molasses, in June 1993, the Secretary, C&PC informed the Committee during his evidence that policy relating to Molasses and Alcohol was under review for some time and it was felt that excessive regulation of their allocation and prices were the main constraints impeding the dynamic growth of the sector. There was no incentive for the sugar industry, which was producing Molasses. Besides, that the system of inter-State allocation was not functioning properly. On account of this, huge quantities of molasses used to go waste. Earlier a Report prepared by the BICP (Bureau of Industrial Costs and Prices) also favoured decontrol of molasses. The witness further informed that they used to do the inter-State allocation, but within the States it was all dependent upon the Molasses Controllers and sometimes the allocations were not done properly. Admittedly the Ministry did not have any machinery to monitor the various agencies. Besides in the context of new policies of economic liberalisation of the government there was consensus among various Ministries and Departments on removal of control. During 1991 to April 1993, a lot of exercise was done to examine the legal aspects of decontrol of Molasses in consultation with the Ministries of Law and Industry.

3. The Committee regret to note that even though the administrative Ministry viz. Deptt. of Chemicals & Petrochemicals was in possession of legal opinion that they were competent to control or decontrol the pricing and distribution of Molasses, the major sugar/molasses producing States did not implement the decision of the Central Govt. for decontrolling the



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pricing and distribution of molasses. In fact after decontrol of molasses by Central government in June 1993 States have been pursuing different policies of their own making the mockery of the Central government order. The Committee feel that after issuance of the Central Government order for decontrol, the government should have ensured the implementation of their orders by the concerned States' rather watching as silent spectator of the events.

4. The Committee are further dismayed to learn that after the decontrol order there was almost ten fold increase in the prices of molasses. For instance the prices which were about Rs. 144/- per tonne in controlled regime went up suddenly to as high as Rs. 1000-1500 per tonne. The Secretary, C&PC was candid in his admission before the Committee that as a result of manifold increase in the prices of molasses, the prices of end products where molasses is used as raw material like alcohol, chemicals also went up considerably. In Committee's view the government did not examine the prices and cons of the implications before taking the decontrol decision.

5. The Committee regret to note that the Central government did not consult the concerned State Govts. before taking a decision in the matter. The Committee feel that had the respective States been consulted and taken into confidence before issuing the orders, the prevailing confused state of affairs where all States are pursuing different policies could have been avoided. The Deptt. has argued that in view of the Supreme Court direction to expedite the decision, there was no time left for having consultations with the States. The Committee are not convinced with this argument particularly when the Supreme Court considered the matter for almost 2 years and in between there was enough time to consult the concerned States.

6. The Committee have been informed that a meeting of Excise Ministers of the States and Union Territories was held in November, 1993 under the Chairmanship of the Union Minister for State for Chemicals and Fertilisers to discuss the situation prevailing after decontrol of molasses and ethyl alcohol by Govt. of India. As a result of discussion in the meeting, a sub-committee under the Chairmanship of Chief Minister of Karnataka was appointed to look into the whole issue relating to molasses and alcohol with a view to have a uniform molasses policy all over the country. The Sub-committee submitted their Report on the subject to the Central Govt. in June 1994. The Secretary, C&PC informed the Committee that the Report will be placed before Excise Minister's Conferences likely to be held in December, 1994 so as to have views of State Govts. before taking a decision in the matter with a view to have uniform molasses policy all over the country. This re-inforce the Committee's contention that the States should have been consulted before taking the decontrol decision in June, 1993.

7. As regards the latest position in the matter the Committee have been informed that proposed meeting could not be held as certain recommendations of Moily Committee involved legal issue and the matter was pending with the Ministry of Law. Since the matter has considerably delayed and there is urgent need to review the policy the Committee recommend that the whole exercise for consultation with the States, examination of the Report of the Sub-committee (Moily Committee) including obtaining legal opinion on the matter and taking a final decision should be completed as early as possible but not later than three months time from the date of presentation of this Report. The Committee would also like to be informed of the Govt. decision in the matter.

NEW DELHI;  
February 13, 1995  
Magha 24, 1916 (Saka)

SRIBALLAV PANIGRAHI,  
Chairman,  
Standing Committee on  
Petroleum & Chemicals.