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**STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(1996-97)**

ELEVENTH LOK SABHA

Liberty

**MINISTRY OF CHEMICALS AND FERTILISERS
(DEPARTMENT OF FERTILISERS)**

**DEMANDS FOR GRANTS
(1996-97)**

SECOND REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

August, 1996/Bhadra, 1918 (Saka)

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Presented to Lok Sabha on.....

Laid in Rajya Sabha on.....

06 SEP 1996



LOK SABHA SECRETARIAT
NEW DELHI

August, 1996/Bhadra, 1918 (Saka)

P & C.C. No. 45

Price : Rs. 11.00

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and printed by Jainco Art India, 13/10, W.E.A., Saraswati Marg, Karol Bagh, New Delhi-110005.

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COMPOSITION OF THE STANDING COMMITTEE
ON PETROLEUM & CHEMICALS
(1996-97)

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4. Shri Brahm Dutt	—	<i>Under Secretary</i>
5. Shri S.N. Dargan	—	<i>Asstt. Director</i>

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (1996-97) having been authorised to submit the Report on their behalf, present this *Second* Report on Demands for Grants of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for the year 1996-97.

2. The Committee examined/scrutinised the Demands for Grants pertaining to the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for the year 1996-97 which were laid on the Table of the House on 2nd August, 1996.

3. The Committee took evidence of the representatives of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers at their sitting held on 18th August, 1996.

4. The Committee considered and adopted the Report at their sitting held on 27th August, 1996.

5. The Committee wish to express their thanks to the Officers of the Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers for furnishing the material and information which they desired in connection with the examination of Demands for Grants of the Ministry for the year 1996-97 and for giving evidence before the Committee.

NEW DELHI;
August 29, 1996
Bhadra 7, 1918 (Saka)

A.R. ANTULAY,
Chairman,
Standing Committee on
Petroleum & Chemicals.

REPORT

A. Introductory

The Department of Fertilisers (DOF) in the Ministry of Chemicals and Fertilisers is entrusted with the responsibility of sectoral planning, promotion and development of fertiliser industry, planning and monitoring of production, import and distribution of fertilisers, management of subsidy for indigenous and imported fertilisers, administrative responsibility for public sector undertakings and cooperative sector units engaged in production of fertilisers. The following 9 Public Sector Undertakings (PSUs) and 2 Cooperative Units dealing with production and marketing of fertilisers work under the administrative control of the Department:—

PSUs

- (i) Fertiliser Corporation of India — (FCI)
- (ii) Hindustan Fertilisers Corporation of India (HFC)
- (iii) Madras fertilisers Ltd. — (MFL)
- (iv) National Fertilisers Ltd. — (NFL)
- (v) Fertilisers & Chemicals Travancore Ltd. — (FACT)
- (vi) Project Development of India Ltd. — (PDIL)
- (vii) Paradeep Phosphates Ltd — (PPL)
- (viii) Pyrites, Phosphates & Chemicals Ltd.—(PPCL)
- (ix) Rashtriya Chemicals & Fertilisers Ltd. — (RCF)

Cooperatives

- (i) Indian Farmer's Fertilisers Cooperative Ltd. — IFFCO
- (ii) Krishak Bharati Cooperative Ltd.—

B. Analysis of Demands for Grants

2. Detailed Demand for Grants of the Deptt. of Fertilisers (Demand No. 6) was laid on the Table of Lok Sabha on 31st July, 1996 makes provision of Rs. 6967.60 crores. The item-wise details are given in

Appendix-I. Out of this Rs. 6909 crores is meant for the following 3 Heads:—

	(Rs. in crores)
(i) Subsidy for controlled indigenous fertilisers.	4500
(ii) Net subsidy for import of Fertilisers	1648
(iii) Loans for Public Sector units (mainly for HFC and FCI units.)	761

MAJOR HEAD 2852

(1) Sub Head 1 (i) Fertilizers Subsidy—Payment Under Fertilizers Retention Price Scheme/Frieght Subsidy

3. The quantum of subsidy during the years 1994-95 and 1995-96 has been Rs. 4075 crores and Rs. 4300 crores respectively. The proposed amount for the same has been fixed at Rs. 4500 crores for the year 1996-97. The Fertiliser-wise break-up is as under:—

	(Rs. in crores)					
Year	N	P	SSP	Freight subsidy	Others	Total
1994-95 (Actual)	3288	299	35	390	63	4075
1995-96 (BE)	3005	50	5	620	70	3750
1995-96 (Actual)	3601	11	1	643	44	4300
1996-97 (BE)	3865	25	5	560	45	4500

4. During the course of examination of the Deptt. of Fertilizers (DOF) the Committee wanted to know whether subsidy provision of Rs. 3865 crores for Urea would be adequate for 1996-97, DOF informed the Committee in a note that as against the actual expenditure of Rs. 3601 crores during 1995-96 this provision was considered adequate with reference to the current assessment of subsidy on nitrogenous fertilizers.

5. The Committee pointed that since the farmers were getting the urea fertilizer at fixed price, they were not getting any direct subsidy and instead under retention price scheme fertilizer production units were

getting subsidy from the Govt. Explaining the subsidy content in urea the Secretary, Fertilizers stated the urea was being made available at Rs. 3320 per tonne. As the average farm gate cost of production of urea was Rs. 5579 per tonne, there was an element of subsidy of Rs. 2259 per tonne. The subsidy was being given to industry at production stage through Fertilizer Industry Coordination Committee (FICC)

6. The Committee further pointed out that since the farmers were not getting any subsidy directly they were not aware of any hidden subsidy being given to them. Elaborating the subsidy system fertilizer Secretary stated:—

“The cost of production of fertilizers, let us continue to Urea which is a controlled fertilizer, vary from Rs. 3000 to Rs. 8000. The system is that the company produces it at the cost scrutinised by the FICC and company is assured of a 12 per cent return on their worth. At whatever cost they may produce, they have to deliver the Urea at a fixed price to the farmer and difference is paid to them”.

7. In reply to a further question, the witness replied:—

“You are right in saying that farmer is not directly getting subsidy”.

8. The Committee further pointed that for de-controlled fertilizers viz. phosphatic (P) and Potassic (K) fertilizers, Ministry of Agriculture provide *ad-hoc* subsidy directly to farmers and a provision of Rs. 2224 crores has been made for 1996-97 by them for the same. Asked about the reasons for making a provision for Rs. 30 crores for the P & K fertilizers in the Demands of the Deptt. of Fertilizers, the Deptt. stated in a note that this provision was for settlement of old claims i.e. prior to Aug. 1992 when these P&K fertilizers were decontrolled.

9. The Committee note that a provision of Rs. 4500 crore has been made in the current year's demands of the Deptt. of Fertilizers towards payment of subsidy. Out of this an amount of Rs. 3865 crore is being provided for the payment of subsidy for nitrogenous (Urea) fertilizer alone. Since this subsidy is given to the fertilizer production units on the basis of cost of production determined by Fertilizer Industry Coordination Committee (FICC), the farmers are at all not aware that urea supplied to them contains a subsidy element of over Rs. 2000 per tonne by the Centre. The Committee desire that for greater transparency and awareness to the farmers in the matters of huge subsidy being given to them, the whole method of distribution of subsidy should be examined afresh with a view to evolve better system for the purpose.

10. Apart from subsidy under price retention scheme, a provision of Rs. 560 crore has been made for the current year for payment of freight subsidy. Taking the huge amount for the purpose into consideration, the Committee would like that the Deptt. of Fertilizer should ensure that this money is spent optimally for the sole purpose of making the fertilizer available to farmers all over the country.

11. The Committee are constraint to note that even though the decontrol of P&K fertilizers took place in the year 1992, a provision of Rs. 30 crore for these fertilizers has been made in the current year's demand (1996-97). According to the Ministry this amount is earmarked for claims relating to 1989-90 to 1991-92. The Committee desire that the pending claims should be settled at the earliest so that the amount is not reflected in coming years.

MAJOR HEAD 2401

(ii) Subsidy on Imported Fertilizers

12. The following statement shows amounts earmarked for import of fertilizers and recoveries made on this account for 1994-95, 1995-96 and proposed for 1996-97:—

Year	Amount for Import Fertilizers	Recoveries	Net subsidy on Fertilisers	(Rs. in Crores)
1994-95 (Actual)	2031	866	1165	
1995-96 (B.E.)	2607	957	1650	
1995-96 (R.E.)	3047	1112	1935	
1996-97 (B.E.)	2466	818	1648	

13. Since the mosphatic and Potassic fertilizers were decontrolled in August, 1992, the above provision are for import of Nitrosoenous fertilizer i.e. Urea. During the course of examination of Department of fertilizers the Committee pointed out that net subsidy in 1996-97 would be about Rs. 300 crores which is less than the subsidy given in 1995-96. Asked whether reduced subsidy for 1996-97 did indicate less demand of fertilizers in the current year the DOF in a written reply informed the Committee as follows:—

"The indigenous production of urea during 1996-97 would be higher by one lakh metric tonnes over the previous year (158 lakh metric tonnes). The estimated demand for urea during 1996-97 by

Department of Agriculture & Cooperation is 211 lakh Metric tonnes which is 11% higher over the demand of 1995-96. Since Kharif 1996 has opened with a higher level of stocks 27.1 lakh metric tonnes, the import requirement shall be lesser than last year i.e. 1995-96."

14. The Committee further enquired about the mechanism in the Ministry to ensure that huge subsidy on account of import of fertilizers was put to the best use for the benefit to farming community. The Department of Fertilizers on a note stated:—

"The urea supplied to States through imports is fully covered through allocation made under the Essential Commodities Act, 1995 and its movement is regulated under the Fertilizer (Movement Control) Order, 1973. A comprehensive system has been in place in Department of Fertilizers for ensuring requisite availability of urea to the farmers both in time and space. The position is monitored regularly in supply Review Meetings which are held on a weekly basis during the peak consumption months.

The distribution of urea within the State is the responsibility of State Governments who are the registering authorities under clause 26 of the Fertilizer (Control) order, 1995 (F.C.O.). The State Governments appoint inspectors for exercising supervisory control on the quality and distribution of fertilizers within the State. The inspector have extensive power under clause 28 of FCO.

The end price of urea to farmers is fixed and cannot statutorily exceed maximum of Rs. 3320/per metric tonne exclusive of local taxes, if any."

15. The Committee were also informed that the State Governments have an elaborate extension set-up which extends upto the village for educating the farmers. Besides PSUs under the Ministry also undertake programmes for educating the farmers.

16. On being pointed out by the Committee that the rates of imported fertilizers were higher than the indigenous produced, the Secretary, Fertilizers informed the Committee during evidence that the international price urea was Rs. 9203 per tonne and the subsidy paid on average per tonne of imported urea was Rs. 5833 whereas subsidy for indigenous urea was Rs. 2259 per tonne only. The witness, however, clarified that the farmer was required to pay Rs. 3320 per tonne for both i.e. for imported and indigenous urea.

17. The Committee further pointed that the international price of urea was very high and it was all the more necessary to import it at the most competitive rates to reduce the quantum of subsidy.

18. Asked about the importing agencies for the fertilizer in the country and their capabilities to handle the work, the Department in a note stated:—

"Prior to March 1992, the imports of fertilizers, raw materials and intermediates were all canalised through a single agency i.e.

MMTC. Consequent upon decanalisation of imports of phosphatic and potassic fertilizers, Indian Potash Limited (IPL) and Pyrites, Phosphates & Chemicals Limited (PPCL) besides other private and Government agencies have been importing them directly. However, for urea imports, ad-hoc allocations were given to 3 companies namely M/s. Madras Fertilizers Limited (MFL), National Fertilizers Limited (NFL) and PPCL for the first time in Rabi 1994-95. Later in March State Trading Corporation (STC), NFL and PPCL were inducted for import of urea on Government's account. This arrangement has been continuing since then. Indian Potash Limited (IPL) was inducted by a decision of the Steering Committee of Secretaries."

19. The Committee further wanted to know whether capabilities of PSUs like NFL & PPCL were assessed before asking them to enter into import business, the Deptt. of Fertilisers in a note stated:—

"Prior to 1992-93. i.e. in the controlled regime, the import of all fertilizers were canalised through MMTC Limited. In September-October '94, when MMTC expressed its inability to step-up the level of urea imports to the requisite levels, the Government decided to explore the possibilities of augmenting the efforts of MMTC through the induction of other fertilizer manufacturing units for procurement of imported urea. Ad-hoc allocations were given to M/s Madras Fertilizers Limited (MFL), Pyrites, Phosphates & Chemicals Limited (PPCL) and National Fertilizers Limited (NFL) for the procurement of imported urea on Government's account during Rabi '94-95. It was expected that these agencies, who had long-standing experience in the marketing of fertilizers domestically, would be able to perform, even though they didn't have enough past experience in international trading of fertilizers."

20. The following tables shows the quantities of urea imported by various organisations during the last three years:—

Name of Agency	(Qty. in lakh tonnes)		
	1993-94	1994-95	1995-96
MMTC	27.83	28.70	26.03
PPCL	—	—	3.85
NFL	—	—	3.35
STC	—	—	3.09
IPL	—	—	1.50

21. In regard to another question about the imports, Secretary, Fertilisers stated during evidence:—

“We work in close cooperation with the Department of Agriculture and Cooperation. It is because we depend on them. They have the expertise. For the current year, they said that they require 211 lakh tonnes of urea. We work towards that. Last year, out of an installed capacity of 169 lakh tonnes of urea, we produced 158.2 lakh tonnes of urea and balance was met through imports. We tried in the Steering Committee to bring down the import of urea and tried to raise the indigenous production. But to answer you point, I would like to say that we do not definitely communicate with the farmers. But we reach the fertilisers. Separately, we tell the companies to increase fertilisers, production and help them.”

22. Asked about the composition of the Steering Committee of Secretaries (SCOS), the witness informed.

“The Steering Committee consists of seven Secretaries—Secretary, Fertilisers; Secretary, Agriculture; Secretary, Commerce; Secretary, Transport; Secretary, Expenditure and Secretary, Economic Affairs.”

23. When asked about the incumbents who were there in Steering Committee of Secretaries, the witness informed:—

“At that time, Secretary, Agriculture was Shri J.C. Pant; Secretary, Commerce was Shri Tejinder Khanna; Secretary, Finance was Shri M.S. Ahluwalia; Secretary, Surface Transport was also there in that Committee.”

24. As regards the composition of Committee of Secretaries (COS) at that time the witness stated:—

“When the recommendations were sent from the Deptt. of Fertilisers, Shri Surinder Singh was the Cabinet Secretary. I took over on the first of February this year. My predecessor Shri B.K. Zutshi was the Secretary, Fertilisers. At that time, Shri J. C. Pant was the Secretary, Agriculture and Dr. Kelkar was the Secretary, Petroleum.”

25. When asked further whether the Committee of Secretaries had reviewed the matter after NFL episode, the Deptt replied in a note that in the aftermath of the NFL-Karsan experience, Department of Fertilisers has made a comprehensive review of the existing multi-canalising-agency system including the modalities for tendering and the mode of release of

payments for urea purchases. The Department has made a proposal which is under consideration of the Committee of Secretaries (COS).

26. It also came out during examination that some of the importing agencies including PSUs allowed were procuring urea from the commercial organisations other than production units at higher rates.

27. The Committee note that a provision of Rs. 1648 crore has been provided in the Demands of the Deptt. of Fertilisers for the current year towards net subsidy on account of imported fertilisers (Urea). The subsidy for import of fertilisers during last year was Rs. 1935 crore. Elaborating the reasons for low provision for the purpose for current year, Department of Fertilisers has stated that since Kharif 1996 has opened with a higher level of stocks, import requirement shall be lesser than last year i.e. 1995-96. The Committee recommend that nation's money should be put to best use so that farming community is benefitted by the huge provision of money being provided by the Central Government.

28. It came out during examination of the Deptt. that the import of urea was being done through the canalising agency i.e. MMTC. Even though for urea imports ad-hoc allocations were given to 3 companies namely MFL, NFL and PPCL for the first time in Rabi 1994-95, but these PSUs did not import any urea during the year. The Committee are shocked to know that inspite of their failure in the earlier year to import and their lack of experience in the matter, the Steering Committee of Secretaries (SCOS) and Committee of Secretaries (COS) in March, 1995 approved to make the STC, NFL and PPCL and some other organisations as importing agency for urea. The Committee find Government decision hardly convincing as it is not clear as to how MMTC (or, say even STC) which have long experience in export/import business besides being sole canalising agency for import of urea were not in a position to import a few lakhs extra tonnes of urea. Particularly when the Commerce Secretary himself (alongwith the then Agriculture Secretary) was a member of the Steering Committee of Secretaries (SCOS) as also of Committee of Secretaries with Cabinet Secretary as Chairman of the Committee of Secretaries (COS). In Committee's view Cabinet Secretary and Commerce Secretary should have been in position to ask MMTC and STC, the experienced PSUs, in imports/exports to import the additional requirements. While not minimising the overall responsibility of the Cabinet Secretary it was expected from the Commerce Secretary, to be more careful in discharging his role as a Member of the Committee of Secretaries (COS) as also the Steering Committee of Secretaries (SCOS) when the matters of import of canalised items involving foreign exchange and role of two Public Sector Undertakings under his Deptt. i.e. MMTC and STC was concerned. Apart from the Commerce Secretary, no less concerned was the

Agriculture Secretary who too was a member of both the Committees viz. COS and SCOS cannot be absolved of his responsibility. Had these Committees Committee of Secretaries (COS) and Steering Committee of Secretaries (SCOS) been prudent and sincere to the cause of the nation's money and had requisite concern, the NFL import episode which cost the country over Rs. 133 crores might not have occurred. The Committee would like the matter to be examined at the highest level in the Government to ascertain if any norms of business principles and propriety were given go by the Committee of Secretaries (COS) or Steering Committee of Secretaries (SCOS). The Committee strongly recommend that the role of all concerned i.e. the then Cabinet Secretary and concerned Secretaries both in COS and SCOS should be examined and responsibility be fixed. The Committee would like to know action taken by the Government in this regard within two months of the presentation of this Report in Parliament.

29. It also came during examination that the importing agencies including PSUs are not directly importing from the producers which could deliver urea at much cheaper rates. Since the Government is providing huge subsidy for imported urea, the Government owe an explanation to the Committee as to why this vital question has not been taken care of by Department of Fertilisers so far. In Committee's view import of urea directly from the producers and not through middle men could reduce the subsidy amount on fertilisers considerably. The Committee would await necessary clarification from the Government in this regard.

MAJOR HEAD 6855

(iii) Sub-Head BBI Investment in Public Sector Undertakings

30. The following table brings out the investment trends in various PSUs by the Government.

Year	(Rs. in crores)							
	FCI	PPCL	HPC	PDIL	MFL	FACT	PPL	Total
1994-95 (Actuals)	10.00	3.00	7.00	1.00	24.00	8.00	30.52	83.52
1995-96 (B.E.)	10.00	2.00	8.00	0.50	NIL	NIL	34.00	54.50
1995-96 (Revised)	10.00	5.00	8.00	0.50	NIL	NIL	34.00	57.00
1996-97 (B.E.)	19.00	2.00	4.00	0.50	NIL	NIL	17.00	42.50

31. During the course of evidence the Committee wanted to know the reasons for decline in Government investment in PSUs particularly when some of them like FCI, HFC and PDIL were not doing well and require more money DOF in a written note informed:—

"The Government investment in the shape of plan equity is based on the internal resource generation and the funds requirement on the approved schemes as per the annual plan outlay.

FCI, HFC and PDIL were declared sick by the Board for Industrial & Financial Reconstruction (BIFR) in 1992. Pending finalisation of their revival packages, the plan allocations are being restricted to the requirement of funds for completion of the continuing plan schemes and undertaking essential renewals/replacements of the equipments. The implementation of major investment schemes has been kept in abeyance pending a decision on the long term future of these companies. The requirement of capital expenditure would depend on nature and content of the rehabilitation with the type of revamp scheme finally adopted for the units of FCI & HFC. For the present, an additional plan support of Rs. 12 crore for FCI and Rs. 6 crore for HFC had been agreed to by the Planning Commission in principle in order to enable these sick companies to undertake some of the essential replacements and renewals pending a decision on the revival packages. The additional provision is expected to be made later this year through supplementary demands.

It may also be mentioned that in addition to the plan investment, the Government has, as far as possible, been providing adequate non plan budgetary support to FCI & HFC enable them to keep their functional plants in operation.

PDIL is poised for a turn around. Its fund requirement for fresh Government investment has, therefore, declined.

Since the decontrol of phosphatic fertilisers, PPCL has not been able to generate the resources for meeting its requirement for capital expenditure. In view of its losses, the Government has been providing minimum budgetary support in the shape of equity and plan loan to enable PPCL to complete its on going schemes and undertake essential capital investment.

The investment requirement in PPL is in respect of purpose of the equity share holding of the Government of Nauru consequent to an agreement signed between the GOI and the Government of Nauru in 1993. The requirement for the current year is estimated at Rs. 36 crore necessitating an additional provision of Rs. 19 crore over the

budgeted provision of Rs. 17 crore. The additional provision is expected later this year through supplementary demand."

MAJOR HEAD 6855

(iv) Sub head-CCI Loans to Public Sector Undertakings

32. Apart from investment, the Government has been providing plan and non-plan loans to PSUs like HFC, FCI etc. quantum of such loans has been as under:—

Year	PLAN	NON-Plan	TOTAL	(Rs. in crores)
1994-95 (Actuals)	30.00	211.50	241.50	
1995-96 (B.E.)	138.50	52.00	190.50	
1995-96 (Revised)	284.50	282.00	566.50	
1996-97 (B.E.)	320.90	440.34	761.24	

33. From Undertaking-wise details for the year 1996-97 it is seen that provisions are mainly for FCI Rs. 316 crores (Rs. 277 crores as non-plan and Rs. 39 crores as Plan) and HFC Rs. 152 crores (Rs. 143 crores as non-plan and Rs. 9 crores as Plan). The provision also include Rs. 240 crores for FACT which is OECF loan routed through the budget.

34. During the course of evidence the Committee pointed out that HFC and FCI were referred to BIFR as back as 1992 and the Committee have repeatedly impressed upon the Government in their earlier reports to take action for the revival of HFC/FCI plants. Asked about the reasons for not approving the revival packages of these units, the Fertiliser Secretary replied:—

"Sir, we have discussion with the Planning Commission during November-December 1995 for provision of Rs. 2,200 crore for the revival of plant. The Planning Commission has informed us that without the approval of the Group of Ministers who are charged with this task of funding the revival of project they will not provide any money for the Project. That is where the matter stands. Now, the Group of Ministers considered the subject in January, 1996."

Even for GOM approved revival package, Government has no funds. We have to get the financial institution into the system. The revival package was approved by the Group of Ministers on 28th April, 1995. The Group of Ministers ordered a review of revival package. ICICI made some observations. It had reservations. They wanted to ensure that the money has gone to the right pockets. On 11th January, 1996 the Group of Ministers said "You review the revival packages and referred it to the COS". COS convened its meeting on 31st January, 1996. I have joined the Department of Fertilisers as Officer on Special Duty, 17/18 January, 1996. I accompanied my predecessor there. The ICICI is the operating agency. In the Group, CMD, FCI and CMD, HFC both are there. The Group was formed on 27th February. Since then, three meetings were held on 21st March, 6th May and 3rd July. We have made them agree to a consultant FEDO which is a consultancy wing of the FACT. First they wanted to appoint a known individual expert, he declined. They have now given to FEDO which is located in Cochin."

35. The Committee also wanted to know whether any time frame had been fixed to approve these revival packages. DOF in a written note informed:—

"Keeping in view the current status of the progress in the matter, it is felt that a final decision on approval of the revival packages for FCI and HFC may not be available before 31.12.96."

36. When asked whether latest estimates for investments to make these PSUs viable and whether the source of funds had been identified, the Committee were informed:—

"The investments envisaged in the revival packages, i.e. Rs. 464.93 crore for HFC and Rs. 1736.20 crore for FCI, were based on cost estimates at the price level of 1994. In the course of the exercise of reformulation of the revival packages, which has been entrusted the ICICI led Group, these cost estimates would be updated. Keeping in view the cost escalation due to time lapse and exchange rate fluctuation as well as any change in the scope of revamp based on the Consultant's recommendations. An effort would be made to optimise the funding by the FIs. Budgetary support will be sought for the balance requirement of funds."

37. The Committee pointed out that since the consultancy agency viz. FEDO was a public sector under the Deptt. and they should be asked to expedite their study, the Secretary stated that he would ask them to expedite it.

38. On being pointed out that Gorakhpur Unit of FCI was shut down for the last 3-4 years, the Fertiliser Secretary replied:—

“I absolutely share the sentiments of the Committee. Tomorrow I am going to Gorakhpur with the KRIBHCO team. It was decided earlier that the Gorakhpur unit should be privatised and sold. We are spending Rs. 16 crore a year in just paying the workers. It is lying closed. They (KRIBHCO) are a cash-rich company. They are going to the Eastern deprived zone to try to invert in the Eastern Region so that we can review Gorakhpur and Durgapur or any other sick unit. Now in view of the Prime Minister’s statement that it should commence, we are taking it very seriously. We are having serious difficulties about the Group of Ministers’ decision on the revival package. This has to be brought out with the investment of Rs. 2200 crore. We will get annually 23 lakhs tonnes of urea.”

39. On being asked about the proposals for revamping Namrup Units of FCI, the witness stated:—

“Sir, it has been found that it is much easier to revive a sick unit than to do a fresh unit.

For Namrup-II, Rs. 73.84 crore is there. For Namrup-I Rs 8.5 crore is there and for Namrup-III Rs. 46 crore is there. And the total is about 128 crore. If we add Rs. 71.65 crore to Namrup-III even so, it becomes Rs. 160 crore, which is not much. For Durgapur with an investment of Rs. 112 crore we can revive it.”

40. When asked about the rationale for provisions of non-plan assistance to the tune of Rs. 440 crores for HFC & FCI units when revival packages were yet to be approved by the Government, a representative of the Ministry stated that this money was to keep the plants going.

41. On being suggested by the Committee that revival packages of small units like Namrup Units should be given priority which required very low amounts, the witness stated:—

“At least Namrup unit should be given a Government support. We will very much welcome it.”

42. In reply to further question the witness informed the Committee that it was cheaper to revive the old plants rather than to instal new projects.

43. The Committee further pointed the cost of imported urea was about Rs. 9000 per tonne that as compared to cost of about Rs. 5000 per tonne for indigenous urea. The import bill for fertiliser during the year 1995-96 was of the order of Rs. 1935 crores and as such it was all the

more necessary to revive the existing plants to enhance the indigenous production level. Apart from import bill the Government was providing non-plan funds over Rs. 400 crores for holding up operations of HFC/FCI units. Asked why not the Government give Rs. 2200 crores at one time. A representative of Deptt. of Fertiliser stated:—

"Sir, not only all plans, we have also told them that alternative to this indigenous is by import substitution. This way, we are not only spending more money, we are also spending foreign exchange. Both ways we are losing. And they said that the matter is before the Group of Ministers. They must take a view."

44. The Committee find that for investment and plan and non-plan loans in public sector undertakings for the current year, the Department has proposed a provision of Rs. 761 crores. This includes investment of Rs. 42.50 crores, plan loans Rs. 320 crores (Rs. 240 crores OECE loan for RCF routed through budget) and Rs. 240 crores towards non-plan loans. The non-plan loans are meant to keep FCI and HFC plants running by giving them Rs. 277 crores and Rs. 143 crores respectively.

45. The Committee are shocked to find that even though FCI and HFC Units were referred to BIFR as back as in 1992, their revival packages are yet to be approved by the Government. The revival packages involving an outlay of Rs. 2201 crores (Rs. 465 crores for HFC Units and Rs. 1736 crores for FCI Units) are being referred repeatedly to Secretaries' Committee, Committee of Ministers, and operating agencies. This speaks volumes of the functioning of the Government. In Committee's view delay in approving the revival packages, not only the Government money to the tune of Rs. 400 crores each year was going down the drain in form of non plan loans to these units, the country was paying huge foreign exchange (Rs. 2840 crores for 1995-96) for import of fertilizers as these plants could not be operated at the desired level of production capacity.

46. The revival packages have now gone into the lap of FEDO, a consultancy organisation under the Department of Fertilizer for evaluation. As agreed to by the Fertilizer Secretary, the Committee expect that the consultancy organisation would be asked to expedite the action on their part. The Committee also trust that as indicated by the representative of Deptt. of Fertilizers, the revival package would be approved by the Government by December, 1996 positively.

47. Since fertilizers units like Namrup require less than Rs. 100 crores for their revival the Committee recommend that this should be given priority for revival.

48. The Committee are of the opinion that profit making PSUs/Corporations like NFL, KRIBHCO and IFFCO which are also working under the Department should be asked to takeover some of the sick/closed plants. It came out during the course of evidence that KRIBHCO is being involved in revival of Gorakhpur unit of FCI. The Committee find this development a positive one and desire that other units should follow this example.

C. Utilisation of Funds during 8th Five Year Plan

49. The responsibility of development of fertilizer industry rest with Department of Fertilizers. For this purpose plan outlay of Rs. 5484 crores with budgetary support of Rs. 1018 crores was approved for the 8th Five Year Plan.

50. The actual expenditure during the first 4 years has been Rs. 2762 crores only, as shown below:

Year	B.E.	R.E.	Actual
1992-93	1134.00	512.27	225.88
1993-94	935.00	755.66	306.81
1994-95	1041.00	776.00	609.25
1995-96	1974.00	1959.53	1620.06
1996-97	2670.02	—	—

PSU wise expenditure incurred up 1995-96 is as under :

(Rs. in crores)			
S.No.	PSU	8th Plan Outlay	Amount spent during (1992-96)
1	2	3	4
1	FACT	700	314.42
2	MFL	448	249.59
3	NFL	1027	616.35
4	RCF	638	171.00
5	IFFCO	1100	884.00

1	2	3	4
6	KRIBHCO	384	158.00
7	PPL	300	81.00
8	PPCL	89	16.12
9	FCI	430	87.52
10	HFC	227	133.49
11	PDIL	9	6.18
12	MISC	132	42.15

51. During the course of examination the Committee pointed out that in all the 4 year of 8th Year Plan so far, budgeted estimates were revised downwards and the actual were much lower than even the revised plans. Asked how the desired production capacity could be achieved for 8th plan when PSUs were unable to utilise their plan funds; DOF replied in a note:

“While the overall shortfall in PSU investment during the first 3 years of the 8th Five Year plan cannot be considered as unfavourable evaluation of the investment climate particularly in regard to the Phosphatic fertilizer units and sick public sector undertakings acted as a constraint on their planned activities. The overall shortfall is expected to be made up by the end of the terminal year of the 8th Plan.”

52. The Committee are unhappy to note that PSUs under the Department of Fertilizers have been too slow in utilising their approved plan outlay during the first four years of the 8th Five Year. The Committee are dismayed to note that the approved outlay itself were revised downwards considerably and even the reduced outlay was not achieved in any of these years. Out of the total plan outlay of Rs. 5484 crores for the 8th Plan, PSUs could utilise Rs. 2762 crores which comes to about 50% in all these 4 years of the 8th Plan. The Government contention to utilise the remaining plan funds during the terminal year of the plan is hardly convincing. The Committee feel that non-utilisation of approved outlay may have retarded the growth of fertilizer industry. In Committee's view this is not a happy proposition particularly keeping in view the growing requirements of fertilizers in the country and when the fertilizer was being imported at a huge cost.

53. The Committee have not gone into unit-wise reasons for non-utilisation of funds. They would like the Government to make a comprehensive review in this regard for making corrective measures with a view to increase indigenous production.

NEW DELHI;
August 29, 1996
Bhadra 7, 1918 (Saka)

A.R. ANTULAY,
Chairman,
Standing Committee on Petroleum & Chemicals.

APPENDIX I

(Vide Para 2 of the Report)

Details of Demands of Deptt. of Fertilisers

(Rs. in crores)

Major Heads	Sl. No.	Items of Expenditure	Actuals 1994-95	BE 1995-96	RE 1995-96	BE 1996-97
1	2	3	4	5	6	7
I. NON-PLAN PROVISIONS						
A. Revenue Section						
3451	(i)	Secretariat Proper	2.54	2.60	2.96	3.27
2852	(ii)	Office of FICC	0.38	0.43	0.52	0.45
2852	(iii)	Subsidy on Indigenous Fertilisers	4075.00	3750.00	4300.00	4500.00
2852	(iv)	Subsidy on Imported Fertilisers:				
		Gross	2031.97	2607.00	3047.00	2466.00
		Recoveries	866.41	957.00	1112.00	818.00
		Net	1165.56	1650.00	1935.00	1648.00
2852	(v)	Grant for MIS Studies	0.87	0.38	0.38	0.27
2852	(vi)	Productivity Award in the field of Fertilisers Prodn.		0.01	0.01	0.01
2852	(vii)	Payment under DEB		10.00	2.00	2.00
3475	(viii)	Reimbursement of exchange loss to RCF in respect of loan from Kuwait	150.88	—	—	—
		Total Revenue	5394.67	5413.42	6240.87	6154.00
B. Capital Section						
6855	1.	Non-Plan Loan to PSUs:—				
	a.	HFC	110.00	32.00	90.00	143.34
	b.	FCI	101.50	18.50	192.00	277.00
	c.	MFL	—	—	—	20.00
	2.	Token provisions for conversion of interest outstanding against PPL into non cumulative redeemable preference shares.	—	—	—	0.01
		Total Capital Section	211.50	52.00	383.00	440.35
		Total Non-Plan	5606.73	5465.42	6522.87	6594.35

1	2	3	4	5	6	7
II. PLAN						
A. Revenue Section						
2852	1.	Grant under Indo-EEC	—	2.00	2.00	2.00
2852	2.	Grant to HFC for Rainfed Farming Project	2.15	2.00	2.00	0.50
2852	3.	Grant to KRIBHCO for Rainfed Farming Project	.87	3.00	3.00	2.75
2852	4.	Grant to PPCL for German Assisted Fodder Development Programme		0.40	0.40	
2852	5.	Grant to PDIL for R & D	4.00	4.00	4.00	4.00
2852	6.	S & T Programme of Dept	0.26	0.50	0.50	0.50
2852	7.	Grant under Voluntary Retirement Schemes				
	I.	FCI	—	—	4.00	3.00
	II.	HFC	2.00	—	2.00	2.00
	III.	PDIL	—	—	—	1.00
	IV.	PPCL	1.00	—	1.00	1.00
Total—Grant under Voluntary Retirement Schemes			3.00	7.00	8.00	
Deduct Amount met from NRF			3.00	—	7.00	8.00
Net			0.00	—	0.00	0.00
Total Revenue Net			7.28	11.90	11.90	9.75
Capital Section						
4855 &	Investments in and					
6855	Loans to PSUs					
	1.	FCI	23.00	25.00	25.00	39.00
	2.	FACT	88.00	70.00	219.00	240.00
	3.	RFC	17.00	18.00	18.00	9.00
	4.	PDIL	1.50	1.00	1.00	1.00
	5.	PPL	30.52	50.00	50.00	33.00
	6.	MFL	24.00	24.00	24.00	37.30
	7.	PPCL	4.00	5.00	5.00	4.00
Total PSUs			108.02	193.00	342.00	363.40
4401.	8.	National Project for strengthen of fertilizer Handling and Transportation	0.10	0.10	0.10	
Total—Capital Sections			108.02	193.10	342.00	363.00
Total Plan			115.30	205.00	354.00	373.25
Total—Dept. of Fertilizers			5722.03	5670.42	6867.87	6967.60

APPENDIX II

MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON PETROLEUM AND CHEMICALS HELD ON 18TH AUGUST, 1996.

The Committee sat from 1030 hrs. to 1600 hrs.

PRESENT

Shri A.R. Antulay—Chairman

MEMBERS

Lok Sabha

2. Shri Tejvir Singh
3. Shri Ashok Argal
4. Shri Bhanu Pratap Singh Verma
5. Shri Oscar Fernandes
6. Shri Paban Singh Ghatowar
7. Dr. Girija Vyas
8. Shri Kodikunnil Suresh
9. Shri Satyajitsinh D. Gaekwad
10. Shri Girdhari Yadav
11. Shri Surendra Yadav
12. Shri Uddab Barman
13. Dr. Asim Bala
14. Shri Ram Sagar
15. Shri P. Shanmugam
16. Shri M. Selvarasu
17. Shri Mohan Ravle
18. Shri Sanat Kumar Mandal
19. Shri Bir Singh Mahato

Rajya Sabha

20. Shri H. Hanumanthappa
21. Shri Gundappa Korwar
22. Mohd. Masud Khan
23. Shri Parmeshwar Kumar Agarwalla
24. Shri Narain Prasad Gupta
25. Shri Naresh Yadav
26. Dr. Y. Lakshmi Prasad
27. Shri Parag Chaliha

SECRETARIAT

1. Shri J.P. Ratnesh	— <i>Joint Secretary</i>
2. Shri G.R. Juneja	— <i>Deputy Secretary</i>
3. Shri Brahm Dutt	— <i>Under Secretary</i>

Representatives of Ministry of Chemicals & Fertilisers, (Dept. of Fertilisers)

1. Shri I. Chaudhuri	Secretary (Fert.)
2. Shri K.K. Jaswal	Jt. Secy. (Fert.)
3. Shri S. Kabilan	JS & FA
4. Shri D.K. Sikri	Jt. Secy. (Admn. & Movement)
5. Shri Pradeep Singh	Ex. Director, FICC
6. Dr. G.B. Purohit	Adviser (Fert.)
7. Shri Rakesh Kapur	Director
8. Shri Saurabh Chandra	Director
9. Shri S.K. Das	Director
10. Shri S.K. Roy	Director
11. Shri Sanjay Kumar	JD (F&A)
12. Shri L.G. Vazirani	DO (Finance-I)
13. Shri Mathew Palamattam	(Finance-II)
14. Smt. Archna Nigam	Controller of Accounts

The Committee took oral evidence of the representatives of Ministry of Chemicals and Fertilisers, Deptt. of Fertilisers in connection with examination of Demands for Grants of Deptt. of Fertilisers for the year 1996-97.

2. The main issues came up for discussion include analysis of Demands for Grants in Revenue Section-subsidy on indigenous and imported fertilisers and in Capital Section investment in PSUs and plan and non-plan loans to PSUs and outlay for 8th Five Year plan etc.

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

The Committee then adjourned.

APPENDIX III

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1996-97)

FOURTH SITTING

27.8.96

The Committee sat from 10.00 hrs. to 10.30 hrs.

PRESENT

Shri A.R. Antulay — *Chairman*

MEMBERS

Lok Sabha

2. Dr. L.N. Pandey
3. Shri Tejvir Singh
4. Dr. G.L. Kanaujia
5. Shri Ashok Argal
6. Shri Bhanu Pratap Singh Verma
7. Shri Paban Singh Ghatowar
8. Shri Uddab Barman
9. Dr. Asim Bale
10. Shri K. Kandasamy
11. Shri P. Shanmugam
12. Shri M. Selvarasu
13. Shri Sanat Kumar Mandal
14. Shri Bir Singh Mahato

Rajya Sabha

15. Shri Karnendu Bhattacharjee
16. Shri Mohd. Masud Khan
17. Shri Narain Prased Gupta

18. Shri R.K. Kumar
19. Dr. Y. Lakshmi Prasad
20. Shri Parag Chaliha

SECRETARIAT

1. Shri J.P. Ratnesh	—	<i>Joint Secretary</i>
2. Shri G.R. Juneja	—	<i>Deputy Secretary</i>
3. Shri Bhahm Dutt	—	<i>Under Secretary</i>
4. Shri S.N. Dargan	—	<i>Asstt. Director</i>

2. The Committee took up for consideration the draft reports on Demands for Grants for 1996-97 relating to the following Ministries/Departments:—

(i) * * * *

(ii) Second Report relating to the Ministry of Chemical & Fertilisers (Dept. of Fertilisers).

(iii) * * * *

3. After some discussion, the Committee adopted the above draft reports. The Chairman however, gave an opportunity to the Members to give their suggestions on draft reports, if any, by today (27th August, 1996) evening for consideration of the Chairman for inclusion in the Reports.

4. The Committee, thereafter, authorised the Chairman to finalise the reports after factual verification by the concerned Ministries/Departments and present them to Parliament.

The Committee then adjourned.