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STANDING COMMITTEE ON  
PETROLEUM AND CHEMICALS  
(1998-99)

TWELFTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILISERS  
(DEPTT. OF FERTILISERS)

NINTH REPORT



LOK SABHA SECRETARIAT  
NEW DELHI

March, 1999/Phalgun, 1920 (Saka)

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## NINTH REPORT

# STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (1998-99)

(TWELFTH LOK SABHA)

## MINISTRY OF CHEMICALS AND FERTILISERS (DEPTT. OF FERTILISERS)

*[Action taken by the Government on the recommendations contained in the 6th Report of Standing Committee on Petroleum and Chemicals (1998-99) on Demands for Grants (1998-99) of the Ministry of Chemicals and Fertilisers, Dep'tt. of Fertilisers]*

*Presented to Lok Sabha on .....17 MAR 1999  
Laid in Rajya Sabha on .....*



LOK SABHA SECRETARIAT  
NEW DELHI

*March, 1999/Phalgun, 1920 (Saka)*

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**COMPOSITION OF THE STANDING COMMITTEE  
ON PETROLEUM AND CHEMICALS  
(1998-99)**

**Dr. Balram Jakhar — *Chairman***

**MEMBERS**

***Lok Sabha***

2. Shri Ratilal Kalidas Varma
- \*3. Shri Z.M. Kahandole
4. Dr. Vallabhbhai Katheria
5. Shri Ashok Argal
6. Shri V. Dhananjaya Kumar
7. Shri Ganga Charan
8. Shri Devibux Singh
9. Dr. Ramesh Chand Tomar
10. Shri Tejveer Singh
11. Shri Kamal Nath
12. Dr. Ravi Mallu
13. Shri Paban Singh Ghatowar
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15. Shri Gurudas Kamat
16. Shri Nepal Chandra Das
17. Shri Narendra Budania
18. Dr. Asim Bala
19. Shri Balram Singh Yadav
20. Shri Raja Paramasivam
21. Shri Pitambar Paswan
22. Shri Prabhunath Singh
23. Dr. C. Suguna Kumari

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\* Nominated w.e.f. 10.7.98 vice Shri Chandubhai Deshmukh expired on 28.6.1998.

24. Shri Arjun Charan Sethi
25. Shri M. Selvarasu
26. Shri Prem Singh Chandumajra
27. Shri Mohan Vishnu Rawale
28. Shri Ambreesh
29. Shri C. Kuppusami
30. Smt. Kailasho Devi

*Rajya Sabha*

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41. Shri Anil Kumar
42. Shri Mukesh R. Patel
43. Shri Dara Singh Chauhan
44. Shri Joyanta Roy
45. Shri Parag Chaliha

**SECRETARIAT**

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

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\*\* Nominated w.e.f. 5.8.98 vice Prof. Naunihal Singh retired from the membership of Rajya Sabha w.e.f. 4.7.98.

## INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (1998-99) having been authorised by the Committee to submit the Report on their behalf, present this Ninth Report on Action Taken by Government on the recommendations contained in the Sixth Report of the Standing Committee on Petroleum and Chemicals (1998-99) (Twelfth Lok Sabha) on 'Demands for Grants of the Ministry of Chemicals and Fertilisers, Deptt. of Fertilisers for the year 1998-99.'

2. The Sixth Report of the Committee was presented to Lok Sabha on 10th July, 1998. Replies of Government to all the recommendations contained in the Sixth Report were received on 20th January, 1999.

3. The replies of the Government were considered by the Committee on 9th March, 1999. The Committee also considered and adopted the Report at their sitting held on 9th March, 1999.

4. An analysis of the action taken by Government on the recommendations contained in the Sixth Report (1998-99) of the Committee is given in Appendix-II.

NEW DELHI;  
March 11, 1999  
\_\_\_\_\_  
Phalguna 20, 1920 (Saka)

DR. BALRAM JAKHAR,  
*Chairman,*  
*Standing Committee on Petroleum & Chemicals.*

## **CHAPTER I**

### **REPORT**

**The Report of the Committee deals with the action taken by the Government on the recommendations contained in the Sixth Report (Twelfth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (1998-99) on 'Demands for Grants of Ministry of Chemicals and Fertilisers, Deptt. of Fertilisers for the year 1998-99' which was presented to Lok Sabha on 10th July, 1998.**

**2. The Action Taken notes have been received from the Government in respect of all the 15 recommendations contained in the Report. These have been categorised as follows:**

- (i) Recommendations that have been accepted by the Government: Sl. Nos. 2, 4, 7, 9, 11, 14 and 15.**
- (ii) Recommendations which the Committee do not desire to pursue in view of the Government's replies: Sl. No. 13.**
- (iii) Recommendations in respect of which replies of the Government have not been accepted by the Committee: Sl. Nos. 1, 10 and 12.**
- (iv) Recommendations in respect of which final replies of the Government are still awaited: Sl. Nos. 3, 5, 6 and 8.**

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

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

#### ***A. Proper Utilisation of Plan Outlay***

##### **Recommendation (Sl. Nos. 1 & 2, Para Nos. 9 & 10)**

**5. The Committee has pointed out that even after repeated recommendations made by them in their 18th Report (Tenth Lok Sabha) and 11th Report (11th Lok Sabha) for uniform utilisation of Plan outlay during 9th Plan period (1997-2002) there was unutilised funds to the tune of Rs. 368.94 crores during 1997-98, (the first year of the 9th Plan) out of the approved outlay of Rs. 1728.38 crores. In**

Committee's view such huge unutilised funds might have affected the growth in fertiliser industry. The Secretary, Fertilisers was candid in his deposition before the Committee that ideally whatever expenditure was planned that should be spent in that year. The Committee has again emphasised the need for synchronising the project planning and implementation so that plan fund was spent uniformly over the plan period. This would have ensured planned growth of the fertiliser industry.

6. The Government in their reply have stated that the outlay for the Annual Plan 1997-98 was Rs. 1728.38 crores. The plan expenditure fell short by Rs. 369 crores. The shortfall was mainly on account of the following projects which did not materialise during 1997-98 :-

(i) Oman India Fertiliser Project	Rs. 100 crore
(ii) Nellore Fertiliser Project	Rs. 68 crore
(iii) Acquisition of Mangalore Chemicals & Fertilisers Limited	Rs. 50 crore
(iv) Joint Venture Fertiliser Project with Iran	Rs. 30 crore
(v) Jhunjhunu Power Project of KRIBHCO	Rs. 50 crore

The Ministry have further stated that KRIBHCO has dropped the projects of acquisition of Mangalore Chemicals & Fertilisers Limited and Jhunjhunu Power Project.. Although the Government have granted investment clearance for the Oman India Fertiliser Project, negotiations with financing agencies have not been completed and therefore, the project has not yet taken off. The Government have yet to take a decision on the Nellore Fertiliser Project. All the above projects would be funded by the PSUs concerned out of their own internal resources and as such funds have not lapsed. Unutilised funds are available for utilisation in subsequent years as and when the projects are approved by the competent authority. The Department of Fertilisers is making concerted efforts to expedite clearance for the projects.

7. The Committee had observed that as against the DOF projections of Rs. 14, 779 crore for 9th Plan, Planning Commission has reportedly approved an outlay of Rs. 11,477 crore. Since PSUs/Coop. would be in a position to raise resources for the proposed projects, the Deptt. expressed optimism in securing Planning Commission's approval for suitable enhancement of Ninth Plan Outlay. The Committee had desired that the Ministry should take up the issue with Planning Commission urgently.

Government in their reply have stated :-

"The question of sanctioning additional capacity in the Public/Cooperative Sector is also linked with the assessment of the demand for and supply of fertilisers. This is being sorted out in consultation with the Department of Agriculture as well as the Planning Commission."

**8. The Committee are not convinced with reply of the Government since KRIBHCO's role in conceiving and execution of Projects is under detailed examination by the Committee, the Committee would not like to comment on this matter at this stage. The Committee however, express their displeasure over the manner in which the administrative Ministry have monitored the progress of these projects. The Ministry should have taken timely steps to monitor the progress and coordinated with the concerned authorities to get these projects cleared expeditiously. The contention of the Ministry that unutilised funds are available for utilisation in the subsequent years is contrary to the recommendation viz. the need for synchronising the proper planning and implementation uniformly over the plan period.**

**9. Based upon the DOF's projections of Rs. 14,779 crores for 9th Plan, Planning Commission have approved Rs. 11,447.37 crores. It has been reported that the projected demand and supply of fertilisers is being sorted out in consultation with the Department of Agriculture as well as the Planning Commission. The Committee would like to be assured that there is no delay on this account and plan outlay is utilised fully and uniformly within the stipulated period.**

***B. Payment of Subsidy***

**Recommendation (Sl. No. 3, Para No. 30)**

10. The Committee had noted that an amount of Rs. 6000 crores has been provided for payment under Fertiliser Retention Price (Urea) Scheme and for freight subsidy. The actual subsidy under the 'head' during 1996-97 was Rs. 4743 crores which rose to Rs. 6600 crores in 1997-98. With the withdrawal of proposed hike in Urea prices the budget provision of Rs. 6000 was low and DOF proposed to seek Rs. 1650 crores more through supplementary demands. Since this amount was meant for helping farming community, the Committee had approved the same. The Committee were however, astonished to find that some of fertiliser units claimed more subsidy by manipulating their capacities. Even though this fact was brought to the notice of the Government by JPC on Fertiliser Pricing as back as 1992. The Committee failed to understand as to why Government were unable to take any corrective steps. The Expert Committee (Hanumantha Rao Committee) also reported to have brought out this fact which was stated to be under examination of the Government. The Committee has urged upon the Government to examine this aspect early so that Government money meant for poor farmers did not become a regular source of undue benefit for some fertiliser units.

11. In their reply the Government have stated :-

"The Government is seized of the matter relating to high capacity utilisation being attained by some of the urea manufacturing units. The High Powered

Fertilisers Pricing Policy Review Committee (HPC) as well as the Technical Committee appointed by the Government have looked into the possible under statement of capacities by some of the urea manufacturing units..... dialogue on this issue took place with the industry. The Fertiliser Association of India (FAI), the apex body representing the industry, has referred to various under-recoveries suffered by the units as a result of which the units with high level of capacity utilisation are barely able to earn the post tax return on net worth assured under the Retention Price cum Subsidy Scheme (RPS). At the assessed level of production of 80-90%, these units, according to FAI would not be able to earn the assured return of 12% net worth.

The matter relating to complaints of under statement of capacities of the urea manufacturing units is being considered in depth by the FICC. FICC will take a balanced and holistic view of the matter having regard to the complaints regarding under statement of capacities by some of the units as also the concern of the industry regarding under-recoveries suffered by the units.

In view of the above circumstances, Government would wait the recommendations of the FICC before taking a decision in the matter."

12. The Committee note with satisfaction that at last Government has initiated a move to decide the matter, hopefully, finally. At the same time, the Committee cannot condone the inordinate delay of six years in clinching this issue. The practice of manipulation of capacity by fertiliser units for their financial benefit was brought out by JPC on Fertiliser Pricing to the notice of Government way back in 1992 much before the Hanumantha Rao Committee which submitted their report in April, 1998. The Committee sincerely hope that Government will now decide the matter conclusively without any further delay. The Committee would await the decision in this regard. The Committee would be glad if the money saved from this manipulative practice is used for revival of sick units of fertiliser industry.

#### *C. Early Action on Expert Panel Report.*

##### **Recommendation (Sl. No. 6, Para No. 33)**

13. The Committee has noted that (July, 1998) fertiliser industry was keenly awaiting the Government decision on High Powered Fertiliser Pricing Policy Review Committee which had submitted its report to Government in April, 1998. According to DOF, inter-Ministerial consultations would be over by August, 1998 and thereafter Governments would take decision in implementation of the Report. Since future investment decisions in the fertiliser sector would flow from the Government decisions, the Committee desired that consideration of the recommendations of the Expert Committee Report should be expedited and action taken.

14. In their reply the Ministry have stated that the process of inter-ministerial consultation has been initiated. Dialogue with the Industry has also been held. Having regard to the role and functions of Fertilisers Industry Coordination Committee (FICC) and its expertise, the proposals concerning pricing policy relating to the existing urea units and the new urea units are being discussed in the FICC in the first instance. Government would, therefore, like to await the recommendations of the FICC in the matter.

15. **The Committee view with concern the delay in finalising the decisions on recommendations of High Powered Fertiliser Pricing Policy Review Committee.** The Committee would like to remind the Government that as per the latest Economic Survey (1998-99), the domestic production of nearly 13 million tonnes of nitrogenous and phosphatic fertiliser falls short of consumption by over 20 per cent. While on the one hand consumption of fertilisers is increasing, on the other hand, public sector units in fertiliser industry are falling sick. Despite several recommendations of the Committee, the Government have not been able to revive these units. Under these circumstances, the role of private sector becomes more crucial. Admittedly, the private sector would not like to block investment for indefinite period and wait for favourable decision from the Government. To encourage the development of an efficient, indigenous fertiliser industry, the Committee would impress upon the Government the early need to decide this policy matter so as to allow potential investor to make rational investment decision in favour of fertiliser industry.

#### *D. Revival of HFC/FCI units*

##### **Recommendation (Sl. No. 10, Para No. 52)**

16. The Committee has noted with dismay that despite repeated assurances to this Committee revival packages for sick units of HFC/FCI (except Namrup units) had not been finalised so far. During the course of evidence the Secretary, Fertilisers once again promised before the Committee that within one to two months time the proposals will be submitted before the Cabinet for approval. The Committee had sincerely hoped that the Government would finally come out with the approved proposals within the specified time for early revival of HFC/FCI units. The Committee expected from the Government that all matters regarding evaluation and approval of revival packages of HFC/FCI units would be sorted out within a 3 months time. The Committee had also desired that operations at Durgapur unit of HFC, which were stopped last year should be re-started at the earliest.

17. The Ministry in their reply have informed that comprehensive rehabilitation proposals in respect of Barauni, Durgapur, Haldia Project and FP & ARD of HFC; and Sindri, Ramagundam and Talcher units of FCI are presently under inter-

ministerial consultations. As soon as these proposals are finalised by the Government, the same would be submitted for obtaining the final approval of the BIFR to whom HFC and FCI stand referred. Durgapur unit of HFC requires substantial capital expenditure of about Rs. 45 crore for undertaking essential repair/renovation of the plant and Rs. 43 crore as non-plan support towards working capital requirements. Due to limitations of plan funds available to this Department, it has not been possible to extend the budgetary support for renovation of the critical equipments for Durgapur units for resumption of the production operations. Moreover, considering the plant health, if funds are made available for the restart of Durgapur, its sustained operations would still be uncertain. Its intermittent production would strain the limited budget available for funding the cash losses of HFC. Under the circumstances, it will be possible to consider the resumption of production of Durgapur unit only in terms of the final decision of the Government on the revival of HFC.

18. The Committee are not happy with the reply of the Government that comprehensive rehabilitation proposals for HFC/FCI units are still under inter-ministerial consultations despite the clear assurance given (July, 1998) by the then Secretary (Fertilisers) that within one to two months time the proposals will be submitted before the Cabinet for approval. The Committee take serious note of the fact that assurance tendered before them has not been fulfilled. The Committee feel that administrative Ministry should have pursued this case with more vigour and sincerity. The Committee's aim is to see that all public sector sick units in fertiliser industry including HFC/FCI etc. are offered viable economic package for their quick revival. Any delay on this account is not only detrimental for sustaining the likely growth of these units but would entail avoidable extra expenditure. The Committee trust that the Government will now take effective steps in this regard.

#### *E. Expediting Investment Decision on Gorakhpur Project*

19. The Committee had been informed that KRIBHCO was in process of setting up a new ammonia-urea plant at Gorakhpur. The first stage clearance for this project had been obtained in October, 1997. A pre-PIB meeting has also considered the project in March, 1998. The Committee felt that progress in project clearance had been rather slow. They accordingly had recommended that this should be expedited.

20. In their reply the Government have informed that under the prescribed investment approval procedure, PIB note in respect of the proposal of KRIBHCO to set up a new ammonia-urea plant at the existing site of FCI's Gorakhpur plant, at an estimated cost of Rs. 1479 crore, has been circulated on 10.12.98. There was delay in processing the proposal for investment approval after the pre-PIB meeting, as the demand projections for nitrogen nutrient in the terminal year of the 9th Plan had to be finalised and based on this, prioritisation of projects in the pipelines had to be undertaken.

**21. The Committee sincerely hope that investment decision on the proposal would be taken at the earliest. For this purpose DOF should expedite completing all inter-departmental consultations, PIB/Cabinet clearances etc. as a time bound programme.**

## CHAPTER II

### RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### **Recommendation (Sl. No. 2, Para No. 10)**

It came out during examination that as against the DOF projections of Rs. 14,779 crore for 9th Plan, Planning Commission is reported to have approved an outlay of Rs. 11,447 crore. Since PSUs/Coop. would be in a position to raise resources for the proposed projects, the Deptt. has expressed optimism in securing Planning Commission's approval for suitable enhancement of Ninth Plan Outlay. Since the 9th Plan is already in progress, the Ministry should take up the issue with Planning Commission urgently so that all PSUs etc. are clear as to what projects/schemes they are expected to complete.

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

The outlay approved by the Planning Commission for the Ninth Plan is Rs. 11,447.37 crores. The Ninth Plan is predominantly funded by the internal and extra budgetary resources of the PSUs to the extent of Rs. 10,349.08 crores. This accounts for 90% of the outlay.

The question of sanctioning additional capacity in the Public/Cooperative Sector is also linked with the assessment of the demand for and supply of fertilizers. This is being sorted out in consultation with the Department of agriculture as well as the Planning Commission. Since most of the resources required for the project come from the PSUs themselves, no difficulty is envisaged in getting the allocations enhanced once the projects are cleared by the competent authority. Meanwhile chief executives of PSUs/Cooperatives have been advised to sanction expeditiously schemes which fall within their delegated powers.

Planning Commission would be approached for enhancement of the outlay as soon as the need arises.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers,  
O.M. No.1(3)98-Fin.I dated 20th Jan. 1999]

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

**(Please see Para 3 of Chapter I)**

### **Recommendation (Sl. No. 4, Para No. 31)**

Even though this Committee has recommended as back as 1993 (3rd Report 10th L.S.) to review the pricing pattern of NPK fertilizers for correcting the imbalanced use of NPK fertilizers, the Government did not take any concrete measures in the matter. With the receipt of recommendations of the Hanumantha Rao Committee, the issue has once again come to the fore. As against the ideal ratio of 4:2:1 for use of NPK, the actual usage was 10:2.9:1 in 1997-98. The Committee find this situation an alarming one has accordingly strongly recommend that the issue must be examined urgently in consultation and coordination with the Ministry of Agriculture for taking a concrete decision in the matter.

### **Reply of the Government**

A copy of the Report has been forwarded to Ministry of Agriculture with a request to take further action in the matter.

2. Consequent upon the decontrol of phosphatic and potassic fertilizers w.e.f. 25.8.92, the maximum retail prices (MRPs) of these fertilizers registered sharp increase *vis-a-vis* the MRP of urea. In order to cushion the impact of increase in prices of these fertilizers, Ministry of Agriculture had introduced an *ad-hoc* scheme of concessions on sale of decontrolled fertilizers. In a major policy initiative taken by the Government on 5.7.96, the scale and coverage of the concession Scheme was substantially increased to give impetus to the stagnating demand for these fertilizers and to ameliorate the nutrient imbalance in the soil which is essential for sustainable growth in agriculture productivity. In 1997-98, alongwith the increase in urea price effective from 21.2.97, it was decided to increase w.e.f. 1.4.97 the concession on indigenous DAP from Rs. 3000 to Rs. 3750 per tonne and on imported DAP from Rs. 1500 to Rs. 2250 per tonne, on MOP from Rs. 1500 to Rs. 2000 per tonne, on SSP from Rs. 500 to Rs. 600 per tonne and proportionately for indigenous complex fertilizers. The implementation of Concession Scheme was streamlined by providing for 80% 'on-account' payment to the well established manufacturers and importers pending certification of sales by the State Government. These measures were aimed to induce the farmers to optimise the use of three plant nutrients. The rates of concession were reduced for Rabi 1997-98 effective from 1.10.97 by Rs. 250 per tonne in respect of DAP and proportionately in respect of indigenous complex fertilizers. Notwithstanding this, the consumption of phosphate and potash registered an increase from 28.44 lakh tonnes and 8.84 lakh tonnes in 1992-93 to 39.71 lakh tonnes and 13.71 lakh tonnes, respectively in 1997-98. An improvement in the NPK ratio in 1997-98 has been achieved over the NPK ratio of 9.7:2.9:1 in 1993-94. The NPK ratio in 1997-98 was 7.9:2.8:1.

3. For Kharif 1998, the rates of concession have been fixed at Rs. 4400 PMT for indigenous DAP, Rs. 3400 PMT for imported DAP, Rs. 3000 PMT for MOP and Rs. 600 for SSP. The rates of concession have been proportionately fixed for various complex fertilizers taking into account the NPK content in these fertilizers.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin. I dated 20th Jan. 1999]

**Recommendation (Sl. No. 7, Para No. 43)**

The Committee find that for the year 1998-99 apart from subsidy provisions of Rs. 6000 crores under Fertilizer Retention Price/Freight subsidy schemes, a provision of Rs. 963 crores has been provided for subsidy on imported urea. According to DOF, the current budget is considered adequate to meet the requisite demands of imports. The Committee expect from the Department that it would utilise this money properly ensuring availability of fertilizers at the reasonable prices.

**Reply of the Government**

The maximum retail price (MRP) of urea, which is a controlled fertilizer, is uniformly Rs. 3660 per MT throughout the country. The imports of urea which are made for bridging the gap between the demand and indigenous availability, were made timely and made available to the farmers. Imports of 5.56 lakh MT of urea have so far been made. Imported urea has been purchased at the most competitive price. The weighted average C&F price of the imported urea (upto December) is US\$ 101.14.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin. I dated 20th Jan. 1999]

**Recommendation (Sl. No. 9, Para No. 45)**

The Committee note that in respect of NFL, Karsan import deal both criminal and arbitration proceedings are still going on. The proceedings before the Arbitration Tribunal at Amsterdam have been completed in May, 1998 and award is expected in August/September, 1998. NFL is also expecting that award will go in their favour. The Committee would like to know the result of both criminal and arbitration proceedings in due course. The Committee trust that necessary action would be taken bringing the guilty to book.

### **Reply of the Government**

On the basis of investigation conducted by Central Bureau of Investigation (CBI), a charge sheet was filed on 26.12.1997 against 9 accused persons including former Chief Executive of NFL. The Court of Special Judge, Delhi has framed charges against 8 accused persons including Mr. Tuncay Alancus and Mr. Cihan Karanchi of M/s. Karsan Ltd. On 1.12.1998. The trial is expected to commence from January '99. The International Court of Arbitration (ICA) has delivered the Award on 8th December '98. According to it, M/s. Karsan Ltd. have been ordered to pay NFL the following:

- (a) US\$ 37,620,000 with simple interest at a rate of 5% per annum as of 14 November 1995 until the date of payment in full on account of the purchase price pre-paid by NFL to Karsan;
- (b) US\$ 2,600,000 on account of the difference between the purchase price and the market price of urea on the date of Karsan's default; and
- (c) US\$ 780.82 on account of interest over US\$ 380,000 paid by NFL to Karsan for the insurance premium.

It has also awarded 75% of the cost of Arbitration incurred by NFL to be borne by M/s. Karsan Ltd. The ICA has, however, not accepted the NFL's claim for liquidated damages (US\$ 3.8 million) and expenditure incurred in connection with the Agreement (US\$ 0.7 million).

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin. I dated 20th Jan. 1999]

### **Recommendation (Sl. No. 11, Para No. 53)**

The Committee had been informed that rehabilitation programme of Namrup units start from 1st July, 1998 and it will be completed within 30 months from this date. The Committee desire that Govt. should make necessary funds available so that long awaited revival package is not in any way is hampered due to lack of funds.

### **Reply of the Government**

HFC is in the process of finalising the Engineering, Procurement and Construction contract on a turn-key basis. The revamp of Namrup units is scheduled to be implemented in 30 months from the date of awarding the job to EPC contractor. With a view to ensure timely implementation of the revival scheme, this Department has earmarked a plan budgetary support of Rs. 70 crore during the current financial year out of the gross budgetary support of Rs. 209.20 crore. In the meantime, this Department is making efforts to mobilise

term loan of Rs. 156 crore from the financial institutions. The conditionalities put forward by the financial institutions for their proposed financial exposure for the revamp of Namrup Unit are being processed in consultation with Ministry of Finance.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.18055/23/98-FCA-II dated 20th Jan. 1999]

**Recommendation (Sl. No. 14, Para No. 54)**

The Committee regret to note that even though HFC has been facing financial constraints and uncertainty, DOF has not supported it for carrying out activities through foreign assisted programmes making HFC's workforce idle.

The Committee, therefore strongly recommend as and when foreign aided projects are finalised (one such project of Rs. 55 crore was under negotiation in 1996 with ODA Funding) HFC, which has got a separate Fertiliser Promotion and Agricultural Research Division, should be associated with such projects so as to utilise its trained cadre.

**Reply of the Government**

The suggestion of the Standing Committee regarding supporting HFC for carrying out the activities through foreign assisted programmes has been noted. It may be pointed out that the Department of Fertilizers actively pursued with ODA the matter of sanction of the Fertilizer Education Project proposed by HFC, in 1995. However, ODA did not sanction the project in view of the uncertainty regarding the future of HFC. A project formulated by HFC for intensive agriculture with a proposed outlay of Rs. 50 crore has been recommended to DEA in May 1998 for funding by the Japan International Cooperation Agency.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin.I dated 20th Jan. 1999]

**Recommendation (Sl. No. 15, Para No. 68)**

The Committee find that inspite of reported regular monitoring, there have been time and cost over-runs in some of the projects undertaken by IFFCO, NFL, MFL & FACT during the last 2-3 years. The Committee would like the Govt. That much needed scarce resources are not frittered away in form of cost escalations. They accordingly recommend a close regular/periodical monitoring by the Ministry on all on-going major projects. The Ministry should also set targets for itself for granting approval of the projects as at times considerable

delay at the level of Govt. in giving approvals also adds to the time and cost over-runs. Besides, the Committee expect the Govt. to envisage a scheme of rewards and punishments for the project implementation authorities.

### **Reply of the Government**

Major fertilizer projects of PSUs/Cooperatives are regularly monitored by Department of Programme Implementation on Monthly/quarterly basis and in the Quarterly Review meetings/Project Review Meetings in the Department of Fertilizers. However, we have noted the recommendations of the Committee to strengthen the review mechanism. The Committee may like to know that at present in the public/cooperative sector, Indian Farmers Fertilizer Cooperative Limited (IFFCO)'s Kandla Expansion Project for creation of an additional capacity of 3.70 lakh Tonnes Per Annum (TPA) of NPK and 2.27 lakh TPA of DAP at an estimated cost of Rs. 212.20 crore, is the only major fertilizer project under implementation. The project is expected to be commissioned by 22.10.99 as per schedule within the approved cost.

The investment proposals of PSUs/Cooperative societies are processed in the Department as per the laid down investment approval procedure. However, as detailed in reply to Recommendation No. 12, there has been some delay in processing the recent proposals of PSUs/Cooperatives for addition to urea capacities as the issue of demand projections for urea and prioritisation of projects had to be finalised.

Department of Programme Implementation is the modal Department for monitoring all major projects being implemented by Government Departments/PSUs. The suggestion of the Committee regarding formulation of a scheme of awards and punishments for the project implementation authorities has been forwarded to Department of Programme Implementation for their consideration.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin.I dated 20th Jan. 1999]

## CHAPTER III

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

#### Recommendation (Sl. No. 13, Para No. 60)

The Committee note that even though KRIBHCO is a cash rich fertiliser Co-operative unit under DOF it has not taken up any new project during the last 2-3 years. The Committee are astonished to find that although KRIBHCO was willing to take over a sick private sector fertiliser unit, it has not shown any eagerness to help reviving or operating sick units of HFC/FCI. A mere assistance/gesture of Rs. 40 crore from KRIBHCO could have kept Durgapur unit of HFC running which is located in a region where fertiliser availability is much less than the requirements. The Committee are also not fully satisfied with the contention of the Secretary, Fertilisers that KRIBHCO's Board was alone could decide such matters. Technically, it could be a correct position, but considering Government equity and control over the functioning of KRIBHCO, the Committee are of the opinion that a little will of the Government could have done wonders. They accordingly would like the Government to ask cash rich PSUs/Cooperatives under them to help the sick units to the extent feasible and possible.

#### Reply of the Government

KRIBHCO has evinced interest to set-up an ammonia urea plant at the existing site of FCI's Gorakhpur plant. Government has already accorded first stage clearance to KRIBHCO for the proposal on 21.10.97. The Detailed Feasibility Report has been considered by the appraising agencies in the Pre-PIB Meeting held on 17.03.98. The proposal will be posed for further investment approval as per the prescribed procedure after finalisation of the demand projections for Nitrogen nutrient in the terminal year of the 9th Plan and the Policy for capacity accretion, which is being reformulated in the light of the recommendations of the High-Powered Fertilisers Pricing Policy Review Committee.

This Department has already explored the possibility of mobilisation of fresh investment from cash rich fertiliser sector PSUs/Cooperatives for revival of

various units of HFC and FCI. The fertiliser PSUs/Cooperatives on account of their prior commitments towards joint venture projects abroad and expansion of their existing plants, were not willing for the same.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No. 18055/23/98-FCA-II dated 20th Jan., 1999]

## CHAPTER IV

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

#### Recommendation (Sl. No. 1, Para No. 9)

The Committee are constrained to note that even after repeated recommendations made by the Committee in their 18th Report (Tenth Lok Sabha) and 11th Report (11th Lok Sabha) for uniform utilisation of Plan outlay during 9th Plans period (1997-2002) there is an unutilised funds to the tune of Rs. 368.94 crores during 1997-98, (the first year of the 9th Plan) out of the approved outlay of Rs. 1728.38 crores. In Committee's view such huge outlay unutilised funds might have affected the growth in fertiliser industry. The Secretary, Fertilisers candidly admitted in his deposition before the Committee that ideally whatever expenditure is planned that should be spent in that year. The Committee once again emphasize the need for synchronising the project planning and implementation so that plan funds are spent uniformly over the plan period. This will ensure planned growth of the fertiliser industry.

#### Reply of the Government

The outlay for the Annual Plan 1997-98 was Rs. 1728.38 crores. The Plan expenditure fell short by Rs. 369 crores. The shortfall was mainly on account of the following projects which did not materialise during 1997-98 :—

(i) Oman India Fertiliser Project	Rs. 100 crore
(ii) Nellore Fertiliser Project	Rs. 68 crore
(iii) Acquisition of Mangalore Chemicals & Fertilisers Limited	Rs. 50 crore
(iv) Joint venture fertiliser project with Iran	Rs. 30 crore
(v) Jhunjhunu Power Project of KRIBHCO	Rs. 50 crore

KRIBHCO has dropped the projects of acquisition of Mangalore Chemicals and Fertilisers Limited and Jhunjhunu Power Project. Although the Government has granted investment clearance for the Oman India Fertiliser Project, negotiations with the financing agencies have not been completed and therefore, the project has not yet taken off. The Government is yet to take a decision on the Nellore Fertiliser Project. All the above projects would be funded by the PSUs concerned

out of their own internal resources and as such funds have not lapsed. Unutilised funds are available for utilisation in subsequent years as and when the projects are approved by the competent authority. The Department of Fertilisers is making concerted efforts to expedite clearance for the projects.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin.-I dated 20th Jan., 1999]

### **Comments of the Committee**

(Please see Para 8 and 9 of Chapter I of the Report)

#### **Recommendation (Sl. No. 10, Para No. 52)**

The Committee note with dismay that despite repeated assurances to this Committee revival packages for sick units of HFC/FCI (except Namrup units) have not so far been finalised. During the course of evidence the Secretary, Fertilisers once again promised before the Committee that within one to two months time the proposals will be submitted before the Cabinet for approval. The Committee sincerely hope that the Government would finally come out with the approved proposals within the specified time for early revival of HFC/FCI units. The Committee expect from the Government that all matters regarding evaluation and approval of revival packages of HFC/FCI units would be sorted out within a 3 months time. They would accordingly await a compliance report from the Government in this regard. The Committee hope that the assurances given by the Secretary, Fertilisers will not remain on paper like the assurances given by the Ministry on earlier occasions.

The Committee would also like that operations at Durgapur unit of HFC, which were stopped last year may be re-started at the earliest.

### **Reply of the Government**

Comprehensive rehabilitation proposals in respect of Barauni, Durgapur, Haldia project and FP&ARD of HFC; and Sindri, Ramagundam and Talcher units of FCI are presently under inter-ministerial consultations. As soon as these proposals are finalised by the Government, the same would be submitted for obtaining the final approval of the BIFR to whom HFC and FCI stand referred.

Durgapur unit of HFC requires substantial capital expenditure of about Rs. 45 crore for undertaking essential repair/renovation of the plant and Rs. 43 crore as non-plan support towards working capital requirements. Due to limitations of plan funds available to this Department, it has not been possible to extend the

budgetary support for renovation of the critical equipments of Durgapur unit for resumption of its production operations. Moreover, considering the plant health, if funds are made available for the restart of Durgapur, its sustained operations would still be uncertain. Its intermittent production would strain the limited budget available for funding the cash losses of HFC. Under the circumstances, it will be possible to consider the resumption of production of Durgapur unit only in terms of the final decision of the Government on the revival of HFC.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No. 18055/23/98-FCA-II dated 20th Jan., 1999]

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

(Please *see* Para 18 of Chapter I of the Report)

#### **Recommendation (Sl. No. 12, Para No. 59)**

The Committee have been informed that KRIBHCO is in process of setting up a new ammonia urea plant at Gorakhpur. The first stage clearance for this project has been obtained in October, 1997. A pre-PIB meeting has also considered the project in March, 1998. The Committee feel that progress in project clearance has rather been slow. They accordingly, recommend that this should be expedited.

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

Under the prescribed investment approval procedure, PIB note in respect of the proposal of KRIBHCO to set up a new ammonia-urea plant at the existing site of PCI's Gorakhpur plant, at an estimated cost of Rs. 1479 crore, has been circulated on 10.12.98. There was delay in processing the proposal for investment approval after the pre-PIB meeting, as the demand projections for nitrogen nutrient in the terminal year of the 9th Plan had to be finalised and based on this, prioritisation of projects in the pipeline has to be undertaken.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin.-I dated 20th Jan., 1999]

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

(Please *see* Para 21 of Chapter I of the Report)

## CHAPTER V

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

#### **Recommendation (Sl. No. 3, Para No. 30)**

The Committee note that an amount of Rs. 6000 crores has been provided for payment under Fertilizer Retention Price (Urea) Scheme and for freight subsidy. The actual subsidy under the 'head' during 1996-97 was Rs. 4743 crores which rose to Rs. 6600 crores in 1997-98. With the withdrawal of proposed hike in Urea prices the budget provision of Rs. 6000 is low and DOF would seek Rs. 1650 crores more through supplementary demands. Since this amount is meant for helping farming community, the Committee approve the same. The Committee are however, astonished to find that admittedly some of the fertiliser units claim more subsidy by manipulating their capacity. Even though this fact was brought to the notice of the Government by JPC on Fertilizer Pricing as back as 1992. The Committee fail to understand as to why Government has not yet been able to take any corrective steps. The Expert Committee (Hanumantha Rao Committee) is also reported to have brought out this fact, which is stated to be under examination of the Government. The Committee would urge upon the Government to examine this aspect early so that Government money meant for poor farmers does not become a regular source of undue benefit for some fertiliser units.

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

The Government is seized of the matter relating to high capacity utilization being attained by some of the urea manufacturing units. The High Powered Fertilizers Pricing Policy Review Committee (HPC) as well as the Technical Committee appointed by the Government have looked into the possible under statement of capacities by some of the urea manufacturing units.

Dialogue on this issue took place with the industry. The Fertilizer Association of India (FAI), the apex body representing the industry, has referred to various under-recoveries suffered by the units as a result of which the units with high level of capacity utilization are barely able to earn the post tax return on net worth assured under the Retention Price cum Subsidy Scheme (RPS). At the assessed level of production of 80-90%, these units, according of FAI would not be able to earn the assured return of 12% net worth.

The matter relating to complaints of under statement of capacities of the urea manufacturing units is being considered in depth by the FICC. FICC will take a

balanced and holistic view of the matter having regard to the complaints regarding under statement of capacities by some of the units as also the concern of the industry regarding under-recoveries suffered by the units.

In view of the above circumstance, Government would await the recommendations of the FICC before taking a decision in the matter.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.12014/5/98-FPP-II dated 30.12.98]

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

(Please see Para 12 of Chapter I of the Report)

#### **Recommendation (Sl. No. 5, Para No. 39)**

Admittedly there is need to have farmer service centres by manufacturing fertiliser units. The Committee regret to note even though there are not too many units in eastern region, the activities of Fertiliser Promotion and Agricultural Division of HFC are lying closed due to lack of funds. Since the technical manpower for the Division is still on the roll of HFC the Committee recommend that Govt. should provide necessary funds to restart its activities. The Committee would await Govt. specific decision in the matter.

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

Fertilizer Promotion and Agricultural Research Division (FP&ARD) of HFC was mainly dependent on the implementation of foreign aided projects. Presently, foreign agencies have not allocated any new projects for implementation by FP&ARD. Department of Fertilizers had explored the possibility of absorption of FP&ARD's manpower by fertilizer PSUs/cooperatives as also with the Ministries/ Departments of the Government of India, but none of them offered their willingness for the same. Since comprehensive revival proposal for various units of HFC, including FP&ARD are presently under finalisation in the Government, any final decision on the future disposition of FP&ARD would depend on the decision of the Government and final outcome of the proceedings pending before the Board for Industrial & Financial Re-construction (BIFR).

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.18055/23/98-PCA-II dated 20.1.99]

**Recommendation (Sl. No. 6, Para No. 33)**

The Committee also note that fertiliser industry is keenly awaiting the Government decision on High Powered Fertiliser Pricing Policy Review Committee which submitted its report to Government in April, 1998. According to DOF, inter-Ministerial consultations would be completed by August, 1998 and thereafter Government would take decision on implementation of the Report. Since future investment decisions in the fertiliser sector would flow from the Government decisions, the Committee desire that consideration of the recommendations of the Expert Committee Report should be expedited and action be taken. The Committee would like to be apprised of the decisions taken by Government in this regard.

**Reply of the Government**

The process of interministerial consultation has been initiated. Dialogue with the Industry has also been held.

Having regard to the role and functions of Fertilizers Industry Coordination Committee (FICC) and its expertise, the proposal concerning pricing policy relating to the existing urea units and the new urea units are being discussed in the FICC in the first instance. Government would, therefore, like to await the recommendations of the FICC in the matter.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.12014/5/98-FPP-II dated 30.12.98]

**Comments of the Committee**

(Please *see* Para 15 of Chapter I of the Report)

**Recommendation (Sl. No. 8, Para No. 44)**

The Committee note that the quantum of imports of fertilizers ranged between 23 lakh tonnes to 37 lakh tonnes in the last 4-5 years. Due to increased demand of fertilizer the imports are also likely to increase manifold. The representatives of DOF agreed to the suggestion of the Committee to look into the policy aspects of becoming self-reliant fertilizers wherein giving a go-by to existing practice of resorting to greater import of urea. In Committee's view this is essential from the point of view of national food security and becoming self-reliant. The Committee would like to be apprised of the outcome after examining the issue in its all ramifications.

### **Reply of the Government**

As per the industrial policy statement issued on 24.7.91, no industrial licence is now required for setting up a fertilizers plant. However, the following strategy has been adopted to increase the fertilizer production in the country.

- (i) Retrofitting/Revamping of existing fertilizer plants.
- (ii) Overcoming the constraints in the availability of natural gas by setting up naphtha based expansion projects and installing duel fuel/feedstock facilities in the existing plants and projects under implementation; and
- (iii) Setting up joint venture projects in countries having abundant and cheap raw materials resources.

To encourage investment in the fertilizer sector the following concessions are available to the fertilizer industry.

- (i) Duty free import of capital goods for setting up of new plants/modernisation of existing units.
- (ii) Deemed export benefits to indigenous suppliers of goods to fertilizer projects provided such supplies are made under the procedure of international competitive bidding.
- (iii) Duty free import of fertilizer raw materials and intermediates.
- (iv) Concession on decontrolled phosphatic and potassic fertilizers to promote the use of nutrients.

The capacity addition and the increase in production of fertilizers in terms of nutrients i.e. nitrogen and phosphate from 1992-93 (The first year of the Eighth Plan) to 1997-98 and 1998-99 the first and the second year of the Ninth Plan is as follows :—

Year	Capacity in lakh MT		Production in lakh MT	
	Nitrogen	Phosphate	Nitrogen	Phosphate
1992-93	8.530	2.822	7.430	2.306
1997-98	10.496	2.951	10.085	2.975
1998-99 (Estimated)	10.520	3.170	10.426	2.997

Thus, the capacity of nitrogen and phosphate has increased by 23.33% and 12.33% respectively and production of the same has increased by 40.32% and 29.97% respectively from the year 1992-93 to 1998-99.

The High Powered Fertilizers Pricing Policy Review Committee which was constituted in January 1997 has submitted its report in April 1998. The inter-Ministerial consultations and dialogue with the industry have been undertaken for finalising the position of the Government on the recommendations of the Committee. A new fertilizer policy which would seek to harmonise the interests of growth and efficiency upgradation in the industry would be evolved in the light of the conclusion of the exercise.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers  
O.M. No.1(3)/98-Fin-I dated 20.1.1999]

NEW DELHI;  
March 11, 1999  
Phalgun 20, 1920 (Saka)

DR. BALRAM JAKHAR,  
*Chairman,*  
*Standing Committee on Petroleum & Chemicals*

## APPENDIX I

### MINUTES

#### STANDING COMMITTEE ON PETROLEUM & CHEMICALS

##### Twenty-First Sitting (9.3.1999)

The Committee sat from 1500 hrs. to 1600 hrs.

**Dr. Balram Jakhar – Chairman**

#### PRESENT

##### MEMBERS

###### Lok Sabha

2. Dr. Vallabhbhai Katheria
3. Shri Ganga Charan Rajput
4. Dr. Ravi Mallu
5. Shri Paban Singh Ghatowar
6. Shri Gurudas Kamat
7. Dr. Asim Bala
8. Shri Raja Paramasivam
9. Shri M. Selvarasu
10. Shri Ambreesh
11. Shri C. Kuppusami
12. Smt. Kailasho Devi

###### *Rajya Sabha*

13. Shri Radhakishan Malaviya
14. Shri Anantha Sethi
15. Shri Kanak Mal Katara
16. Shri Dipankar Mukherjee

17. Shri Mukesh R. Patel  
 18. Shri Parag Chaliha

**SECRETARIAT**

1. Dr. A.K. Pandey	-	<i>Additional Secretary</i>
2. Shri Harnam Singh	-	<i>Joint Secretary</i>
3. Shri Brahm Dutt	-	<i>Deputy Secretary</i>
4. Shri. J.N. Oberoi	-	<i>Under Secretary</i>
5. Smt. Abha Singh	-	<i>Asstt. Director</i>

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2. The Committee thereafter considered and adopted the following :-

(i)    **                    **                    **                    **
(ii)   **                    **                    **                    **
(iii) Draft Report on Action Taken by Government on the recommendations contained in 6th Report of the Committee on Demands for Grants 1998-99 of Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers.
(iv)   **                    **                    **                    **

3. The Committee also authorised the Chairman to finalise the Reports after factual verification by the concerned Ministries and present them to Parliament.

*The Committee then adjourned.*

## APPENDIX II

(*Vide* Para 4 of the Introduction)

### ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SIXTH REPORT OF THE STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (TWELFTH LOK SABHA) ON 'DEMANDS FOR GRANTS 1998-99' OF THE MINISTRY OF CHEMICALS AND FERTILIZER, DEPARTMENT OF FERTILIZER.

(i)	<b>Total number of Recommendations</b>	<b>15</b>
(ii)	<b>Recommendations that have been accepted by the Government. (<i>vide</i> Recommendation at Sl. Nos. 2, 4, 7, 9, 11, 14 and 15)</b>	<b>7</b>
	<b>Percentage to total</b>	<b>46.66</b>
(iii)	<b>Recommendations which the Committee do not desire to pursue in view of the Government's reply.</b>	<b>1</b>
	<b>Percentage to total</b>	<b>6.67</b>
(iv)	<b>Recommendations in respect of which replies of Government have not been accepted by the Committee. (<i>vide</i> Recommendation at Sl. Nos. 1, 10 and 12)</b>	<b>3</b>
	<b>Percentage to total</b>	<b>20</b>
(v)	<b>Recommendations in respect of which final replies of Government are still awaited. (<i>vide</i> Recommendations at Sl. Nos. 3, 5, 6 and 8)</b>	<b>4</b>
	<b>Percentage to total</b>	<b>26.67</b>