THIRTY-SECOND REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2002)

(THIRTEENTH LOK SABHA)

INDIAN FARMERS' FERTILISERS COOPERATIVE LIMITED (IFFCO)

MINISTRY OF CHEMICALS & FERTILISERS (DEPARTMENT OF FERTILISERS)

[Action Taken by the Government on the Recommendations contained in the Twenty-Fourth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2001) on 'Indian Farmers Fertilisers Cooperative Limited (IFFCO)']

Presented to Lok Sabha on 17.10.2002
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Laid in Rajya Sabha on............ 25 NOV 2002

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

August, 2002/Bhadrapada, 1924 (Saka)

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(2002)

Shri Mulayam Singh Yadav — *Chairman*

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4.	Shri J.N. Oberoi	*Under Secretary*
	Shri A.K. Shah	*Committee Officer*

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* Nominated w.e.f. 8th April, 2002.
** Nominated w.e.f. 8th May, 2002.
*** Nominated w.e.f. 14th May, 2002.

COMPOSITION OF THE SUB-COMMITTEE ON FERTILISERS

A SUB-COMMITTEE OF THE STANDING COMMITTEE

ON

PETROLEUM & CHEMICALS

(2002)

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

2. Dr. Debendra Pradhan — *Convenor*
3. Shri Ram Chander Bainda
4. Shri Ananda Mohan Biswas
5. Shri Balkavi Bairagi
6. Shri Padam Sen Choudhry
7. Prof. Kailasho Devi
8. Shri Dilipkumar Mansukhlal Gandhi
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*12. Shri Keshubhai Savdasbhai Patel

13. Ms. Mabel Rebello
14. Dr. Chhatrapal Singh

**15. Shri Thanga Tamilselvan

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* Nominated w.e.f. 14th May, 2002.

** Nominated w.e.f. 8th April, 2002.

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (2002) having been authorised by the Committee to submit the Report on their behalf present this Thirty-Second Report on Action Taken by Government on the recommendations contained in Twenty-Fourth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals (2001) on 'Indian Farmers' Fertilisers Cooperative Limited (IFFCO)'.

2. The Twenty-Fourth Report of the Committee was presented to Speaker on 28th December, 2001 and later presented to Lok Sabha on 26th February, 2002. The Replies of Government to all the recommendations contained in the Twenty-Fourth Report were received on 28th March, 2002. The Sub-Committee on Fertilisers considered the Action Taken Replies received from the Government and adopted the Report at their sitting held on 5th July, 2002.

3. The Standing Committee on Petroleum and Chemicals (2002) considered and adopted this Report at their sitting held on 12th August, 2002. The Committee place on record their appreciation of the work done by the Sub-Committee on Fertilisers.

4. An analysis of the Action Taken by Government on the recommendations contained in the Twenty-Fourth Report (Thirteenth Lok Sabha) of the Committee is given in Appendix III.

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

6. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI ;
August 29, 2002
Bhadrapada 7, 1924 *(Saka)*

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

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Twenty-Fourth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2001) on 'Indian Farmers' Fertilisers Cooperative Limited (IFFCO)' which was presented to Lok Sabha on 26th February, 2002.

2. Action Taken notes have been received from the Government in respect of all the 30 recommendations contained in the Report. These have been categorised as follows:-

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

Sl. Nos.8 and 28.

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

Sl. Nos. 3,12,13,14,23,24,26 and 27.

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

Sl. Nos. 4, 11 and 22.

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

Sl. Nos. 1,2,5,6,7,9,10,15,16,17,18,19,20,21,25,29 and 30.

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

4. The Twenty-Fourth Report (13th Lok Sabha) deals with examination of Indian Farmers' Fertilisers Cooperative Limited (IFFCO), a cooperative society incorporated in November, 1967 and engaged in production and distribution of fertilisers. The society has four fertilisers plants at Kalol, Kandla in Gujarat and Aonla and Phulpur in U.P. As part of diversification in other areas, IFFCO has started insurance business. Some of the important recommendations incorporated in the Report of the Committee were:-

(i) IFFCO was urged to spread Cooperatives throughout the country specifically in North-East,

(ii) Expedite early financial closure of Indo-Oman Project,

(iii) Early clearance for IFFCO's Nellore Project urged,

(iv) Government were urged to allocate requisite gas to IFFCO's plants at Kalol and Aonla.

(v) Government were asked to revive Core Group on Import of LNG for ensuring future availability of gas.

(vi) Government were directed to examine the full implication of Group Retention Scheme before finalising the new fertilisers policy for urea units.

(vii) Government were further asked to advise Ministry of Petroleum & Natural Gas to increase the price of natural gas in phased manner in the interest of fertiliser units.

5. The Committee will now deal with action taken by the Government on some of the recommendations and make suggestions thereupon.

DIVERSIFICATION IN FOOD PROCESSING

(Recommendation Nos1 and 9, Paragraph Nos. 1.10 and 3.21)

6. The committee while examining the achievement of objectives of IFFCO had observed that objectives laid down in the bye-laws of the Society were wide ranging in nature varying from promoting the economic interest of its members by undertaking manufacture/production development of chemicals fertilisers, bio-fertilisers their impact and technologies, storage, transportation, marketing, processing of farm products, pesticides, trading, shipping, telecommunication, power generation, housing, real estate, banking and insurance etc. For achieving these objectives IFFCO had informed that it had successfully realised many of its objectives like production and marketing of fertilisers. For remaining objectives like processing farm products, pesticides, trading, shipping and petrochemicals, IFFCO had informed that Society had explored the feasibility of diversification in these areas but preferred not to pursue due to various techno-economical and commercial considerations. However, these objectives might be reviewed in a changed economic scenario. About the need to retain relevant objectives in Bye-laws of the Society, IFFCO had informed that these were not revised frequently and hence allowed to remain in Bye-laws. The purpose of these objectives was to provide commercial options for venturing into new areas of business depending on the available opportunities of growth. The Department of Fertilisers had also agreed with IFFCO. However, the Committee felt that the Society should review all the objectives enshrined in the Bye-laws and retain such of the objectives as were synergic in its character. The Committee also recommended that the Society should make plans for the next 10 years to 25 years to achieve the fulfillment of laid down objectives. As agreed to by Fertilisers Secretary, IFFCO should explore the possibilities of taking food processing, storage activities on priority basis as these were rural/agriculture based where Society had roots. During the course of examination the Committee had found that in the field of food processing IFFCO had not started its operations in a big way. Explaining the reasons for this IFFCO had stated that due to various techno-economical and commercial considerations, this was not done. However, IFFCO had assured to review the same if situation so warranted. DOF had informed that so far no such proposal for diversification had

been submitted by IFFCO. However, Department would certainly examine such proposal as and when the same was received. The Committee felt that even the multinational companies were venturing into food processing industry and indigenous companies/societies like IFFCO which had large rural network can be successful in this sector. The Committee, therefore, recommended that IFFCO should examine this scheme de-novo.

7. In their reply Government have stated as under:

> "IFFCO is initiating steps to explore the feasibility to enter in processing of farm products. Consultant will be appointed to study the feasibility of diversification in this area. Once the techno-economic feasibility is ascertained, a decision will be taken by IFFCO in this regard. The Society does not intend to enter into warehousing business as Central Warehousing Corporation, State Warehousing Corporations and Cooperative Warehouses are already providing specialised services in this area."

8. They have further stated that:

> "IFFCO is initiating to explore the feasibility to diversify into processing of farm products. Consultant will be appointed to study the feasibility in this area. Once the techno-economic feasibility is ascertained, a decision will be taken in this regard."

9. The Committee are not at all satisfied with the casual reply of the Government that IFFCO is initiating steps to explore the feasibility to enter in processing of farm products. The Committee find that reply of the Government has not been commensurate with the thrust of recommendation of the Committee that the Society should diversify into farm products especially when the then Secretary (Fertilisers) concurred with the Committee over the issue. The Committee would like to recall that Society had earlier also experienced with this trade but later abandoned it for explicable reasons. The Committee do not find any justification in appointing consultants. The matter could be examined in House. The Committee have seen the press reports which suggest that the Society was eager to enter into retailing of petroleum products. The Committee would like the Society to show the same eagerness in the sector recommended by the Committee and take quick decision. The Committee reiterate their earlier recommendation for all out review of its objectives.

TRANSFER OF GOVERNMENT EQUITY FROM IFFCO TO COOPERATIVES

(Recommendation No. 2, Paragraph No. 2.9)

10. The Committee while examining the capital structure of IFFCO had noted that as against the authorised share capital of Rs. 1000 crore of IFFCO, the paid up capital of IFFCO was Rs. 417.72 crore as on 31st March, 2001. The Committee had also noted that majority share of IFFCO was held by the Government of India. Out of total paid up capital of Rs. 417.72 crore of IFFCO, Rs. 289.61 crore was held by Central Government. The Standing Committee on Petroleum & Chemicals (1994-95, 10th Lok Sabha) had also examined the matter and in their 13th Report IFFCO and KRIBHCO, presented to the Parliament in March, 1995 had also recommended that Government should transfer more share capital to Cooperatives in a phased manner for making both the Cooperatives real Cooperatives in character. However, the Committee's examination had revealed that equity in IFFCO held by Government had been left untouched and whatever increase in equity held by Cooperatives in IFFCO had been done that is made by partly increase in equity by Cooperatives themselves or by reducing the share of National Cooperative Development Corporation (NCDC) in IFFCO. The Committee had found that share held by Cooperatives in 1998-99 of Rs. 90.12 crore increased to Rs. 112.56 crore and Rs. 126.06 crore in 1999-2000 and 2001-2002 respectively. The Committee also found that share of equity of Rs. 289.61 crore held by Government has not been diluted during the last three years. The share of equity held by NCDC of Rs. 3.05 crore in 1989-90 had been reduced to Rs. 2.05 crore during 1999-2000 and 2000-2001. In this context the Committee noted that with a view to free Cooperatives from Government control the Government had already introduced a Bill in the Parliament. The Committee noted that the Bill inter-alia proposes to reduce Government equity. The Committee also found that Clause 35(1) of the Bill stipulated that shares held in a Multi-State Cooperative Society should be redeemable. The Committee found that Standing Committee on Agriculture had even recommended that redeeming provisions in the Bill be made obligatory for all Cooperatives. IFFCO had informed that IFFCO's Board of Directors had already debated the issue and informed that at appropriate time they would take up the matter of repatriation of equity held by Government to the extent of

additional contribution made by the Cooperatives. However, final view in this regard would be taken after the Bill is passed in Parliament. Department of Fertilisers had further informed (March, 2001) that for more and more participation of Cooperatives in equity of Cooperatives, DOF has requested Department of Agriculture & Cooperation for issuing necessary instructions to apex banking institutions in rural sector and State Registrar of Cooperatives to help the Cooperatives at root level financially. In the light of foregoing development the Committee hoped that IFFCO would take a definite stand on the issue of reduction of Government equity in Society and its substitution by Cooperatives in a big way.

11. In their reply the Government have stated as under:-

> "Government of India would take a view on the issue of reduction of Government equity in IFFCO after the Multi-State Cooperative Societies Bill, 2000, is enacted by the Parliament."

12. The Committee are satisfied to note that Government would take a view on the issue of reduction of Government equity in IFFCO after the Multi-State Cooperative Societies Bill, 2002 is enacted by the Parliament. The Committee find that the Bill has been passed by Parliament in May, 2002 and is likely to be enacted very soon, the Committee reiterate their recommendation that Government should now take a view on the issue of reduction of the Government equity in IFFCO. The Committee hope that thereafter Government would pave the way for transfer of Government equity in IFFCO to Cooperatives and make IFFCO real Cooperative in character.

STRENGTHENING OF COOPERATIVES IN OTHER STATES

(Recommendation No. 4/Paragraph No. 2.16)

13. IFFCO had informed the Committee that earlier there were 89,000 Village Cooperative Societies functioning but the number of these societies has come down to 41,000 which are currently doing fertiliser business. Society had suggested that the remaining 48,000 Cooperatives Societies be given financial and managerial support so that they also do fertilisers business. The Committee had, therefore, recommended that IFFCO/DOF in cooperation with Department of Agriculture and Cooperation should prepare feasible plan to bring these societies back.

14. DOF has responded to this recommendation as under:-

> "In order to strengthen cooperatives, IFFCO has already taken up the job of development of 1500 village level societies and construction of 150 storage-cum-community centres under its 'Cooperative Development Programme' in a phased manner. IFFCO is providing financial, managerial and technical support to these adopted societies besides training the cooperative personnel. The programme was launched during the Golden Jubilee Celebration of India's Independence in the year 1997-98. Initially, IFFCO was providing financial assistance to the tune of Rs. 60,000/- per society for providing office furniture/fixtures/agricultural implements etc. and Rs. 3.0 lakh for construction of storage-cum-community centres. The amount was enhanced to Rs. 75,000/- per society and Rs. 4.0 lakh per storage-cum-community centre under revised scheme w.e.f 1st April, 1999. As on 31st March, 2001, IFFCO has already adopted 950 societies and constructed 78 storage-cum-community centres. In the current year i.e. 2001-02, about 400 societies and 25 storage-cum-community centres are likely to be completed. In order to bring back around 48, 000 Cooperative Societies in the country to the fertiliser business which are no longer in the business, a massive investment / efforts / support from various financial institutions is needed. IFFCO's efforts are limited to strengthen 1500 societies."

15. The Committee appreciate the efforts being made by IFFCO but feel that these are not sufficient. The Committee further appreciate the limitations of IFFCO but urge the DOF to take initiative in cooperation with Department of Agriculture and Cooperation and also with State Governments to revitalise 48,000 societies. The Committee, therefore, reiterate their earlier recommendation that a plan should be put in place to bring back these societies in fertiliser business.

EXPANSION OF RURAL INSURANCE

(Recommendation No. 7/Paragraph No. 3.11)

16. The Committee had found that IFFCO had diversified into the field of insurance business since 4th December, 2000 with Tokio-Marine & Fire Company Ltd., a Japanese Company under a Joint Venture Company titled 'IFFCO-Tokio General Insurance (ITGI)' for marketing 34 products in commercial, personal and rural lines. The Committee found that out of 34 items, only 29 items are operated at present. About business transacted by ITGI, had achieved Rs. 5.83 crore upto 31st March, 2001 and upto October, 2001 Rs. 26.85 crore was expected to be achieved. On perusal of items covered under insurance the Committee found that as many as 16 items and 9 items were placed under commercial and personal insurance. Against this only 4 items had been placed for rural sector. The Committee had taken note of special scheme titled as 'Sankat Haran Yojana' which was claimed to be very attractive and sought after. The Committee were glad to note that ITGI had plans for extensive expansion in rural insurance as desired by the Committee. The Committee hoped that more expansion in rural insurance sector would be made by ITGI in the earliest possible time.

17. In their reply Government have stated as under:-

"The following four products exclusively for the rural sector have been developed by IFFCO-TOKIO General Insurance Company Limited (ITGI):

(i) Sankat Haran Bima Yojana – under this Scheme, automatic personal accident insurance cover is available to every buyer of any brand of IFFCO, KRIBHCO & IPL's fertilisers through Cooperative Societies. The Capital Sum insured is Rs. 4000/- for each bag of 50 Kg., subject to maximum limit of Rs. 1,00,000/- irrespective of number of bags purchased. The scheme was launched on 1st October, 2001.

(ii) Tractor Insurance.

(iii) House Insurance.

(iv) Pump set Insurance.

ITGI has plans to market the products listed at serial number (ii) to (iv) through a network of Cooperative Societies. However, since the present insurance regulations do not permit Cooperative Societies to act as Agents for distribution of Insurance products, ITGI has sought amendment to the Insurance Regulatory & Development Authority Act.

Once the Act is amended, ITGI plans to market not only these products, but new need based products to be designed for the rural masses.

With a view to boost its programme of spreading insurance message through nook and corner of the country, ITGI is implementing 'MASSES' (MASS EDUCATION STRATEGY) with the objective of spreading the message of insurance through "MASS EDUCATION" and creating need based insurance products keeping in view the paying capacity of individuals."

18. The Committee are constrained to find from the reply of the Government that IFFCO is facing difficulty in expanding its network in rural areas since the present insurance regulations do not permit Cooperative Societies to act as agent for distribution of insurance products. The Committee have been informed that IFFCO's joint venture company of ITGI (IFFCO TOKIO General Insurance) has sought amendment to the Insurance Regulatory and Development Authority Act in order to market its present products as also other need based products for rural masses. The Committee recommend that Deptt. of Fertilisers would help ITGI in this matter by taking up this matter at Ministry level on priority basis.

REDUCTION IN STRENGTH OF BOARD OF DIRECTORS

(Recommendation No. 10/Paragraph No. 4.10)

19. The Committee had noted that as per Bye-Laws of the Society, IFFCO's Board consisted of 30 Directors, Five of these were nominated by the Government. Out of the remaining 25 Directors, 12 represent State level apex federations and 8 were elected, remaining 5 Directors three viz. MD, IFFCO, Director (Finance) and Director (Marketing) were ex-officio and the remaining two, one was from financing agency, if any and the other was Chairman, National Cooperative Union of India. The Committee found the MD, IFFCO and DOF had justified the present strength of Board but also stated that with the passage of new Bill, the strength should go down. The Committee hoped that they would be apprised about the revision of the strength after the new Bill was passed by Parliament.

20. In reply the Government have stated as under:-

> "The Multi State Cooperative Societies Bill, 2000, which was introduced in the Lok Sabha on 24.11.2000, is pending consideration. The revised composition of the Board of Directors, after implementation of the provisions of Multi State Cooperative Societies Bill, 2000, will be intimated to the Committee."

21. The Committee attach importance to their earlier recommendation and emphasise that smaller board is in the interest of efficient functioning of IFFCO. Now with the enactment of Multi State Cooperative Societies Bill, 2002, the Committee hope that IFFCO would soon be able to revise the composition of its Board of Directors.

NOMINATION OF NON-OFFICIALS IN BOARD OF IFFCO

(Recommendation No. 11/Paragraph No. 4.11)

22. The Committee while examining IFFCO had noted that two out of five Directors nominated by the Government on their behalf are non-officials. The Committee further learnt that there was no criteria laid down for nominating non-officials. The Committee wanted that proper guidelines be laid down for this type of nomination and an institutional system be created for this purpose.

23. The Government responded to this recommendation as under:-

> "Neither the Multi State Cooperatives Societies Act nor the Bye-Laws of IFFCO provide for creation of any institution for nomination of non-official directors representing Government of India. Hence, as per the established practice the non-official directors are drawn from the data-bank, maintained in the department, which consists names of technocrats, management experts, experts in the field of cooperation and professional managers in industry and trade with a high degree of proven ability. The names of the professionals are chosen keeping in view the discipline where there is dearth of professional and managerial advice in the Society. These names are thereafter recommended to the Appointments Committee of the Cabinet with the approval of the Minister-in-charge. This practice has stood test of times and, therefore, its substitution with an institutional arrangement is not being felt desirable.

24. The Committee are not convinced with the reply of the Government and reiterate their earlier recommendation that institutional system be created for the purpose of nominating non-officials to the Board of Directors. If there is need to amend the Bye-Laws, IFFCO should initiate proposal for that or alternatively the Government should issue necessary directives to the society to amend the Bye-Laws to the extent considered necessary.

<u>INDO-OMAN FERTILISER PROJECT</u>

(Recommendation No. 13/Paragraph No. 5.7)

25. The Committee had noted with satisfaction that DOF had been finally able to firm up all major project agreements and initialled these on 5.12.2001. The Committee especially had noted with satisfaction that Urea off-take Agreement had been cleared. About achieving financial closure Secretary (Fertilisers) had assured the Committee that by March, 2002, it would hopefully be achieved. The Committee had hoped that now there would be no difficulty in achieving much awaited financial closure for the project and the same would take off very soon.

26. In their reply the Government have stated as under:-

> "Major project agreements viz. Urea Offtake Agreement, Ammonia Offtake Agreement, Gas Supply Agreement and the corresponding direct agreements have been initialled by the concerned parties to the agreements on 5.12.2001. Other project agreements, such as Urea Sales Fee Agreement, Technical Services Agreement, Engineering Procurement & Construction Contract and Personnel Supply Agreement are now being finalised in consultation with the Arranging Banks."

27. The Committee find that no material progress has been made after December, 2001 when all major project agreements including Urea Off take Agreement were initialled. The Committee are also unhappy that Government have been silent in their reply about latest status of the financial closure of the project. The Committee feel that Government have not promptitude in this regard, particularly when prior to this Report (Twenty-Fourth) they have already recommended on this issue in their 16th Report (13th LS) on action taken by Government on the recommendation

contained in the 9th Report on Krishak Bharati Cooperative Limited (KRIBHCO). The Committee, therefore, strongly reiterate their recommendation that DOF/IFFCO should expedite much delayed financial closure for the project in national interest.

JOINT VENTURE ABROAD

(Recommendation No. 15/Paragraph No. 5.15)

28. Amongst the various projects which IFFCO have conceived abroad, Society have such a joint project in Tunisia and Iran for acid and ammonia respectively. The Committee were informed that viability of these projects was being reviewed in the light of depressed international prices of urea. The Committee had found that these projects were pending for long and decision either way be taken ending uncertainty.

29. In their reply, the Government have stated as under:-

"IRAN PROJECT

A meeting was held between INDCONS (IFFCO and KRIBHCO) and Qeshm Free Area Authority (QFAA) on 8-9th November, 2001 at New Delhi. The viability of setting up of an ammonia urea plant at Qeshm (Iran) was reviewed in the light of prevailing market conditions relating to demand and supply scenario and international prices of urea. It was decided that setting up an ammonia-urea project was not viable at this juncture and setting up of an ammonia plant only of 1750 MTPD capacity would be explored.

It was pointed out that in an ammonia plant on stand alone basis, huge quantity of carbon dioxide gas has to be released in the atmosphere which otherwise is utilised for manufacture of urea. It was decided that QFAA will look into the environmental aspect for setting up an ammonia plant on stand alone basis. Once the environmental aspect is ascertained and if global scenario of ammonia including demand supply, gas and prices etc., are favourable, the techno-economic feasibility of the project will be reviewed.

TUNISIA PROJECT

A meeting was held between Groupe Chimique Tunisian (GCT) and Indian partners (IFFCO/GFCL) on 10th December, 2001 at New Delhi. M/s GCT has thereafter sent the reports of M/s. Ferticon vide their letter dated 20.2.2002 giving a Phos. Acid and Sulphuric Acid market study. The economic viability of setting up a Sulphuric Acid Plant vis-à-vis purchasing

Sulphuric Acid from International Market is being carried out. Various points such as Rock Phosphate price, discount on Phos. Acid price etc., were also discussed in the meeting held in December, 2001 and are yet to be resolved. Further decisions will be taken after ascertaining the economic viability of the project."

30. The Committee find that no substantial progress has been made with regard to finalisation of these projects and the position has almost remained the same where it was six months back. The Committee are interested in prompt finalisation of pre-project activities and would, therefore, recommend that DOF should monitor the progress on monthly basis.

NON-FINALISATION OF LONG TERM FERTILISER POLICY

(Recommendation Sl. No. 16 and 21, Paragraph Nos. 5.19 and 7.12)

31. During the course of examination of IFFCO the Committee had found that due to non-finalisation of long term fertiliser policy IFFCO's Urea Project at Nellore was deferred. The Committee had also noted that IFFCO's proposed Ammonia Urea Project of Nellore with a capacity of 768 lakh tonnes of Ammonia Urea per year had been deferred by Government in June, 2000 due to limited demand-supply forecasts. The Committee were apprised that final decision on the project would be taken after finalisation of abnormally long delayed fertiliser policy. The Secretary (Fertilisers) had elsewhere informed the Committee that the fertiliser policy was likely to be cleared soon. The Committee hoped that DOF would not loose any time for taking final view on the project after this policy is finalised.

32. The Committee had also noted that huge amount to the tune of Rs. 1020 crore was due to be paid to IFFCO by DOF/Fertilisers Industries Coordination Committee (FICC), DOF in this connection had revealed that out of Rs. 1020 crore, claims to the tune of Rs. 345 crore were under process at different stages. Majority of these claims are to be cleared within next three months. As regards remaining amount of Rs. 675 crore, DOF had informed that these claims would

be decided after Government notifies the pricing policy effective from 1st July, 1997. The Committee hoped that DOF would take urgent steps to clear the claims to Rs. 345 crores which were being processed by Government. About remaining claims of Rs. 675, crore the Committee hoped that DOF would expedite the new policy paving the way for necessary Government notification so that blocked amount of IFFCO were given to them.

33. In their reply about Nellore Project the Government have informed as under:-

> "A final view on the proposed Nellore Project of IFFCO would be taken soon after the long term fertiliser policy is finalised."

34. As regards payment of outstanding dues to IFFCO on account of ad hoc retention prices to its various plants the Government informed as under:-

> "Necessary notification has been issued by the Department of Fertilisers on 18.3.2002 for the claim of Rs. 100 crore on account of review of salary and wages from 1.1.1997 to 30.6.2001. The payment is being made by FICC. Notification for quarterly escalation claims for Phulpur II Unit (indicated as Rs. 47 crore) are under process. As regards a small percentage of retention prices withheld in respect of the Expansion Projects of Aonla, Kalol and Phulpur (Rs. 137 crore), these have been recently approved by FICC for payment and the same is under process. As regards the claim of Rs. 65.36 crore and Rs. 42.27 crore on account of purchase tax/additional sales tax of the period from 1991-92 to 2000-01 respectively, the existing approved pricing policy does not recognise these claims. As far as the remaining claims are concerned, they are linked with the finalisation of the 7th and 8th pricing policy and the same would be decided as soon as policy parameters are finalised."

35. The Committee are dismayed to note that Government have yet again not succeeded in coming out with Long Term Fertiliser Policy. The Committee also find that this non-finalisation has not only deferred a final view on IFFCO's Urea Project at Nellore but also has blocked payment of large amounts payable to them for the reasons that these are linked with non-finalisation of policy parameters for 7th and 8th pricing periods. The Committee are very much anguished over prolonged delay in finalising the Long Term Fertiliser Policy. The Committee once again reiterate their earlier recommendation of early finalisation of the pending policy.

AVAILAIBILITY OF GAS FOR FERTILISER INDUSTRY

(Recommendation No. 19/Paragraph No. 6.30 & 6.31)

36. Fertiliser companies had proposed to form consortium to import gas for their exclusive use and the Department of Fertilisers formed a Core Group of Fertilisers Companies on July 31, 1998 to explore the feasibility of importing LNG. The Group saw many lives when it was revived in May, 2000 and the same was reconstituted. The reconstituted Group held various meetings and in its meeting held on 24th September, 2001, the Group decided that as the Long Term Fertiliser Policy is still awaited, the fertiliser companies are not in a position to finance the massive project. It was decided to stop further activities of the Core Group.

37. The Committee wished that Core Group should have continued its study and come out their plan/concept to import LNG exclusively for fertiliser industry just as the same is being conceptualised by power sector.

38. The Government have submitted in reply as under:-

> "Department of Fertilisers constituted a Core Group consisting of representatives of Fertiliser Industry, Ministry of Petroleum & Natural Gas, Department of Fertilisers, Ministry of Finance, Gas Authority of India Ltd., Shipping Corporation of India Limited and the IDBI to explore the feasibility of importing LNG. The Core Group submitted Pre-Feasibility Report to the Government in March, 1999. The Core Group, as it included PSUs and Co-operatives, sought the authorisation of the Government for preparation of Detailed Feasibility Report (DFR) and to carry out pre-project activities at an estimated cost of Rs. 25 crore to achieve financial closure. The Department of Fertilisers revived the Core Group in May, 2000 to prepare the DFR. The reconstituted Core Group held three meetings in October, 2000, March, 2001 and September, 2001. In the last meeting held in September, 2001 it was felt by the members of the Core Group that several players had initiated LNG supply activities including in the Eastern Coast. Keeping this fact in view and also noting that the long term fertiliser policy is still unannounced, the fertiliser companies are not in a position to finance the massive project proposed by the Core Group. It is also noted that the issue of pricing of natural gas and LNG is also under examination in the Ministry of Petroleum & Natural Gas. A decision on this matter is necessary before a view is taken on import of LNG for/by fertiliser companies.
>
> In view of the fact that import of LNG is a high capital intensive activity and many players have already initiated action it may be worthwhile for the fertiliser companies to watch the progress of LNG project and benefit from the competition generated among the players without making the upfront investment."

39. The Committee find the reply as mere reiteration of Government's earlier submissions before the Committee without examining the thrust of the recommendation that Core Group should continue with its study and come out with its own plan to import LNG exclusively for fertiliser industry as the same is being conceptualised by power sector. Whatever the Government have now stated in reply is not something new and was not in existence when the Core Group was reconstituted in May, 2000. The Committee treat such replies unsatisfactory and view these as lackadaisical in nature. The Committee also blame the Government for abnormal delay in announcing new fertiliser policy which is the root cause of holding up many new activities of the industry. The Committee, therefore, recommend that DOF should re-examine the validity of Core Group keeping fertiliser industry interests in sight.

<u>BALANCED POLICY FOR RATIONALISATION OF SUBSIDY</u>

(Recommendation No. 20/Paragraph No. 7.8)

40. The Committee had found that with a view to rationalise the subsidy, the DOF had earlier informed the Committee that Government had decided to replace the existing Retention Price Scheme (RPS) with Group Retention Scheme (GRS) based on feedstock and vintage of gas based plants. The scheme envisaged fixed rate of concession for urea units after grouping them under five categories. These were (i) Pre1991 gas based units (ii) Post 1992 gas based units (iii) Naphtha based (iv) FO/LSHS based units; and (v) Mixed energy units. The Standing Committee on Petroleum & Chemical in their 14^{th} Report (13^{th} Lok Sabha) had pointed out that above grouping had disregarded various important factors. In response DOF had assured the Committee to examine these points raised by the Committee. A perusal of comparison between pros and cons brought out by IFFCO, the Committee found that minus points of the policy highly out numbered plus points of the policy. In this connection, the DOF had then informed that Government were yet to take a final decision on the Group Retention Scheme. All relevant aspects were being examined and Government were expected to finalise new pricing policy shortly. Secretary

(Fertilisers) had informed that new policy had been cleared by Minister of Chemicals & Fertilisers on 11th December, 2001 and hopefully in another two to three weeks time the policy would be out. The Committee hoped that the Government would come out with a policy which is pro to none but balanced one.

41. In their reply the Government had stated as under:-

> "The formulation of new pricing policy for urea units aiming at introduction of Group Concession Scheme keeping in view the recommendations of the Expenditure Reforms Commission is still under consideration of the Government."

42. The Committee are not satisfied with the working of the Government in not coming out a balanced fertiliser policy even after it was cleared by the Minister of Chemicals & Fertilisers on 11th December, 2001. The Committee find the Government's reply (March, 2002) that formulation of new pricing policy for urea units aiming at introduction of Group Concession Scheme is still under consideration of the Government keeping in view the recommendation of Expenditure Reforms Commission as very casual in the sense that Government have taken inordinately long time in considering the new scheme. The Committee once again reiterate that Government should expedite a balanced fertiliser policy in the interest of fertiliser industry in general and Cooperative sector in particular.

RECOMMENDATION OF EXPENDITURE REFORMS COMMISSION ON UREA PRICING

(Recommendation No. 22/Paragraph No. 7.16)

43. Expenditure Reforms Commission have recommended 7% yearly increase in prices of urea and the Committee have expressed their reservations on this recommendation. The Committee had specifically highlighted the opinion of IFFCO which had stated that an increase in pricing of urea would adversely affect the farmers. The Committee had, therefore, recommended that before finalising the pricing policy, issue of affordability of urea be examined in depth.

44. The Government in their reply have submitted as under:-

> "The Expenditure Reforms Commission has recommended inter-alia 7% annual increase in maximum retail prices of urea. While taking any decision on the increase in prices of urea, the Government will keep in mind, within its fiscal capacity, the need of making available fertilisers to the farmers at a reasonable price. For the year 2002-2003 prices of urea have been increased by 5% only w.e.f. 28.2.2002."

45. The Committee feel that the Committee's recommendation has not been given positive response when the Government decided to increase the price of urea by 5% w.e.f. 28.2.2002 for the year 2002-2003. The Committee reiterate their well known position that any increase in urea pricing affects the marginal farmers adversely. The Committee had also been emphasising that the Government should regard subsidy to farmers as necessity and not as mere burden on fiscal system. The Committee, therefore, oppose the proposal of 7% yearly increase in urea pricing.

NEED FOR GRADUAL INCREASE IN PRICE OF GAS FOR FERTILISER INDUSTRY

(Recommendation Sl. No. 25/Paragraph No. 7.36)

46. The Committee had found that there was uncertainty prevailing over viability of different feedstocks viz. Naphtha, Natural Gas and LNG. The Committee had been informed by Secretary (Fertilisers) that Naphtha was being given to fertiliser units on import parity in prices. As regards other two feedstocks Natural Gas and LNG, the Committee were informed that that might be given on import parity price on the pattern of naphtha in future. This would make natural gas costlier to fertiliser units. About the third feedstocks of LNG the Committee were informed that it would be equally costlier. To solve this problem it was suggested that the Ministry of Petroleum & Natural Gas should be asked to increase the price of natural gas in a phased manner. The Committee, therefore, recommended that whatever increase in price of gas is effected it should be in phased manner in the interest of viability of feedstocks for fertiliser units.

47. In their reply the Government have stated:-

"Ministry of Petroleum & Natural Gas requested Department of Expenditure and Department of Fertilisers to propose a road map for progressive increase in the consumer price of natural gas for the fertiliser sector so as to reach the level of pooled price of domestic gas and imported LNG over 3 to 5 years. The Department of Fertilisers suggested following policy options:-

(a) Gas prices for the fertiliser sector should be increased by a flat rate of Rs. 696 (i.e. 3480/5) per year so as to graduate from the current level of Rs. 2850 to Rs. 6330/MCM over the next 5 years. This would, however, be a principle and the actual level of increase would depend on the weighted average gas price level finally arrived at.

(b) Gas price for the fertiliser sector should continue at the level of Rs. 2850 until an independent regulatory regime for pricing of all hydrocarbons is in place and the regulator takes a view in the matter.

(c) As a variant of option 'b', the gas prices for fertiliser sector could be marginally increased, by say 5% each year, until the regulator takes a view in the matter.

(d) Ministry of Petroleum & Natural Gas and the Department of Expenditure refer to the Cost Accounts Branch a study of the gas pricing, on the lines of the recent Cost Accounts Branch study on naphtha pricing and until a decision is taken on the study report of CAG, gas prices should either be frozen or increased nominally by, say 5 per cent ad hoc.

After examining the above suggestions, Department of Expenditure suggested to the Ministry of Petroleum & Natural Gas that difference between current price and indicative market price be bridged by increasing the gas price at flat rate of about Rs. 600/- per year till we reach the market determined price in a future year. This would mean that there would be about 5 years before the urea units also become a part of general consumers for the purpose of open market gas prices.

Further decision of the Ministry of Petroleum & Natural Gas in the matter is awaited."

48. The Committee not that Ministry of Petroleum & Natural Gas has asked DOF and Department of Expenditure to suggest a road map for progressive increase in consumer price of natural gas for fertiliser sector so as to reach the level of pooled prices of domestic gas and imported LNG for over 3 to 5 years. In this regard DOF has suggested three options viz. firstly gas price for fertiliser sector should be increased at a flat rate of Rs.

696 per year so as to graduate from current level of Rs. 2850 to Rs. 6330 MCM over next 5 years. Secondly, gas price should remain at the level of Rs. 2850 pending independent regulatory regime is established. Thirdly, gas price for this sector can be increased by 5% every year until a regulator takes a view on it. These suggestions have been examined by Department of Expenditure and they have suggested to M/o Petroleum & Natural Gas for increase in gas price at flat rate of Rs. 600/- per year for bridging the gap between current price and indicative market price. A final decision of Ministry of Petroleum & Natural Gas is awaited. With the dismantling of APM, Independent Regulatory regime is being put in place and the Committee hope that DOF would study the Bill brought out by Ministry of Petroleum & Natural Gas and ensure that interests of Fertiliser Industry are protected in the Act.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 8, Paragraph No. 3.18)

As regard diversification in information technology the Committee final that IFFCO in association with KRIBHCO, ICAR, IARI and ISRO plans to deliver the benefits of information technology at the doorstep of farmers for dissemination of information about balanced use of fertilisers. The Committee find that the estimated cost of the project is Rs.25 crore (IFFCO's share) spread over 2-3 years. IFFCO has informed that the objective is to take e-revolution to farmers and Cooperatives and other in rural areas by setting up information kiosks. About progress on the project, the Committee have been informed that response to the project is positive and by 2002-2003 implementation of the project is likely to begin. The Committee feel in this age of information technology, diversification in the field of information technology is a welcome step for educating the farmers in all spheres related to agriculture. The Committee hope that this project would be expedited by IFFCO.

Reply of The Government

IFFCO is actively pursuing its plans to extend e-revolution to rural India. Keeping this objective in view, the efforts are focussed at creation of specific content & services targeting people living in rural parts of the country, identification of appropriate technology, development of strategies for effective dissemination through information kiosks called 'cyber dhabas'.

Content & Services

IFFCO's existing website is expanded to include agri-information of interest to farmers and others interested in rural India. Package of

Practices for few states are incorporated and information related to some more states is being added. Simple quizzes to update the knowledge of farmers, facilities to send questions to Experts located at far off places, agricultural statistics, over view of media coverage related to agriculture are provided. Links to other sites that provide useful information, such as arrival and price information of agricultural products at mandies, is made available. The site is being enhanced to include content in Indian languages. In a phased manner, other information and services which are being developed by IFFCO or in association with other partners, are proposed to be integrated into the website which will eventually convert it into a 'Farmers Portal'.

IFFCO - ISRO maiden initiative to develop a GIS package using remote sensing data to improve effectiveness of IFFCO's personnel is under testing. ISRO has delivered a Beta version of the package, "GeoFarm", for testing at IFFCO. After testing the system, which has the capacity to analysis data at taluk / district level, based on crop cover, local fertiliser recommendations and soil type, it will be first used to plan fertiliser distribution and then for farmer level advisory services. The system has all India coverage and each state can be seen as a functional unit for planning. ISRO is also arranging a training programme for IFFCO's personnel in April 2002.

Based on IFFCO's input, the package will be further fine-tuned by ISRO. The module on Farmers Advisory Services, taken up as a pilot project for five districts, is at an advanced stage of development. Based on the experience gained from this project, IFFCO & ISRO proposed to undertake more GIS projects with input from remote sensing data to be of service to farmers.

In addition, multimedia based applications are being developed for farmers education. Subjects covered include balanced fertilisation, understanding nutrients, computers, etc.

Information Kiosks

In order to encourage people living in villages to utilise the benefits from computers, information kiosks or 'cyber dhabas' are conceived. Such information kiosks are proposed to be promoted to encourage farmers to explore the digital world. In this approach, a self-employed youth in a village will be developed to act as a facilitator to help the farmers. Touch Screen Monitors are proposed to be deployed to increased user friendliness. Five such kiosks, are expected to be operational from April 2002.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

Recommendation (Sl. No.28/Paragraph No.8.6)

The Committee find that IFFCO's profits are decreasing year after year been though its turnover has been increasing. IFFCO's profits during 1998-99, 1999-2000 and 2000-2001 has been at Rs. 345.81 crore, Rs. 312.90 crore and Rs. 234.00 crore respectively. Whereas turnover of IFFCO was Rs. 3820 crore, Rs. 4529.49 crore and Rs. 5151 crore during the same period. IFFCO has informed that it is due to non-finalisation of retention prices of IFFCO's plant at Aonia II, Phulpur II and Kalol. IFFCO has also informed that interest burden of IFFCO has increased due to delay in payment of Rs. 226 crore by FICC. In this connection DOF elsewhere in the Report has informed the Committee that out of this amount claims of Rs. 188.31 crore are under process and would be paid shortly. About payment of Rs. 1020 crore DOF has informed that claims to the tune of Rs. 345 crore are being processed. Taking into consideration of the fact that fertiliser companies are passing through a critical phase the Committee desire that Government should expedite retention prices of fertilisers early and due amount to all units including IFFCO are released at the earliest.

Reply of the Government

Necessary notification has been issued by the Department of Fertilizers on 18.8.2002 for the claim of Rs.100 crore on account of review of salary and wages from 1.1.1997 to 30.6.2001. The payment is being made by FICC. As regards the claim of Rs. 65.36 crore and Rs. 42.27 crore on account of purchase tax/additional sales tax of the period from 1991-92 to 2000-01 and under recoveries in the equated freight from 1991-92 to 2000-01 respectively, the existing approved pricing policy does not recognise these claims. As far as, the remaining amount is concerned, they are linked with the finalisation of the 7th and 8th pricing policy and the same would be processed as soon as the policy parameters are finalised.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

CHAPTER III

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

(Recommendation (Sl. No. 3, Paragraph No. 2.15)

The Committee have been informed that Cooperatives have been the backbone of IFFCO for distribution of IFFCO's fertilisers among the farmers in different States. The Committee find that number of memberships in these Cooperatives throughout the country during the last three years has been 35072, 35302 and 35973 during 1998-99, 1999-2000 and 2000-2001 respectively. The Committee find that Memberships of IFFCO has by and large been concentrated in twelve States *viz.* U.P./ Uttranchal, Gujarat, Rajasthan, Punjab, Bihar, Tamil Nadu, Haryana, Karnataka. Andhra Pradesh, Maharashtra and West Bengal. Whereas in remaining States IFFCO has less membership particularly in North-Eastern States where it has not added even one membership during the last three years. Admittedly cooperative movement is not spread evenly and uniformly and reportedly it is weak in North-Eastern States. The Committee find that IFFCO now plans to reach North-Eastern States in a phased manner. The Committee hope that IFFCO spreads its memberships in the next 2 years in manner that its presence is marked throughout the country.

Reply of the Government

IFFCO in consultation and support of respective State Governments and Registrars of Cooperative Societies has been making efforts like Cooperative Development Programmes, Cooperative Seminars, etc. to spread its membership in a phased manner in those States where its presence is marginal, particularly, In North Eastern States. At present, the total members in the north-eastern States are 16.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

Recommendation (Sl. No. 12, Paragraph No. 4.18)

The Committee are of strong opinion that Cooperatives should be really autonomous in taking their decision and not to look towards Government for their administrative and even policy decisions. The Committee were informed that Multi-State Cooperative Societies Bill, 2000 has addressed the existing problems being faced by the Cooperatives. The Committee trust that after the enactment of the new legislation, Cooperatives like IFFCO would have more functional autonomy and fast decision making powers which is essential in the competitive atmosphere.

Reply of the Government

The Multi-State Cooperative Societies Bill, 2000, which was introduced in the Lok Sabha on 24.11.2000, is pending consideration.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

Recommendation (Sl. No. 14, Paragraph No. 5.11)

The Committee find that IFFCO has been facing difficulty in its ICS project where commercial production has not started even though its expansion was commissioned In July, 2001. The Committee hope that IFFCO would take necessary steps for early commencement of commercial production.

Reply of the Government

The commissioning activities of ICS expansion project were started in July, 2001. During commissioning ICS faced initial problems specifically in turbo blowers, cooling tower fans, heat exchangers etc. The plant has now been streamlined and the commercial production of the plant has started w.e.f 1.2.2002.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

Recommendation (Sl. No. 23, Paragraph No. 7.30)

The Committee find that the Government's decision to supply different feedstocks *viz.* Naphtha, fuel oil and LSHS since Ist April, 1998 to fertilisers units has created problems for fertilisers units. As regard its impact on IFFCO it has been reported that its Kalol, Aonla and Phulpur plants are affected by this decision of Government. IFFCO has also informed that this decision has resulted in lower prices of inputs to fertiliser units and thus lower subsidies. IFFCO has also complained to the Committee that Indian Oil Corporation has neither given break-up of pricing nor the method of pricing of different feedstocks, IFFCO has further informed these has led to fortuitous gains to oil companies. The Committee therefore recommend that DOF should take up this matter with Ministry of Petroleum and Natural Gas/IOC so that grievances of IFFCO are adequately addressed.

Reply of the Government

The Department of Fertilizers in consultation with Ministry of Petroleum & Natural Gas and Department of Expenditure had made arrangement for supply of Naphtha/F.O./LSHS at Import Parity Price with effect from 9.7.2001 for a period of 6 months and to be reviewed thereafter. Department of Fertilizers again took up the matter with Ministry of Petroleum & Natural Gas and they had initially agree to continue the existing arrangement for the current year also. However, Ministry of Petroleum & Natural Gas has now informed that they propose to discontinue with this arrangement and let the fertilizer companies enter into direct one-to-one negotiations/contracts with the oil companies *w.e.f.* 1.4.2002.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

Recommendation (Sl. No. 24, Paragraph No. 7.31)

Another issue arising out of the import parity issue affecting IFFCO is that oil companies have insisted on adding freight from port to fertilisers units on unit-wise basis. Sales-tax is also charged thereon. For solving the issue IFFCO has requested that oil companies must charge uniform delivered cost of inputs to all units by averaging out the cost to supplies to all units. In this context DOF has informed that due to above decision of import parity arrangement delivery price of different feedstocks has increased in some case not overall. DOF feel that transport cost incurred by fertiliser units is covered under Retention Price Scheme. Committee, however, feel that IFFCO's suggestion for uniform delivered cost of inputs to all units by averaging out the cost of supplies to all units is justified.

Reply of the Government

The Department of Fertilizers in consultation with Ministry of Petroleum & Natural Gas and Department of Expenditure had made arrangement for supply of Naphtha/FO/LSHS at Import Parity Price *w.e.f.* 9.7.2001 for a period of 6 months and to be reviewed thereafter. Department of Fertilizers again took up the matter with Ministry of Petroleum & Natural Gas and they had initially agreed to continue the existing arrangement for the current year also. Department of Fertilizers has also taken up the matter with Ministry of Petroleum & Natural Gas to further streamline/rationalise the prices of liquid petroleum products at import parity prices for fertilizer industry. Ministry of Petroleum & Natural Gas has, however, informed now that they propose to discontinue with the administered import parity pricing arrangements for liquid hydrocarbons for fertilizer sector w.e.f. 1.4.2002 and that henceforth the fertilizer companies may enter into direct one-to-one negotiations/ contracts with the oil companies for supply of these products.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

Recommendation (Sl. No. 26, Paragraph No. 7.43)

The Committee regret to note that huge amounts of IFFCO are also not being paid on due to non-certification of sales of IFFCO's DAP by different States. IFFCO has informed that Rs.21.51 crore are still to be paid to IFFCO. Of Rs. 21.57 crore Rs.11.00 crore from Punjab and Rs. 3.124 crore from Bihar are pending for payment. Certification from these States has not been done. The Committee hope that DOF should take up this issue with concerned State Governments for early payment to IFFCO.

Reply of the Government

Wherever State Certification of sales have been received and the claims submitted by the unit are complete in all respect, payments have been released. DOF, from time to time, has been taking up the issue of delay in sales certification with all the State/UT Governments. Special efforts have been made in respect of problem States like Punjab and Bihar. As a result of persistent follow-up, the Punjab Government has recently resumed sales certification of decontrolled fertilizers. However, Bihar Government has, so far, not responded favourably. Except for payments held up on account of non-receipt of sales certification from the State of Bihar and for the period prior to 1998-99, all the bills submitted by IFFCO in respect of DAP and complexes have already been processed by FICC Office.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

Recommendation (Sl. No. 27, Paragraph No. 7.47)

The Committees find that Rs.226 crore of IFFCO are outstanding for payment by FICC/DOF for non-payment of delayed subsidy on complex fertilisers. In this connection, DOF has informed that as on date amounts of Rs. 118.31 crore are being processed and likely to be settled in a month's time. The Committee hope that these payments be made available to IFFCO as early as possible.

Reply of the Government

The payment of aforesaid outstanding dues of Rs.118.31 crore have already been made to IFFCO. The balance Rs.107.69 crore is under process.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA-II dated 28.03.2002.]

CHAPTER IV

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

Recommendation (Sl. No. 4, Paragraph No. 2.16)

As regards strengthening of Cooperatives, the Committee find that it can be done by bringing back around forty eight thousand Cooperative Societies to fertiliser business which are no longer in the business. This can be made possible by giving these Cooperatives financial and managerial support. The Committee strongly feel that IFFCO/DoF in cooperation with Department of Agriculture and Cooperation with Department of Agriculture and Cooperation should prepare feasible plan to bring these societies back. The Committee hope that the plan could be ready in the next three months.

Reply of the Government

In order to strengthen cooperatives, IFFCO has already taken up the job of development of 1500 village level cooperative societies and construction of 150 storage-cum-community centres under it 'Cooperative Development Programme' in a phased manner. IFFCO is providing financial, managerial and technical support to these adopted societies besides training the cooperative personnel. The programme was launched during the Golden Jubilee Celebration of India's Independence in the year 1997-98. Initially, IFFCO was providing financial assistance to the tune of Rs.60,000/- per society for providing office furniture/fixtures/ agricultural implements etc. and Rs. 3.0 lakh for construction of storage-cum-community centres. The amount was enhanced to Rs. 75,000/- per society and Rs. 4.0 lakh per storage-cum-community centre under revised scheme w.e.f Ist April, 1999. As on 31st March, 2001, IFFCO has already adopted 950 societies and constructed 78 storage-cum-community centres. In the current year *i.e.* 2001-02, about 400 societies and 25 storage-cum-community centres are likely to be completed. In order to bring back around forty-eight thousand Cooperative Societies in the country to the fertiliser business which are no longer in the business, a massive investment/efforts/support from various financial institutions is needed. IFFCO's efforts are limited to strengthen 1500 societies.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 15 of Chapter of the Report)

Recommendation (Sl. No.11, Paragraph No. 4.11)

As regard nomination of non-officials in Board of IFFCO, the Committee find that out of five Government nominees, two are non-officials, DoF has informed that there no criteria has been laid down for their nomination. As per establishment practice such nomination are done with the approval of the Minister and approval of Appointment Committee on Cabinet. The Committee find that proper guidelines be laid down and an institution be created for nomination of non-officials.

Reply of the Government

Neither the Multi State Cooperative Societies Act nor the Bye-Laws of IFFCO provide for creation of any institution for nomination of non-official directors representing Government of India. Hence, as per the established practice the non-official directors are drawn from the data-bank, maintained in the department, which consists names of technocrats, management experts, experts in the field of cooperation and professional managers in industry and trade with a high degree of proven ability. The names of the professionals are chosen keeping in view the discipline where there is dearth of professional ; nd managerial advice in the Society. These names are thereafter ·ecommended to the Appointments Committee of the Cabinet with the approval of the Minister-in-charge. This practice has stood test of times and, therefore, its substitution with an institutional arrangement is not being felt desirable.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 24 of Chapter I of the Report)

Recommendation (Sl. No.22, Paragraph No. 7.16)

The Committee recall that on the issue of proposed 7% yearly increase in prices of urea as recommended by Expenditure Reform Commission Report, the Committee in their earlier report have already expressed reservations. DOF has informed that this issue was being examined. IFFCO has also opined that such an increase in price of urea in effect would make the urea unaffordable to farmers. Secretary (fertilisers) has informed that within a month's time new pricing policy was going to be cleared by the competent authority and by February-March, 2002 the policy would be cleared finally. The Committee, therefore, recommend that before finalising the pricing policy issue of affordability of urea to small and marginal farmers be first examined in depth.

Reply of the Government

The Expenditure Reforms Commission has recommended *inter-alia* 7% annual Increase in maximum retail prices of urea. While taking any decision on the increase in prices of urea, the Government will keep in mine, within its fiscal capacity, the need of making available fertilisers to the farmers at a reasonable price. For the year 2002-2003 prices of urea have been increased by 5% only w.e.f 28.2.2002.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA II dated 28.03.02.]

Comments of the Committee

(Please *see* Paragraph 46 of Chapter I of the Report)

CHAPTER V

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

Recommendation (Sl. No.1, Paragraph No. 1.10)

The Committee observe that objectives laid down in the bye-laws of the Society are wide ranging in nature varying from promoting the economic interest of its members by undertaking manufacture/ production development of chemicals fertilisers, bio-fertilisers their impact and technologies, storage, transportation, marketing, processing of farm products, pesticides, trading, shipping, telecommunication, power generation, housing, real estate, banking and insurance etc. For achieving these objectives IFFCO has informed that it has successfully realised many of its objectives like production and marketing of fertilisers. For remaining objectives like processing farm products, pesticides, trading, shipping, and petro-chemicals, IFFCO has informed that IFFCO had explored the feasibility of diversification in these areas but preferred not to pursue due to various techno-economical and commercial considerations. However, these objectives may be reviewed in a changed economic scenario. About the need to retain relevant objectives in Bye-laws of the Society, IFFCO has informed that these are not revised frequently and hence allowed to remain in Bye-laws. The purpose of these objectives is to provide commercial options for venturing into new areas of business depending on the available opportunities of growth. The Department of Fertilisers have also agreed with IFFCO. However, the Committee feel that the Society should review all the objectives enshrined in the Bye-laws and retain such of the objectives as are synergic in its character. The Society should make plans for the next 10 years to 25 years to achieve their fulfilment. As agreed to by Fertilisers Secretary, IFFCO should explore the possibilities of taking food processing, storage activities on priority basis as these are rural/ agriculture based where IFFCO has roots.

Reply of the Government

IFFCO is Initiating steps to explore the feasibility to enter in processing of farm products. Consultant will be appointed to study the feasibility of diversification in this area. Once the techno-economic feasibility is ascertained, a decision will be taken by IFFCO in this regard. The Society does not intend to enter into warehousing business as Central Warehousing Corporation, State Warehousing Corporations and Cooperative Warehouses are already providing specialised services in this area.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCF II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 9 of Chapter I of the Report)

Recommendation (Sl. No.2, Paragraph No. 2.9)

The Committee note that as against the authorised share capital of Rs.1000 crore of IFFCO, the paid up capital of IFFCO was Rs.417.72 crore as on 31st March, 2001. The Committee also note that majority share of IFFCO is held by the Government of India. Out of total paid up capital of Rs.417.72 crore of IFFCO, Rs.289.61 crore is held by Central Government. The Standing Committee on Petroleum & Chemicals (1994-95, 10th Lok Sabha) had also examined the matter and in their 13th Report IFFCO and KRIBHCO, presented to the Parliament in March, 1995 had recommended that Government, should transfer more share capital to Cooperatives in a phased manner for making both the Cooperatives real Cooperatives in character. However, the Committee's examination has revealed that equity in IFFCO held by Government has been left untouched and whatever increase in equity held by Cooperatives in IFFCO has been done that is made by partly by increase in equity by Cooperatives themselves or by reducing the share of National Cooperative Development Corporation (NCDC) in IFFCO. The Committee find that share held by Cooperatives in 1998-99 of Rs.90.12 crore was increased to Rs.112.56 crore and Rs.126.06 crore in 1999-2000 and 2001-2002 respectively. The Committee also find that share of equity of Rs.289.61

crore held by Government has not been diluted during the last three years. The share of equity held by NCDC of Rs.305 crore in 1989-90 has been reduced to Rs.2.05 crore during 1999-2000 and 2000-2001. In this context the Committee note that with a view to free Cooperatives from Government control the Government have already introduced a Bill in the Parliament. The Committee note that the Bill *inter-alia* proposes to reduce Government equity. The Committee also find that Clause 35(1) of the Bill stipulates that shares held in a Multi-State Cooperative Society shall be redeemable. The Committee find that Standing Committee on Agriculture has even recommended that redeeming provisions in the Bill be made obligatory for all Cooperatives. IFFCO has informed that IFFCO's Board of Directors has already debated the issue and informed that at appropriate time they will take up the mater of repatriation of equity held by Government to the extent of additional contribution made by the Cooperatives. However, final view in this regard will be taken after the Bill is passed in Parliament. Department of Fertilisers has further informed (March, 2001) that for more and more participation of Cooperatives in equity of Cooperatives, DOF has requested Department of Agriculture & Cooperation for issuing necessary instructions to apex banking institutions in rural sector and State Registrar of Cooperatives to help the Cooperatives at root level financially. In the light of foregoing development the Committee hope that IFFCO would take a definite stand on the issue of reduction of Government equity in Society and its substitution by Cooperatives in a big way.

Reply of the Government

Government of India would take a view on the issue of reduction of Government equity in IFFCO after the Multi-State Cooperative Societies Bill, 2000, is enacted by the Parliament.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCF II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 12 of Chapter I of the Report)

Recommendation (Sl. No. 5, Paragraph No. 2.17)

The Committee were informed that in Bihar more than four hundred societies have come up after enactment of Swablambi Sahyog Samiti Act in 1996 and reportedly these are doing very well. According to IFFCO there is a need for such a legislation in other States and IFFCO itself has been discussing the success of Cooperative Societies of Bihar with other States and requesting them to adopt the same pattern. The Committee recommend that DOF in consultation with DoAC will analyse the possibility of such a legislation in different States and the Government take up this matter at the highest level with State Governments.

Reply of the Government

Five States, Namely, Andhra Pradesh, Karnataka, Madhya Pradesh, Jammu & Kashmir and Bihar have enacted Mutually Aided & Self Reliant Cooperative Societies Acts. The Cooperative Societies registered under these Acts are self-sufficient without any financial assistance or share capital from the Government. The Department of Agriculture & Cooperation has already formulated a new legislation i.e. the Multi-State Cooperative Societies Bill, 2000 which is pending in Lok Sabha for consideration. This Bill is by and large based on the recommendations of the Choudhary Brahm Parkash Committee report. After this Bill is passed by Parliament, the States would be requested to amend their legislation also. It may be recalled that 'Cooperative Societies' is in general, a State subject.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA II dated 28.03.02]

Recommendation (Sl. No.6, Paragraph No. 2.18)

Amongst other suggestions from IFFCO for Cooperatives include introduction of direct delivery of fertilisers to Primary Agricultural Cooperatives Societies (PACs) in States, special incentives for PACs working in remote, hilly and tribal areas, encouraging non-credit cooperatives to take up fertiliser business and consolidation of short term credit through cooperatives by Banks, Kisan Credit Card of Central Government. The Committee recommend that DoF should examine and implement these suggestions in consultation with DoAC as early as possible.

Reply of the Government

DoAC has been requested to examine this suggestion. In the meanwhile, the DoF has been providing dealer's margin for sale of urea at the higher rate of Rs. 200 per MT to co-operative institutions as against Rs. 180 to others.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA II dated 28.03.02.]

Recommendation (Sl. No. 7, Paragraph No. 3.11)

The Committee find that IFFCO has recently diversified into the field of insurance business since 4th December, 2000 with Tokio-Marine & Fire Company Ltd., a Japanese Company under a Joint Venture Company titled 'IFFCO-Tokio General insurance (ITGI)' for marketing 34 products in commercial, personal and rural lines. The Committee find that out of 34 items, only 29 items are operated at present. About business transacted by ITGI, the Committee find that against the target of Rs.88 crore for current year ITGI, has achieved Rs.5.83 crore upto 31st March, 2001 and upto October, 2001 Rs.26.85 crore is expected to be achieved. On perusal of Items covered under insurance the Committee find that as many as 16 items and 9 items are placed under commercial and personal insurance. Against this only 4 items have been placed for rural sector. The Committee have taken note of special scheme titled as 'Sankat Haran Yojana' which is claimed to be very attractive and sought after. The Committee are glad to note that ITGI has plans for extensive expansion in rural insurance as desired by the Committee. The Committee hope that more expansion in rural insurance sector would be made by ITGI in the earliest possible time.

Reply of the Government

The following four products exclusively for the rural sector have been developed by IFFCO-TOKIO General Insurance Company Limited (ITGI):

(i) Sankat Haran Bima Yojna - under this Scheme, automatic personal accident insurance cover is available to every buyer of any brand of IFFCO, KRIBHCO & IPL's fertilizers through Cooperative Societies. The Capital Sum insured is Rs. 4000/- for each bag of 50 kg., subject to maximum limit of Rs. 1,00,000/- irrespective of number of bags purchased. The scheme was launched on 1st October, 2001.

(ii) Tractor Insurance

(iii) House Insurance

(iv) Pump set Insurance

ITGI has plans to market the products listed at serial numbers (ii) to (vi) through a network of Cooperatives Societies. However, since the present insurance regulations do not permit Cooperative Societies to act as Agents for distribution of insurance products. ITGI has sought amendment to the Insurance Regulatory & Development Authority Act. Once the Act is amended, ITGI plans to market not only these products, but new need based products to be designed for the rural masses.

With a view to boost its programme of spreading insurance message through nook and corner of the country, ITGI is implementing 'MASSES' (MASS EDUCATION STRATEGY) with the objective of spreading the message of insurance through "MASS EDUCATION" and creating need based insurance products keeping in view the paying capacity of individuals.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCF II dated 28.03.02]

Comments of the Committee

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

Recommendation (Sl. No. 9, Paragraph No. 3.21)

During the course of examination the Committee found that in the field of food processing IFFCO has not started its operations in a big way. In this connection, IFFCO has explained that due to various techno-economical and commercial considerations, this was not done. However, IFFCO has assured to review the same if situation so warranted. DoF has informed that so far no such proposal for diversification has been submitted by IFFCO. However, Department would certainly examine such proposal as and when the same was received. The Committee feel that even the multinational companies are venturing into food processing industry and indigenous companies/societies like IFFCO which as large rural net work can be successful in this sector. The Committee, therefore, recommend that IFFCO should examine this scheme de-novo.

Reply of the Government

IFFCO is initiating to explore the feasibility to diversify into processing of farm products. Consultant will be appointed to study the feasibility in this area. Once the techno-economic feasibility is ascertained, a decision will be taken in this regard.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA II dated 28.03.02]

Recommendation (Sl. No. 10, Paragraph No. 4.10)

The Committee note that as per Bye-Laws of the Society, IFFCO's Board consists of 30 Directors. Five of these are nominated by the Government. Out of the remaining 25 Directors, 12 represent State level apex federations and 8 are elected, remaining 5 Directors three *viz.* MD, IFFCO, Director (Finance) and Director (Marketing) are ex-officio and the remaining two, one is from financing agency, if any and the other is Chairman, National Cooperative Union of India. The Committee find that MD, IFFCO and DoF have justified the present strength of Board but also stated that with the passage of new Bill, the strength shall go down. The Committee would await the revision of the strength after the new Bill is passed by Parliament.

Reply of the Government

The Multi State Cooperative Societies Bill, 2000, which was introduced in the Lok Sabha on 24.11.2000, is pending consideration. The revised composition of the Board of Directors, after implementation of the provisions of Multi State Co-operative Societies Bill, 2000, will be intimated to the Committee.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCF II dated 28.03.02.]

Comments of the Committee

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

Recommendation (Sl. No. 13, Paragraph No. 5.7)

The Committee are glad to note that finally DoF has been able to firm up all major project agreements and initiatialled these on 5.12.2001. The Committee especially note with great satisfaction that Urea off-take Agreement has finally been cleared. About achieving financial closure Secretary (Fertilisers) assured the Committee that by March, 2002, it would hopefully be achieved. The Committee hope that now there would be no difficulty in achieving much awaited financial closure for the project.

Reply of the Government

Major project agreements *viz.* Urea Offtake Agreement, Ammonia Offtake Agreement, Gas Supply Agreement and the corresponding direct agreements have been initialled by the concerned parties to the agreements on 5.12.2001. Other project agreements, such as Urea Sales Fee Agreement, Technical Services Agreement, Engineering Procurement & Construction Contract and Personnel Supply Agreement are now being finalised in consultation with the Arranging Banks.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCF II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 27 of Chapter   of the Report)

Recommendation (Sl. No. 15, Paragraph No. 5.15)

About joint venture project in Iran and Tunisia, DoF has informed that viability of these projects is reviewed depending upon resolution of environment aspect for Iron Project and techno-economic feasibility for Tunisia Project. The Committee find that these projects are pending since long. The Committee recommend that their viability be reviewed and a decision eitherway be taken ending uncertainty.

Reply of the Government

Iran Project

A meeting was held between INDCONS (IFFCO and KRIBHCO) and Qeshm Free Area Authority (QFAA) on 8-9th November, 2001 at New Delhi. The viability of setting up of an ammonia urea plant at Qeshm (Iran) was reviewed in the light of prevailing market conditions relating to demand and supply scenario and international prices of urea. It was decided that setting up an ammonia-urea project was not viable at this juncture and setting up of an ammonia plant only of 1750 MTPD capacity would be explored.

It was pointed out that in an ammonia plant on stand alone basis, huge quantity of carbon dioxide gas has to be released in the atmosphere which otherwise is utilised for manufacture of urea. It was decided that QFAA will look into the environmental aspect for setting up an ammonia plant on stand alone basis. Once the environmental aspect is ascertained and if global scenario of ammonia including demand supply, gas and prices etc., are favourable, the techno-economic feasibility of the project will be reviewed.

Tunisia Project

A meeting was held between Group Chimique Tunisian (GCT) and Indian partners IFFCO/GFOL/on 10th December, 2001 at New Delhi. M/s GCT has thereafter sent the reports of M/s. Ferticon *vide* their letter dated 20.2.2002 giving a Phos. Acid and Sulphuric Acid market study. The economic viability of setting up a Sulphuric Acid Plant *vis-a-vis* purchasing Sulphuric Acid from International Market is being carried out. Various points such as Rock Phosphate price, discount on Phos. Acid price etc., were also discussed in the meeting held in December, 2001 and are yet to be resolved. Further decisions will be taken after ascertaining the economic viability of the project.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCF II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 36 of Chapter I of the Report)

Recommendation (Sl. No. 16, Paragraph No. 5.19)

The Committee regret to note that IFFCO's proposed Ammonia Urea Project of Neilore with a capacity of 768 lakh tonnes of Ammonia Urea per year has been deferred by Government in June, 2000 due to limited demand-supply forecasts. The Committee find that final decision on the project would be taken after final decision is taken on fertiliser policy. The Secretary (Fertilisers) has elsewhere informed the Committee that the fertiliser policy was likely to be cleared soon. The Committee hope that DoF would not loose any time for taking final view on the project after this policy is finalised.

Reply of the Government

A final view on the proposed Neilore Project of IFFCO would be taken soon after the long-term fertilizer policy is finalised.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCF II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 35 of Chapter of the Report)

Recommendation (Sl. No. 17, Paragraph No. 6.25)

The Committee regret to note that capacity utilization in IFFCO's plants at Kalol and Aonla-I had been very less as compared to its other plants. The Committee note with concern that capacity utilization of Kalol plant of IFFCO has been 95% in 1998-99, 87% in 1999-2000 and 90% in 2000-2001. Whereas for Aonla it was 95% in 2000-2001. IFFCO has submitted before the Committee that there has been shortfall in production during the last three years on account of shortage of gas from sources/supplies *i.e.* GAIL/ONGC. In this connection, IFFCO has informed that as against total contractual quantity of 8.40 lakh SM3 per day of Natural gas and associated gas, the availability has been only in the range of 7.55 lakh SM3 per day in 1998-99, as low as 6.73 lakh SM3 per day in 1999-2000 and even lowest at 5.72 lakh SM3 per day. As regards gas restriction in Aonla-I plant IFFCO has submitted before the Committee that as against contracted quantity of gas of 3.4 MMSCMD of gas based on calorific value of 9000 K.cal SM3 per day, the supply from GAIL has been at the calorific value in the range of 8200-8500 K.cal/ SM3 per day. IFFCO has further brought out that shortage of gas in Kalol plant is causing several problems in operation of the plant. This has resulted in increase in energy consumption and higher cost of production. IFFCO has also submitted that for solving the gas shortage it has in 1997 commissioned a naphtha pre-reformer system and the same is working satisfactorily. However, it is costly option. IFFCO has pleaded allocation of gas on first come first served basis as a solution to shortage of gas at Kalol. In this connection, they have further suggested to GAIL to connect Gujarat Gas Industries with HBJ pipeline is itself reduced. During the course of examination DoF informed that gas supply of Kalol may further deteriorate. In order to end the uncertainty, Secretary (Fertilisers) also pleaded that in the gas Linkages Committee meetings Ministry of Petroleum & Natural GAS be asked to give first preference for allotment of full level of gas for fertiliser sector and allocation for other sector should come later. DoF has further informed that GAS Linkages Committee at its sitting held on 27th July, 2001, both DoF as also Department of Expenditure had emphasised that there should be nor further cuts of gas supply to fertiliser units. The Committee therefore, strongly recommend that in the larger interest of fertiliser industry allocation of gas to fertiliser be given first preference. For IFFCO Kalol, DoF should take up this matter with the Ministry of Petroleum & Natural Gas and that GAIL should arrange gas to meet the requirement of IFFCO, Kalol.

Reply of the Government

The Department of Fertilizers took up the matter regarding giving priority to the fertilizer sector in the allocation of gas. The optimum use of natural gas on the basis of economic cost benefit analysis has been examined by many high level committees in the past. It has been concluded by various committees that the use of gas in manufacture of fertilizers would fetch maximum benefit to the economy. Natural gas used for fertilizer production is able to make use of chemical value as well as the heat value of gas. Cost of production of fertilizer is lowest when gas is used as the feedstock *vis-a-vis* other liquid petroleum products. The allocation of gas or fertilizer sector assumes importance because of the control regime in which the industry operates and the system of fixed farm gate price, as a result of which it is not possible for the producers to pass on any increase in the cost to the consumers. Keeping view the reduction subsidy when gas is used as feedstock for the manufacture of fertilizers, Ministry of Petroleum & Natural Gas has been requested to accord special priority to the fertilizer sector in the allocation of gas.

As regards the recommendation of the Committee relating to meeting the requirement of IFFCO's Kalol plant, the matter was taken up with the Ministry of Petroleum & Natural Gas who informed that presently the gas availability from Kalol field is only around 0.7 MMSCMD, while the requirement of various consumers in the region is estimated at 1.41 MMSCMD. Kalol field from where the natural gas is being supplied since 1974, has crossed its plateau period of production and entered into a declining phase. Due to ageing of the field, the gas availability is unlikely to improve in future and, as such, there is no option except to supply gas on as and when available basis to the consumers connected to the above field. However, Liquefied Natural Gas (LNG) is expected to be made available by Petronet LNG Limited (PLL) at Dahej Terminal in the year 2004 and GAIL proposes to purchase regasified LNG from PLL to meet the requirement of gas of various consumers in the region. Accordingly, the additional gas requirement of IFFCO will be considered as per policy when the gas availability improves.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCF II dated 28.03.02]

Recommendation (Sl. No. 18, Paragraph No. 6.26)

The Ministry of Petroleum & Natural Gas have indicated long term solution to the paucity of GAS Supply to IFFCO's plants but has not suggested any immediate resolution. The Committee desire that senior officer of MoP&NG and DoF should formally sit together and work out a plan ensuring uniterrupted qualitative supply of gas for IFFCO plants.

Reply of the Government

Ministry of Petroleum & Natural Gas had constituted a Gas Linkage Committee (GLC) under the Chairmanship of Secretary (P&NG) with representatives of concerned Ministries/Departments including Department of Fertilizers as members of the Committee with a view to periodically review the gas production and supply projects, consider and allocate natural gas and its fractions to various consumers and monitor the gas utilization of allottees and recommend for cancellation or otherwise. Accordingly, the Department of Fertilizers has taken up with the Ministry of Petroleum & Natural Gas the issue of ensuring uniterrupted qualitative supply of gas for IFFCO plants to be placed before the GLC for its consideration.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA II dated 28.03.02]

Recommendation (Sl. No. 19, Paragraph Nos. 6.30 & 6.31)

The Committee find that a Core Group consisting of representatives of DoF/Ministry of Petroleum & Natural Gas. Fertiliser Industry was constituted to look into the problem and suggest remedial measures for import of LNG. This LNG project estimated to cost Rs.21,832 crore was conceived on 31st July, 1998. The pilot study was also made but the Core Group at its sitting held on 24th September, 2001 has decided to stop its further activities on the ground that long term policy on Fertiliser is yet to be announced and as such fertiliser companies are unable to finance the project.

Ministry of Petroleum & Natural Gas has indicated positive indications for 15 projects for setting up LNG Import terminals. Out of these, work on three terminals at Dhabhoi, Dahej and Hazira is in progress and Cochin terminal is coming up. Besides 3 to 4 more terminals may also come up during Tenth Plan period. With these terminals the import potential of LNG would be between 40 to 50 MMSCMD of gas by the end of Tenth Plan. With this, according to Ministry of Petroleum there could not be significant gap in demand supply gas of LNG. The Committee feel that Core Group should have continued its study and have come out their Plan/concept to Import LNG exclusively for fertiliser Industry just as the same is being conceptualised by Power Sector. Power Sector, Fertiliser Sector and other bulk consumers may have competitions amongst themselves. The Committee would recommend that the Core Group should explore the possibility on these lines.

Reply of the Govern ent

Department of Fertilizers constituted a Core Group consisting of representatives of Fertilizer Industry, Ministry of Petroleum & Natural Gas, Department of Fertilizers, Ministry of Finance. Gas Authority of India Ltd., Shipping Corporation of India Limited and the IDBI to explore the feasibility of importing LNG. The Core Group submitted Pre-Feasibility Report to the Government in March, 1999. The Core Group, as it included PSUs and Co-operatives, sought the authorisation of the Government for preparation of Detailed Feasibility Report (DFR) and to carry out pre-project activities at an estimated cost of Rs.25 crore to achieve financial closure. The Department of Fertilizers revived the Core Group in May, 2000 to prepare the DFR. The constituted Core Group held three meetings in October, 2000, March, 2001 and September, 2001. In the last meeting held in September, 2001 it was felt by the members of the Core Group that several players had initiated LNG supply activities including in the Eastern Coast. Keeping this fact in view and also noting that the long term fertilizer policy is still unannounced, the fertilizer companies are not in a position to finance the massive project proposed by the Core Group. It is also noted that the issue of pricing of natural gas and LNG is also under examination in the Ministry of Petroleum & Natural Gas. A decision on this matter is necessary before a view is taken on import of LNG for/by fertilizer companies.

In view of the fact that import of LNG is a high capital intensive activity and many players have already initiated action it may be worthwhile for the fertilizer companies to watch the progress of LNG project and benefit from the competition generated among the playeas without making the upfront investment.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 39 of Chapter I of the Report)

Recommendation (Sl. No. 20, Paragraph No. 7.8)

The Committee find that with a view to rationalise the subsidy, the DoF had earlier informed the Committee that Government have decided to replace the existing Retention Price Scheme (RPS) with Group Retention Scheme (GRS) based on feedstock and vintage of gas based plants. The scheme envisages fixed rate of concession for urea units after grouping them under five categories. These are (i) Pre 1991 gas based units; (ii) Post 1992 gas based units; (iii) Naphtha based; (iv) FO/LSHS based units; and (v) Mixed energy units. The Standing Committee on Petroleum and Chemicals in their 14th Report (13th Lok Sabha) had pointed out that above grouping has disregarded various important factors. In response DoF had assured the Committee to examine these points raised by the Committee. A perusal of comparison between pros and cons brought out by IFFCO, the Committee find that minus points of the policy highly out number plus points of the policy. In this connection, the DoF has now informed that Government is yet to take final decision on the Group Retention Scheme. All relevant aspects are being examined and Government expects to finalise new pricing policy shortly. Secretary (Fertilisers) also informed that new policy has been cleared by Minister of Chemicals & Fertilisers on 11th December, 2001 and hopefully in another two to three weeks time the policy would be out. The Committee hope that the Government would come out with a policy which is pro to none but balanced one.

Reply of the Government

The formulation of new pricing policy for urea units aiming at introduction of Group Concession Scheme keeping in view the recommendations of the Expenditure Reforms Commission is still under consideration of the Government.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 42 of Chapter I of the Report)

Recommendation (Sl. No. 21, Paragraph No. 7.12)

The Committee note that a huge amount to the tune of Rs.1020 crore is due to be paid to IFFCO by DoF/Fertilisers Industries Coordination Committee (FICC), DoF in this connection has revealed that out of Rs.1020 crore, claims to the tune of Rs. 345 crore are under process at different stages. Majority of these claims are to be cleared within next three months. As regards remaining amount of Rs. 675 crore, DoF has informed that these claims would be decided after Government notifies the pricing policy effective from 1st July, 1997. The Committee hope that DoF would take urgent steps to clear the claims of Rs. 345 crores which are being processed by Government to IFFCO immediately. About remaining claims of Rs. 675 crore the Committee hope that DoF would expedite the new policy paving the way for necessary Government notification, so that blocked amount of IFFCO are given to IFFCO.

Reply of the Government

Necessary notification has been issued by the Department of Fertilizers on 18.3.2002 for the claim of Rs.100 crore on account of review of salary and wages from 1.1.1997 to 30.6.2001. The payment is being made by FICC. Notification for quarterly escalation claims for Phulpur II Unit (indicated as Rs.47 crore) are under process. As regards a small percentage of retention prices withheld in respect of the Expansion

Projects of Aonla, Kalol and Phulpur (Rs.137 crore), these have been recently approved by FICC for payment and the same is under process. As regards the claim of Rs.65.36 crore and Rs.42.27 crore on account of purchase tax/additional sales tax of the period from 1991-92 to 2000-01 respectively, the existing approved pricing policy does not recognise these claims. As far as the remaining claims are concerned, they are linked with the finalisation of the 7th and 8th pricing policy and the same would be decided as soon as policy parameters are finalised.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA II dated 28.03.02]

Comments of the Committee

(Please *see* Paragraph 35 of Chapter I of the Report)

Recommendation (Sl. No.25, Paragraph No. 7.36)

The Committee find that there is uncertainty prevailing over viability of different feedstocks *viz.* Naphtha, Natural Gas and LNG. The Committee have been informed by Secretary (Fertilisers) that Naphtha is being given to fertiliser units on import parity prices. As regards other two feedstocks Natural Gas and LNG, the Secretary (Fertilisers) have informed that it might be given on import parity price on the pattern of Naphtha in future. This will make natural gas costlier to fertiliser units. About the third feedstocks of LNG the Committee were informed that it would be equally costlier. To solve this problem the Ministry of Petroleum & Natural gas should be asked to increase the price of natural gas in a phased manner. The Committee, therefore, recommend that whatever increase in price of gas is effected it should be in a phased manner in the interest of viability of feedstocks for fertiliser units.

Reply of the Government

Ministry of Petroleum & Natural Gas requested Department of Expenditure and Department of Fertilizers to propose a road map for progressive increase in the consumer price of natural gas for the fertilizer sector so as to reach the level of pooled price of domestic gas and imported LNG over 3 to 5 years. The Department of Fertilizers suggested following policy options:-

(a) Gas prices for the fertilizer sector should be increased by a flat rate of Rs.696 (*i.e.* 3480/5) per year so as to graduate from the current level of Rs.2850 to Rs.6330/MCM over the next 5 years. This would, however, be a principle and the actual level of increase would depend on the weighted average gas price level finally arrived at.

(b) Gas price for the fertilizer sector should continue at the level of Rs.2850 until an independent regulatory regime for pricing of all hydro carbons is in place and the regulator takes a view in the matter.

(c) As a variant of option 'b', the gas prices for fertilizer sector could be marginally increased, by say 5% each year, until the regulator takes a view in the matter.

(d) Ministry of Petroleum & Natural Gas and the Department of Expenditure refer to the Cost Accounts Branch a study of the gas pricing, on the lines of the recent Cost Accounts Branch study on Naphtha pricing and until a decision is taken on the study report of CAG, gas prices should either be frozen or increased nominally by, say 5 per cent *ad hoc*. After examining the above suggestions, Department of Expenditure suggested to the Ministry of Petroleum & Natural Gas that difference between current price and indicative market price be bridged by increasing the gas price at flat rate of about Rs.600/- per year till we reach the market determined price in a future year. This would mean that there would be about 5 years before the urea units also become a part of general industrial consumers for the purposes of open market gas prices.

Further decision of the Ministry of Petroleum & Natural Gas in the matter is awaited.

[Ministry of Chemicals & Fertilisers Department of Fertilisers O.M. No.19056/12/2001-FCA II dated 28.03.02]

Bengal, Haryana, Maharashtra, Karnataka and Madhya Pradesh have also informed that they are examining the issue of giving preference to fertilizers produced by IFFCO.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA II dated 28.03.02]

NEW DELHI;
August 29, 2002
Bhadrapada 7, 1924 *(Saka)*

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

APPENDIX I

MINUTES
SUB-COMMITTEE ON FERTILISERS
A SUB-COMMITTEE OF
STANDING COMMITTEE ON PETROLEUM AND CHEMICALS
(2002)

Second Sitting
05.07.2002

The Sub-Committee sat from 1500 hrs. to 1530 hrs.

PRESENT

Dr. Debendra Pradhan – *Convenor*

MEMBERS

Lok Sabha

2. Shri Ram Chander Bainda
3. Shri Ananda Mohan Biswas
4. Shri Padam Sen Choudhry
5. Shri Jagannath Mallick
6. Shri Punnulal Mohale
7. Dr. Chhatrapal Singh

Rajya Sabha

8. Shri Balkavi Bairagi
9. Shri Shyam Lal
10. Ms. Mabel Rebello

SECRETARIAT

1. Shri J.N. Oberoi — *Under Secretary*

At the outset, Hon'ble Convenor, Sub-Committee on Fertilisers welcomed the Members of the Sub-Committee to the Sitting.

2. Thereafter, the Sub-Committee took up for consideration the Draft Action Taken Report on action taken by Government on the recommendations contained in Twenty Fourth Report (Thirteenth Lok Sabha) of the Committee on Indian Farmers' Fertiliser Cooperative Limited (IFFCO). The Hon'ble Convenor invited suggestions from Members on the comments on the Draft Action Taken Report. On the initiative of some of the Members, Convenor requested them to send their suggestions, if any, to the Secretariat of the Committee for incorporation in the Draft Report. Subject to receipt of these suggestions, the Sub-Committee adopted the Draft Action Taken Report.

3. The Sub-Committee authorised the Convenor to finalise the same and submit it to the Hon'ble Chairman for consideration by Standing Committee on Petroleum and Chemicals (2002).

The Sub-Committee then adjourned.

APPENDIX II

STANDING COMMITTEE ON PETROLEUM AND CHEMICALS
(2002)

Eleventh Sitting
(12.08.2002)

The Committee sat from 1500 hrs. to 1600 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2 Shri Ashok Argal
3 Shri Ram Chander Bainda
4 Dr. Chellamella Suguna Kumari
5 Shri Padam Sen Choudhry
6 Shri Dilipkumar Mansukhlal Gandhi
7 Smt. Sheela Gautam
8 Shri Bijoy Handique
9 Shri Shriprakash Jaiswal
10 Shri Punnulal Mohale
11 Shri Ashok N. Mohol
12 Dr. Debendra Pradhan
13 Shri Ram Sajivan
14 Shri Shyama Charan Shukla
15 Dr. V. Saroja
16 Dr. Chhatrapal Singh
17 Dr. Ram Lakhan Singh

Rajya Sabha

18 Shri Balkavi Bairagi
19 Shri Ramnath Kovind
20 Shri Shyam Lal
21 Shrimati Rajiv Ranjan Singh 'Lalan'
22 Shri Dipankar Mukherjee

23 Shri Ahmed Patel

24 Shri Keshubhai Savdasbhai Patel

25 Ms. Mabel Rebello

SECRETARIAT

1.	Shri K.V. Rao	*Joint Secretary*
2.	Shri J.N. Oberoi	*Under Secretary*
3.	Shri Ram Raj Rai	*Assistant Director*

At the outset, Hon'ble Chairman referred to the sad demise of Shri Krishan Kant, Vice-President of India and recalled his contribution to Nation's building. The Committee condoled his death and passd Condolence Resolution. The Committee stood in silence for a while. Thereafter, Hon'ble Chairman welcomed Shri Keshubhai Savdasbhai Patel, to the Committee and hoped that the Committee would be benefitted by his experiences.

2. Hon'ble Chairman then explained the purpose of the day's meeting and invited the Members to give their suggestions, if any on the following four draft Reports being considered for adoption:–

(i)

(ii)

(iii)

(iv) Action taken Report on action taken by Government on the recommendations contained in the Twenty-Fourth Report (13th Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2001) on 'Indian Farmers' Fertiliser Cooperative Limited (IFFCO).

3. After some consideration, the Committee adopted the Reports without any modification and the Committee authorised the Chairman to finalise the Reports after fctual verification from the concerned Ministries/Departments and present them to Speaker or to Parliament as deemed necessarv.

4. The Committee placed on record their appreciation of the work done by the Sub-Committee on Petroleum, Chemicals & Petrochemicals, Fertilisers and the Sub-Committeee Constituted to look into the complaints on non-observance of Guidelines' laid down by the Government in allotting Retail Outlets and LPG Distributorships by Dealer Selection Boards.

5. The Committee also placed on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6.

7.

The Committee then adjourned.

**Matters not related to this Report.

APPENDIX III

[*Vide* Para 4 of the Introduction]

Analysis of the Action Taken by Government of the recommendations contained in the Twenty-Fourth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2001) on 'Indian Farmers' Fertilisers Cooperative Limited (IFFCO)'

(i)	Total No. of Recommendations	30
(ii)	Recommendations which have been accepted by the Government *(Vide Recommendation at Sl. Nos. 8 and 28)*	2
	Percentage to total	6.66%
(iii)	Recommendations which the Committee do not desire to pursue in view of Government's reply *(Vide Recommendation at Sl. Nos. 3, 12, 14 23, 24, 26 & 27)*	7
	Percentage of total	23.33%
(iv)	Recommendations in respect of which replies of the Government have not been accepted by the Committee (*vide* recommendations at Sl. Nos. 4, 11 & 22)	3
	Percentage of total	10%
(v)	Recommendations in respect of which final replies of the Government are still awaited (*Vide* recommendations at Sl. Nos. 1, 2, 5, 6, 7, 9, 10, 13, 15, 16, 17, 18, 19, 20, 21, 25, 29, & 30)	18
	Percentage of total	60.00%

Comments of the Committee

(Please *see* Paragraph 48 of Chapter I of the Report)

Recommendation (Sl. No.29, Paragraph No. 9.9)

The Committee find that IFFCO has been carrying out its marketing operations largely through Cooperatives particularly by State Level Marketing Federations and Village Level Cooperative Societies *i.e.* Primary Agricultural Credit Societies (PACS). In this connection, IFFCO has brought to the notice of the Committee that in some States like U.P., Rajasthan, Bihar, these State level Federations are not involved in fertiliser business due to some financial and administrative reasons. In these States IFFCO's fertiliser is directly supplied to Village Level Cooperative Societies. The Committee agree with the contention of IFFCO that Cooperatives/PACSs with poor loan recovery be provided financial assistance. Accordingly, they desire that DoF should take up this matter with nodal Ministry *i.e.* Department of Agriculture and Cooperation, NABARD and NCDC so that financial health of these sick Cooperatives/ PACS be reviewed and these are put back on fertiliser business.

Reply of the Government

The Department of Fertilizers has requested the Department of Agriculture and Cooperation, NABARD and NCDC for reviewing the financial health of sick cooperatives/PACS. However, it is mentioned that the Cooperative Societies is, in general, a State subject and the PACS are under the regulation of the concerned State Cooperative Acts.

[Ministry of Chemicals & Fertilisers Department of Fertilisers
O.M. No.19056/12/2001-FCA II dated 28.03.02]

Recommendation (Sl. No.30, Paragraph No. 9.10)

The Committee have been informed that several States like Punjab, Madhya Pradesh, Haryana and Uttar Pradesh have started procuring fertiliser through tenders and IFFCO is being asked to compete with other competitions like private operations. IFFCO has taken up the matter with Chief Ministers of State Governments. However, no response has been forthcoming. DoF in this connection has informed that purchase of Urea is a commercial transaction and as such DoF has no role over the issue. However, in order to encourage purchase of Urea from Cooperatives the matter has been taken up at Ministry level among concerned States. The Committee feel that given the credibility of IFFCO in terms of its quality fertiliser, market network, insurance back-up (through Joint Venture) on purchase of Urea and other related schemes, it should be able to retain its market share in fertiliser industry. The Committee accordingly, would like to IFFCO to sharpen their skill in marketing. DoF should also provide necessary help at Government level, wherever necessary and feasible. As recommended elsewhere in the Report, IFFCO should also spread its membership/market network in other States where its presence is marginal or negligible.

Reply of the Government

Department of Fertilizers appreciate the concern shown by the Committee for spreading not only the membership but also market network by IFFCO. During last one year, IFFCO has increased its membership of the societies from 35,971 to 36,143 as on 28.2.2002. Further, in recent times, IFFCO has also extended its marketing activities in the North Eastern Region including Assam, Manipur, Meghalaya, Mizoram, Tripura, Nagaland and Arunachal Pradesh. With a view to further increase the sale of IFFCO's fertilisers by the member cooperative societies, matter was taken up in May, 2001 at the level of Minister (C&F) with the Chief Ministers of 15 main fertilizer consuming States. Pursuant to this communication, Government of Rajasthan has already taken a policy decision and accordingly RAJFED has commenced purchase of fertilizers from IFFCO. Besides, State Governments of Tamil Nadu and Gujarat have also assured to accord preferential treatment to the fertilizers produced by the cooperative sector. Further, the Governments of UP, West