PART I

RATIONALIZING FERTILISER SUBSIDIES

RATIONALISING FERTILIZER SUBSIDIES

CONTENTS

Executive Summary

Background and Objectives

1. Fertilizer subsidies have grown dramatically and continue to increase rapidly. The green revolution technology is now widely accepted and the need to subsidize fertilizers to induce farmers to increase their usage has gone down.

2. The Retention Price Scheme (RPS) has led to the development of a large domestic industry and near self-sufficiency. However, the unit wise RPS is a cost plus scheme. It results in high cost fertilizers, excess payments to industry and provides no incentives to be cost efficient. Moreover, it is extremely difficult, if not impossible, to administer it without these disadvantages.

3. The fertilizer policy needs to be reformed. The goal of new policy should be to eventually bring fertilizer prices charged to farmers to the level of import parity price. It should protect small farmers' real incomes, should not lead to a slump in food production and promote a balanced use of N, P and K. At the same time, the RPS needs to be dismantled and replaced by an easily enforceable system that provides incentives to manufacturers to be cost efficient, and ensures a desired level of self-sufficiency with minimal support from the government.

4. A sudden increase in farm-gate price of urea to import parity price, without increasing procurement prices, could lead to a fall of 13.5 million tonnes of foodgrains production. This is thus, not a feasible option.

Protecting Small farmers

5. If procurement prices are raised along with farm-gate prices of fertilizers, the fall would be much smaller. However, small and marginal farmers for whom self consumption is a large part of their output, would suffer a loss in their real incomes. They should be protected. Two possible ways are:

   (a) Introduction of a dual price scheme under which all cultivator households are given 120 Kgs. of fertilizers at subsidized prices and

   (b) Expansion of Employment Guarantee Scheme and rural works programmes to provide additional incomes to small farmers. If such rural programmes are directed towards improvement of land and development of minor irrigation schemes, they will in addition to providing wage income, increase productivity of land and income to farmers even when fertilizer prices are increased.

From RPS to Competitive Self-reliance

Urea

7. A complete decontrol of producer price for urea would have been possible, were all our plants based on natural gas as feedstock. Unfortunately, only 56 percent of domestic capacity is gas based, 22 percent naphtha based, 9 percent fuel oil based and 12 percent is mixed feedstock based mostly naphtha and natural gas.

8. A sudden freeing of the urea industry could lead to most naphtha based units having to close down, as even their short run variable costs would be higher than the import price. The resultant surge in the demand for imports would push up import prices to levels which would lead to much higher quantum of subsidy than now, if the demand is to be maintained at 21 million tonnes of urea.

9. Since availability of natural gas is limited, a good proportion of the production has to be based on other feedstock if a certain level of self-sufficiency is to be maintained. These plants would have to be compensated for their higher cost of feedstock.

10. The best possible alternative at present is imported liquefied natural gas (LNG).

11. In the circumstances, the Commission recommends the dismantling of the control system in a phased manner, leading at the commencement of fourth stage, to a decontrolled fertilizer industry which can compete with import albeit with a small level of protection and a feedstock cost differential compensation to naphtha/LNG based units to ensure self-sufficiency. The scheme envisaged is in the spirit of the recommendations of the HPRC. The transition however has to be gradual.

12. The transition begins with the discontinuation of the RPS with effect from February 1, 2001, and introduction of a group-wise concession scheme. The number of groups is reduced from five to two by April 1, 2006. At this stage all units except those that are based on naphtha/LNG would be viable at a price of about Rs. 7000 per tonne of urea. For naphtha/LNG based units a Feedstock Differential Cost Reimbursement (FDCR) of Rs. 1900 per tonne of urea will be given. The details of the various stages are as follows:

(i) In the first phase beginning February 1, 2001, the following will be done:

(a) The existing units will be grouped into 5 categories – pre-1992 gas based units, post 1992 gas based units, naphtha based units, FO/LSHS based units and mixed feedstock units. The individual retention price scheme will be scrapped and in its place a Urea Concession Scheme with a fixed amount of concession for each of these groups will be introduced. At the same time, plants would be free to get feed stock from wherever they want including imports.

(b) The distribution control mechanism will be done away with.

(c) The maximum retail price arrangement will be continued, the concessions for each group being so calibrated as to enable the units to sell at the stipulated maximum retail price.

(d) Having regard to the large fluctuations in the import prices of feedstocks, it will be necessary to redetermine the concession to these groups of units every three months with reference to the prevailing import prices. When there is a reduction in the import parity prices of these feedstocks, the concession payable to the units would go down. It may be noted that this, however, is done only group-wise and not plant-wise. Whenever there is an increase in the import parity prices of these feedstocks, the additional costs should be passed on to the consumers through a suitable increase in the maximum retail price so that the total amount payable by way of concessions does not go up significantly. The revision in issue price to farmers however, should be done every season rather than every three months.

(ii). In the second stage, beginning 1st April 2002, the concessions are reduced to reflect the possibility of reasonable improvement in feedstock usage efficiencies and reduction in capital related charges.

(iii). The third phase will begin on 1st April 2005 and reflects the feasibility of all non gas based plants to modernize and switch-over to LNG. For plants which do not switch over to LNG as feedstock only the level of concession that the unit would have been entitled to if it had switched over to LNG would be allowed.

(iv). The fourth phase begins on 1.4.2005 when the industry is decontrolled. The Commission recommends a 7 % increase in the price of urea in real terms every year from 1.4.2001. This way the open market price will reach Rs. 6903 by 1.4.2006, a level at which the industry can be freed from all controls and be required to compete with imports, with variable levy ensuring availability of such imports at the farm-gate at Rs. 7000 per tonne of urea. While no concessions will be necessary from this date onwards for gas based, FO/LSHS and mixed feed stock plants, existing naphtha plants converting to LNG as also new plants and substantial additions to existing plants will be entitled to a feedstock differential with that for LNG plants serving as a ceiling.

13. The schedule of concessions are shown in the Table 1:

Table 1 : Schedule of concessions

Feedstock	Ist stage concession (Rs./MT) Based on existing RPS and domestic Price of Inputs	Savings at import Parity Price	IInd Stage Net concession 1.2.2001 to 31.3.2002	IIIrd Stage 1.4.2002 to 31.3.2005 (Rs./MT)	IV th stage 1.4.2005 to 31.3.2006	from 1.4.2006
	1	2	3	4	5	6
Natural Gas						
Pre 1992	1300	0	1300	1050	800	0
Post 1992	2900	0	2900	2450	2000	0
Naphtha	8400	1900	6500	5800	3900	1900
FO/LSHS	6400	3250	3150	2200	2200	0
Mixed feedstock	4000	600	3400	3000	2450	0

New Plants : For non gas based new plants or substantial additions to existing plants would be given appropriate feedstock differential subject to the feedstock differential for LNG plants acting as the ceiling.

Notes:

(a) The concessions in column (1) are so determined that along with the net receipt of Rs.4000 from the farm-gate price of Rs.4600, the concession gives nearly the weighted average retention price to each group.

(b) Column (3) shows the savings that can result in stage I, if feedstocks are at import parity prices. Freeing of imports will ensure that plants get feedstock at such prices by February 1,2001.

(c) The reduction in column (4) compared to column (3) reflects change in feedstock use efficiency in stage II. Modest achievable targets have been assumed and plants are expected to attain them by 31st March, 2002.

(d) Column (5) reflects the concession in the third stage, incorporating the further reduction on account of non gas based units switching over to LNG as feedstock.

(e) Column (6) reflects the concession, by way of feedstock differential only in the fourth stage commencing 1.4.2006 when the industry is decontrolled and the imports are made available at Rs.7000 per tonne at the farmgate.

(f) In all the three stages the final concession levels, as determined also take into account the progressive reduction in capital recovery charges.

(g) The Commission has recommended a price increase of 7 % in real terms per annum from 1.4.2001, reaching Rs.7000 on 1.4.2006. To the extent of price increase in earlier years, the concession indicated in columns 3,4 and 5 would stand reduced.

14. The schedule of subsidy outlay under various stages is given in Table 2.

Table 2 : Urea subsidy outlay in different phases

(Rs.Crores/year)

		2000-01	2001-02	2002-05	2005-06	Apr.1,2006 onwards
a)	**No increase in Issue price**					
	Farm-gate price - Rs./mt of urea	4,600	4,600	4,600	4,600	4,600
	Concession to industry	9,155	7,204	6,159	4,656	5,837
b)	**Increase in issue price @ 7 % p.a.**					
	Farm-gate price - Rs./mt of urea	4,600	4,922	5,267 to 6030	6,452	7,000
	Concession to industry (net)	9,155	6,556	4,817 to 3,280	927	1,004
c)	**Cost of coupon system :**					
	Coupons to 105 million farmers At 80 Kgs. of urea per family to be supplied At Rs.4,600 per Mt	-	270	560 to 1,201	1,556	2,016

Phosphatic and Potassic Fertilizers:

15. The farm-gate prices of nitrogenous, phosphatic and potassic fertilizers should be set to promote a desired balance of fertilizer use. In the circumstances the ERC will only suggest that once urea price is re-determined every six months, the prices of potassic and phosphatic fertilizers should be suitably adjusted, as advised by the Ministry of Agriculture to ensure the desired NPK balance. It will be useful if government could announce in advance the formula to be adopted for fixing the prices of P & K fertilizers with reference to a given urea price.

16. Phosphatic fertilizers are already decontrolled and operated with a concession scheme. With one more unit commissioned last year for the manufacture of 1.5 million tonnes of DAP based on imported rock phosphate and sulphur, the proportion of DAP manufactured, based on imported ammonia and imported phosphoric acid will go down sharply. The appropriateness of continuing with the present arrangement of giving a uniform rate of subsidy to all the units, with reference to cost of production of DAP based on imported ammonia and imported phosphoric acid needs to be examined preferably by the Tariff Commission.

General

17. The arrangements for the payment of concessions to industrial/importing firms need to be streamlined so as to ensure payment of the amounts due to the units within three to four weeks from the time of sales. Once such arrangements are in place, then in the case of urea also the payment of concessions could be shifted from ‘despatch’ to ‘sales’.

18. As it is basically a question of dealing with industrial units – at least in the case of DAP – these subsidies should appropriately be administered by the Ministry of Chemicals and Fertilizers, along with the concessions for the urea units. The Ministry of Agriculture will continue to have a major role in the fixation of the maximum retail/ indicative prices for all types of fertilizers, be it N or P or K.

19. The Commission recommends that if a state government imposes any additional burden, by way of excessive levies on the inputs or on finished fertilizers manufactured/sold in the state then these costs should be passed on to the farmers in that state.

To Conclude:

20. The Commission wishes to emphasize that the suggested scheme to take the fertilizer industry to a liberalized competitive set up :

- Retains self sufficiency
- Preserves viability of existing units
- Protects small farmers
- Reduces subsidy outlay and
- Is implementable.

Rationalizing Fertilizer Subsidies

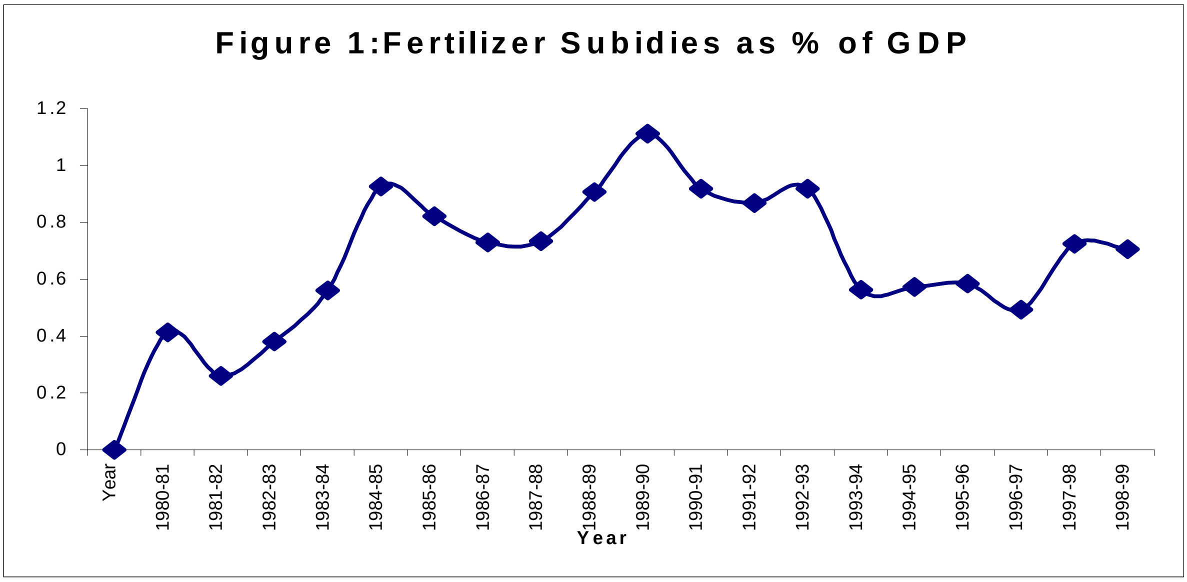
I. Background

The burden of fertilizer subsidies on the budget of central government has grown dramatically over the years, from Rs.505 crore in 1980-81 to Rs.13244 crore in the Revised Estimates for 1999-2000. The budget estimate for the year 2000-01, after accounting for a 15% increase in the price, is Rs.12651 crore. As will be seen from the statement and the figures given below, expressed as a proportion of the GDP, the subsidies, which touched a high of 1.11% in 1989-90, have, in the last fifteen years tended to move in a narrow band of around 0.71%.

Table 1: The Burden of Fertilizer Subsidies

Year	Fertilizer Subsidies In (Rs. Crs)	GDP at Current Prices (Rs. Crs)	Fertilizer Subsidies As % of GDP
1980-81	505	122427	0.41
1981-82	375	144231	0.26
1982-83	605	158851	0.38
1983-84	1042	185991	0.56
1984-85	1927	207869	0.93
1985-86	1924	234159	0.82
1986-87	1897	260030	0.73
1987-88	2164	294851	0.73
1988-89	3201	352703	0.91
1989-90	4542	408661	1.11
1990-91	4389	477814	0.92
1991-92	4800	552768	0.87
1992-93	5796	630772	0.92
1993-94	4400	781345	0.56
1994-95	5241	914194	0.57
1995-96	6235	1067220	0.58
1996-97	6093	1237290	0.49
1997-98	10026	1384446	0.72
1998-99	11388	1612383	0.71
1999-20 (RE)	13244		
2000-01 (BE)	12651		

Source:- *Economic Survey 1999-2000, Budget Documents 2000-01.*



Source: *High Powered Review Committee (HPRC), 1998, pp.86., Economic Survey 1999-2000, table S-68.*

2. These subsidies reflect the difference between the prices at which farmers are provided fertilizers and the costs of domestic production and imports. It is necessary to differentiate between the subsidies that benefit the industry and those subsidies that accrue to the farmers. The two subsidies are motivated by two different objectives. The industry subsidies are to ensure a desired level of domestic self-sufficiency in fertilizer availability and the farmer subsidies are to encourage farmers to use fertilizers and to keep food prices low. These two elements therefore need to be dealt with separately.

3. As per the present fertilizer policy, nitrogenous fertilizers, 85% of which is consumed in the form of urea, are sold at a uniform price to farmers all over the country. After the increase of 15 percent in the price in the budget for fiscal year 2000-01, the maximum retail price (MRP) for urea charged is Rs.4600 per tonne. The domestic production of urea in 1998-99 was 19.8 million tonnes and is expected to be around 21 million tonnes in 2000-01. Urea imports in 1998-99 were 0.557 million tonnes. The difference between the cost of production, imports and distribution and the sale price is subsidized by the government. This is estimated to be Rs.8050 crore in the budget for financial year 2000-01 for domestically produced nitrogenous fertilizer. The average subsidy per tonne of urea thus comes to around Rs.4000 per tonne of urea.

4. Phosphatic and potassic fertilizers are decontrolled. Imports can be made by anyone under OGL. The government fixes a maximum retail price (MRP). Thus, diammonium phosphate (DAP) is sold at Rs.8900 per tonne. The importer gets a concession of Rs.950 per tonne and domestic manufacturer gets Rs.2800 per tonne of DAP. All potassic fertilizers are imported and the MRP is fixed by the government and a flat rate of concession is given to importers.

5. The subsidies are larger than necessary as domestic manufacturers of urea are given a cost plus price under the Retention Price Scheme (RPS). This provides very little incentive to domestic manufacturers to cut costs. Also, there are many undesirable consequences on the health of the fertilizer industry. The system needs to be reformed. Before looking at options for reforms, it would be useful first to examine the origin and logic of the present policy.

II. The Origin and Logic of the Present Fertilizer Policy

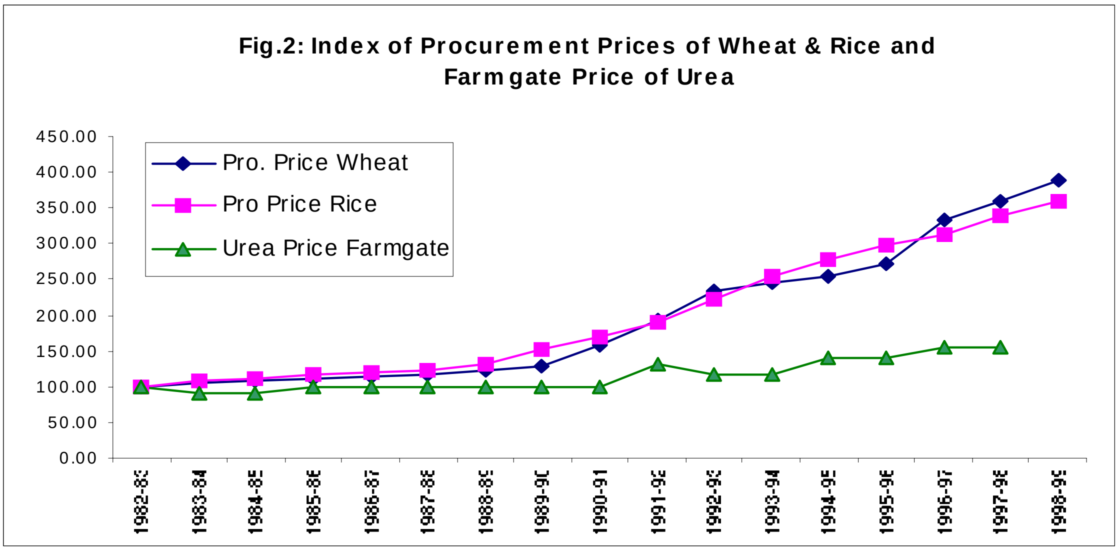
(a) Farmer Subsidy

6. Farmers were provided fertilizers at subsidized prices for two reasons viz.: to induce them to use fertilizers and produce more food and to compensate them for the output price they received, which was kept low to protect consumers. Both these reasons are no longer relevant.

7. In the early days of green revolution, farmers' subjective confidence in the performance of high yielding varieties (HYV) was low. To get optimal results from HYVs, use of chemical fertilizers was recommended. Farmers, particularly small farmers, were reluctant to adopt HYVs as the expenditure on fertilizer with their perceived uncertainty, concerning the performance of HYVs, posed a financial risk. Fertilizer subsidy to encourage farmers to use it, to accelerate the adoption of HYVs and to increase food production seemed justified. The policy did work and fertilizer consumption grew from 1.1 million tonnes of total nutrients (N, P&K) in 1966-67 to 18.37 million tonnes in 1999-2000.

8. Today, however, HYVs are accepted by all and there is no need to subsidize fertilizers to promote adoption of HYVs. On a per hectare basis, farmers irrespective of their size of holding, now use more or less the same amount of fertilizers in similar agro-climatic environment. It is true that farmers use much more fertilizer per hectare on irrigated land compared to unirrigated land. However, among farmers with irrigated land, the intensity of fertilizer is similar for farmers with different size of holdings. Thus, there is no longer a need to subsidize fertilizer for promoting adoption of HYVs. Fertilizer subsidies have become in the nature of income subsidy to the farmers partly to compensate them for the low output price.

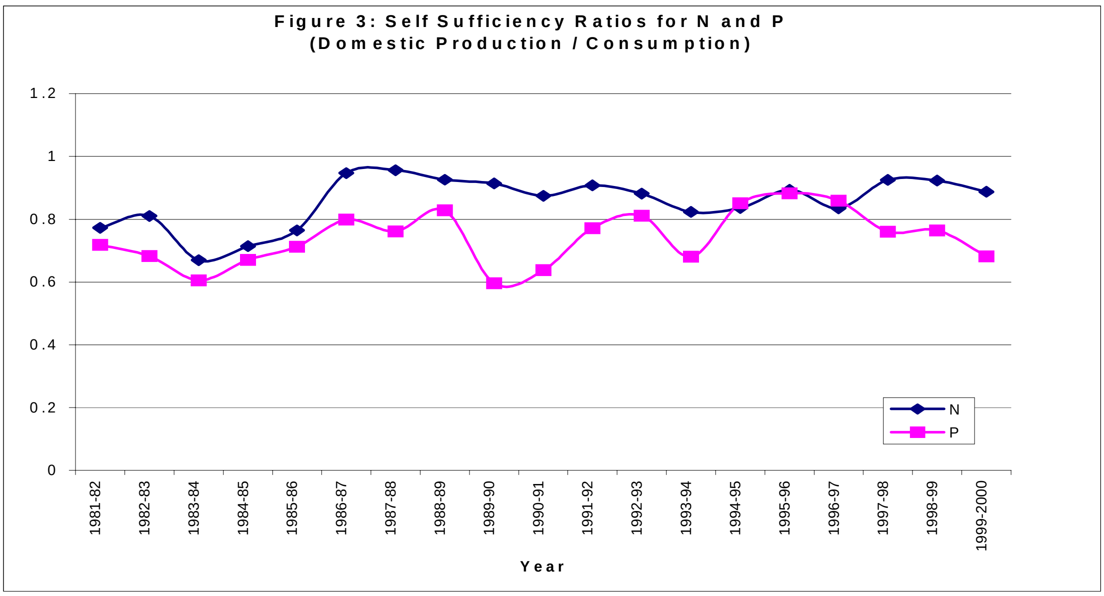
9. Over the years, the output prices received by farmers have increased substantially but the prices for fertilizers have not kept up pace. As will be seen from Figure 2, by 1997-98, procurement prices of wheat and rice increased by 250 percent over 1982-83 whereas farm-gate price of urea increased during the same period by less than 50 percent. The prices of wheat and rice are now near to international prices and the justification for low fertilizer price to compensate farmers for low output prices now is very weak.



Source: *High Powered Review Committee (HPRC), 1998,pp.86*
Economic Survey 1999-2000, table S-68

(b) Retention Price Scheme for the Industry

10. The retention price scheme fixes prices for fertilizer manufacturers at which the government subsidizes their entire output. The prices are fixed unit-wise after allowing a post-tax return of 12% on net worth in addition to all elements of cost arrived at on the basis of a combination of norms and actuals. The main motivation was to ensure domestic supply and self-sufficiency. The policy has over the years, increased domestic production from 0.04 million tonnes of nutrients (N+P+K) in 1950-51 to 0.43 million tonne in 1966-67 to 14.89 million tonnes in 1999-2000. The self-sufficiency ratios for nitrogenous and phosphatic fertilizers have grown as shown in Figure 3. A high self-sufficiency ratio of 0.90 is obtained for N. The ratio for P has fluctuated from 0.59 in 1989-90 to nearly 0.88 in 1995-96. However, self-sufficiency in P is not real as domestic production is based mostly on imported Phosphoric Acid.



Source: *Based on Fertilizer Statistics 1998-99, and Economic Survey, 1999-2000.*

11. A high level of self-sufficiency in fertilizer was considered desirable as the world fertilizer market was very thin and India was a major consumer. Whenever India or China entered the world market to import more than their normal imports, prices shot up and whenever India or China commissioned sizable additional capacity, world price came down. When the world price is high, it would seem attractive for India to set up a plant but when the plant comes on stream, world market price on occasions has come down to below India's variable cost. This was particularly true for Indian plants using naphtha as a feedstock. In the early days when availability of natural gas in the country was much less than now, to develop a domestic fertilizer industry using naphtha or fuel oil as feedstocks, some subsidy to manufactures seemed inevitable.

12. Any reform of the unit-wise retention price scheme, thus, must deal with the issue of self-sufficiency.

III. The Unit-wise RPS and its Consequences

13. The present policy has led to a large and growing burden of fertilizer subsidy on the central government's budget. While a high degree of self-sufficiency has been attained, it has been attained at a high cost. Were the Indian fertilizer industry to be exposed to global competition, based on the retention prices, firms producing some thirty percent of output would not be able to compete. It is relevant to note that because of WTO commitments, the quantitative restrictions on urea imports may have to be removed by end of March 2001. This is however an unbound item, and the degree of protection could be set at an appropriate level.

14. The Fertilizer Prices Committee (FPC) that recommended the scheme in 1977 recommended only a group-wise scheme cautioning explicitly against a unit-wise scheme. The government nonetheless, introduced a unit-wise scheme.

15. The High-powered Committee of Secretaries on RPS in 1986 recommended a group-wise scheme, which was rejected by the government.

16. The recommendations of the High Powered Committee on Fertilizer Consumer Prices, 1987 were also not implemented by the government.

17. A Bureau of Industrial Costs and Pricing (BICP) study in 1992 recommended a normative approach for determining capital costs. This was also not implemented.

18. Even the recommendation of the Joint Parliamentary Committee set up in 1991, that a cut-off point of 110 percent capacity utilization be fixed for capital related charges was not implemented by the government.

19. Finally, HPRC's recommendations given in April 1998 to reform and phase out the unit-wise RPS have yet to be acted upon.

20. The unit-wise retention price scheme has been grossly misused. It is a cost-plus scheme and provides no incentive either to buy the cheapest plant or to cut down operating costs. There is no pressure to be efficient on fertilizer producers.

21. The industry has grown in a way that shows many anomalies. Some of these may be the outcome of changing government policies. In 1988, three gas based plants were commissioned. All of them had the same capacity of 7.26 lakh tonnes of urea per year. The public sector plant cost Rs.507 crore, the co-operative plant cost Rs.648 crore and the private sector plant cost Rs.702 crore. Again three plants commissioned over 1993-95, all using gas, having the same capacity of 7.26 lakh tonnes of urea per year, did cost Rs.1,153 crore, Rs.1,480 crore and Rs.960 crore respectively.

22. The HPRC has estimated that in 1995-96, the 14 plants working above 110 percent of the assessed capacity collectively were able to realize Rs.569 crore more by way of capital related charges. In 1996-97, this figure was Rs.520 crore. The average capacity utilization of these 14 plants was 120% in 1995-96 and 112% in 1996-97. To the extent capital costs are inflated, the excess payment increases further.

23. The unit-wise RPS is also virtually impossible to administer correctly. As will be seen from the statement at **Annexe II** which sets out the unit-wise retention price of urea as on 1st January 2000 there are large differences even among plants using the same feedstocks. While the Capital Recovery Charges (CRCs) could vary depending on when the plants were built, considerable variation is also noted in the variable costs from plant to plant. These can be sought to be explained in terms of mix of feedstock, quality of feedstock, location of plant, peculiarities of technology and other unit specific features. The point is that the asymmetry of information and incentives could mostly result in an outcome favourable to the manufacturers. Further, the unit-wise RPS results in high cost fertilizer, excess payments to industry and provides no incentives to be cost efficient. Moreover, it is extremely difficult, if not impossible, to administer it without these disadvantages.

IV. Reforming the Fertilizer Policy

24. In designing the new policy, it has to be noted that the situation has changed and some of the motivations that led to the present policy are no longer relevant:

- The green revolution technology is widely accepted. There is thus no need to subsidize fertilizers to induce farmers to adopt it. Also bufferstock of foodgrains exceeded (in June 2000) 40 million tonnes.
- Global fertilizer production capacity has substantially increased over the years and possibility of import of LNG has opened up.

25. However, given the present situation, whatever new fertilizer policy is suggested, it should meet the following requirements.

- It should protect small farmers' real incomes.
- Food production should not slump.
- It should promote a balanced use of N, P and K by farmers.
- Self-sufficiency in fertilizer production at a reasonable level should be ensured.
- It should promote competition in fertilizer industry to induce efficiency in a self-enforcing way.
- It should be enforceable.

26. The goal of policy reforms should be to eventually bring fertilizer prices charged to farmers to the level of import parity price. This could be accomplished over a period of 5 to 7 years, if fertilizer prices are raised in step with procurement prices of foodgrains. At the same time, the RPS needs to be dismantled and replaced by a system that provides incentives to manufacturers to be cost efficient, and ensures a desired level of self-sufficiency with minimal subsidy from the government. The need for some support to the industry, even after removal of controls arises due to the need to produce fertilizers domestically with feedstock other than gas. So long as the prices of phosphatic and potassic fertilizers are raised only in tandem with the increases in prices of urea, in order to ensure a proper N-P-K balance, the requirement of subsidies for P&K fertilizers would also continue.

27. The CIF price of imported urea was around US$165 per tonne in the first week of August 2000. With handling and distribution cost of Rs.1100 per tonne and an exchange rate of Rs.46 per dollar, the import parity farm-gate price of urea should be Rs.8690 per tonne. Compared to the earlier parity price of Rs.4600, this is an increase of 89 percent. With a fertilizer use elasticity of -0.3, an increase of 89 percent would reduce fertilizer consumption by 27 percent, which amounts to a fall of 5.4 million tonnes of urea. This could lead to a reduction in foodgrains output of around 13.5 million tonnes.

28. If output is not to fall, foodgrain prices will have to increase steeply. Such steep increase in food prices would hurt the consumers and particularly the poor consumers who spend a large part of their incomes in food. Among these are the marginal and small farmers who consume themselves much of what they grow.

29. Thus, fertilizer price cannot be decontrolled suddenly. It can have an adverse impact on agricultural production, food prices and the level of poverty. Prices should be increased gradually.

V. Protecting Small Farmers

30. Even when fertilizer prices are raised and farmers compensated by higher procurement price for their output there is a problem. Many marginal and small farmers are subsistence farmers and have a very small marketable surplus. Higher output price is irrelevant for them and higher fertilizer price would indeed reduce their real incomes. In any case, the scope for increasing procurement prices is limited as they have already reached international levels and high procurement prices lead to high foodgrains stocks with the government.

31. It is therefore, necessary to take steps to protect small farmers when fertilizer prices are increased. Two possible alternatives are:

a) Introduction of a dual price scheme under which all cultivator households are given 120 Kgs. of fertilizers at subsidized prices and

b) Expansion of Employment Guarantee Scheme and rural works programmes to provide additional incomes to small farmers. If such rural programmes are directed towards improvement of land and development of minor irrigation schemes, they will in addition to providing wage income, increase productivity of land and income to farmers even when fertilizer prices are increased. The details and rationale for these schemes are given in **Appendix.**

VI Moving the Industry from the Control Regime to Competitive Self-Reliance

(i) UREA

32. In the country's drive towards self-sufficiency in fertilizer, the urea industry has evolved under the unit-wise RPS Scheme. Today there is a mix of plants using different technologies and different feedstocks. Feedstock cost is a critical element of cost of urea. Of the total reassessed installed capacity of 21.39 million tonnes 56 percent is gas based, 22 percent naphtha based, 9 percent is fuel oil (FO) or light sulphur heavy stock (LSHS) based and 12 percent is mixed fuel based mostly gas and naphtha. The plants based on natural gas have the lowest cost. India is short of natural gas and this has necessitated promotion of naphtha and FO based plants for attaining a measure of self-sufficiency and to contain cost of imports. This was necessary as India and China are major importers of fertilizer and whenever they step up their imports, international prices increase.

33. The competitiveness of Indian industry can be gauged by comparing the cost of manufacture with the price of imported urea. While the world market price has fluctuated over the years, the import price of urea (CIF), shown in table 8, has varied from US $ 225 per tonne in 1995, to US $ 100 per tonne in 1998. A long run average

cost of US $ 150 (CIF) may be considered as a benchmark figure. At an exchange rate of Rs.46/- per dollar this is about Rs.8000 per tonne, inclusive of handling, transport and dealership margins. On the other hand, the weighted average cost of production for all domestic units as per the RPS is Rs.9,147 per tonne - Rs.6,774 per tonne for gas-based plants, Rs.13,142 for naphtha based and Rs.10,360 for FO/LSHS based plants. Among the gas based plants the retention price varies from Rs.4800/- to Rs.8300/-. A part of these higher costs can be attributed to capital costs being placed higher and the capacities lower.

34. Thus, the gas-based plants can be competitive and can produce urea at costs comparable to the CIF price of $ 150/tonne of imported urea. However, the naphtha and FO/LSHS based plants cannot compete with imported fertilizers at this price. Even among the gas-based plants, some cannot compete against imports, when the import price goes down, say to below $ 120, as was the case late last year as well as early this year. The reason is that for many Middle East producers, the marginal cost of production is lower as the price of Natural gas, is less than $ 1.0 per Mbtu compared to $ 2 to 2.5/Mbtu in India.

35. The Retention Price Scheme System has inhibited the industry from taking any steps for reducing costs in a big way. For instance, though the industry is free to import naphtha/FO/LSHS it still gets most of its requirement from the domestic industry. The high prices charged by the domestic industry and the heavy incidence of sales tax on these feedstocks in most of the states, results in the cost of these feedstocks to the fertilizer units being much in excess of import parity prices. Still the industry does not resort to imports, as on the one hand, this would call for special efforts in negotiating for such imports and for creating additional handling facilities, while on the other they do not lose anything by buying the feedstock at high prices as they get compensated for this under the Retention Price Scheme. Second, while the present actual norms for energy efficiency are quite low in relation to the optimal norms – for instance it is 7.61 million kilo calories per tonne of urea produced in naphtha based units compared to only 6.00 million kilo calories per tonne in efficient modern units - no major initiatives have been taken to improve the energy efficiency in naphtha/FO/LSHS based units as this process would involve fresh capital investment and also in any case these inefficiencies are fully compensated for under the Retention Price Scheme.

36. The RPS has also encouraged some state governments to impose excessive taxes and duties on fertilizer feedstocks and their prices vary across states. Under the Retention Price Scheme, the excess cost is borne by the central government. The state governments should be advised not to levy duties and taxes in excess of the levels prescribed by the Government of India. The Commission recommends that if a state government imposes any additional burden, by way of excessive levies on the

inputs or on finished fertilizers manufactured/sold in the state, then these costs should be passed on to the farmers in that state.

37. If the industry is to be moved to a competitive mode, it is clear that the present unit based Retention Price Scheme needs to be abolished. Along with this the other controls like distribution control and price controls will also have to be removed. Considering that the cost of production of urea as per the RPS varies from Rs.4851 to Rs.15175 per tonne, the removal of all these controls at one go could however result in:

a) The high cost units not being able to compete either with the other units in the country or with imports even at $ 160 CIF and closing down, resulting in the urea self-sufficiency, so carefully built up in the last two decade, being undermined considerably – even upto 30%.

b) The sale price and the variations from place to place being so high as to affect urea off-take leading to a sharp shortfall in domestic foodgrains production.

c) The interest of the farming community particularly, those in the marginal cultivator category and those who produce for their own consumption, being affected adversely by a sharp rise in urea price.

d) If the urea market is completely freed, urea price will equal import parity price. If this were done suddenly, the world market price would increase. Even at a high price of Rs.10,000 per tonne of urea, most of the naphtha based units would close down, as even their short run variable cost is higher than that. This would lead to imports in excess of some 5 million tonnes of urea. This in turn would result in the world market prices shooting up and it would not be possible to import 5 million tonnes even at Rs.10000 per tonne (~ $ 215). Even assuming that it is possible to effect imports at Rs.10,000, the subsidy burden would be large, if the demand is to be maintained at 21 million tonnes and farm-gate price at Rs.4600 per tonne (of which Rs.600 is distribution cost). The subsidy would be 2.1´ (10600 – 4600) = Rs.12600 crore for urea alone.

38. In the circumstances, the Commission would recommend the dismantling of the control system in a phased manner over four stages. By the commencement of the fourth stage, the fertilizer industry could be decontrolled and be required to compete with import albeit with a small level of protection to ensure self-sufficiency. The scheme envisaged is in the spirit of the recommendations of the HPRC. **The transition however has to be gradual**. It is structured to move from the unit-wise RPS through essentially a group based system where the economic viability of all existing plants is preserved, to reduce the number of groups and removal of all controls in the final stage.

39. The proposals relating to the first stage are as under:

a. The existing units will be grouped into 5 categories – pre-1992 gas based units, post 1992 gas based units, naphtha based units, FO/LSHS based units and mixed feedstock units. The individual retention price scheme will be scrapped and in its place a urea Concession Scheme with a fixed amount of concession for each of these groups will be introduced. The need for a separate group for post 1992 gas based plants arises because these plants have come up in the expectation of continuation a unit wise RPS and in an environment of high cost capital. Thus, for some years, they need a special concession to pay for their capital costs. The older plants, which also come under a high capital cost regime, have recovered their capital costs over the years under the RPS. A similar break up of plants using naphtha is, however, not required as the higher energy efficiency of the post 1992 plants compensates for the higher capital related charges. The feedstock cost differential given to naphtha based plants covers their uncovered capital costs as well.

b. The distribution control mechanism will be done away with.

c. The maximum retail price arrangement will be continued, the concessions for each group being so calibrated as to enable the units to sell at the stipulated maximum retail price.

d. For each of the five groups, the average retention price as on 1.4.2000, including equated freight and dealership margin, as worked out by FICC but rounded off to immediate lower one hundred rupees is taken as the base. For the last three categories of units, based on naphtha, FO/LSHS and mixed feedstocks, the concession is determined on the assumption that these units will import their feedstocks requirements or procure these from domestic sources if the latter are willing to sell these at import parity prices. It is the resultant savings in the feedstock costs for these three groups that accounts for the reduction in the total subsidy outgo in this stage.

e. Having regard to the large fluctuations in the import prices of feedstocks, it will be necessary to redetermine the concession to these groups of units every three months with reference to the prevailing import prices. When there is a reduction in the import parity prices of these feedstocks, the concession payable to the units would go down. It may be noted that this, however, is done only group-wise and not plant-wise. Whenever there is an increase in the import parity prices of these feedstocks, the additional costs should be passed on to the consumers through a suitable increase in the maximum retail price so that the total amount payable by way of concessions does not go up significantly. The revision in issue price to farmers however, should be done every season rather than every three months.

f. At the level of concessions suggested, the total amount of support payable to the industry will work out to Rs.7204 crore in a full year as against Rs.9155 crore estimated by FICC as the subsidy payable for urea under the present scheme in the current year.

40. As any change in procedure could result in disruption in supply of urea, at least for a short period, it will be best to introduce the new scheme at the commencement of the slack season. In the circumstances, the Commission would recommend the introduction of the new scheme with effect from 1st February 2001. The announcement in this regard should however be made straightaway so that all units can prepare for the transition.

41. As the new scheme is to be introduced only with effect from 1.2.2001, the full benefit in terms of reduction in the subsidy outgo will be realized only in the year 2001-2002. As far as the current year is concerned, the subsidy outgo will be determined largely by the present RPS, which will be continued upto 31.1.2001, with such changes as the Alagh Committee may recommend in this scheme, with some savings in the last two months due to the introduction of the new scheme with effect from 1.2.2001. Thus the subsidy outgo in the current year could be of the order of Rs.8500 crore. The Commission would urge that steps be taken to settle all outstanding disputes with the industry under the existing scheme before the end of this year itself, so that none of these impacts on the implementation of the new scheme.

42. Stage-II visualizes a reduction in the concession payable to the 5 groups of units taking into account the reduction in capital recovery charges in all five groups and the expected progress in improving energy efficiency in the case of the three non gas based groups of units. Taking the latter first, it is noticed that in the case of the naphtha based units the average energy consumption is 7.61 million kilo calories per tonne of urea produced now as against an ideal norm of 6.0 million kilo calories. This translates to an additional cost of Rs. 1800 per metric tonne of urea. The achievement of the ideal norm would however involve substantial capital investment and also take time. Some of the units may therefore find it difficult to undertake energy efficiency enhancement programmes. The Commission has therefore determined the reduction in the concession to be paid to the naphtha based units in Stage-II on the assumption

that these units would be able to move to an average energy consumption of 7.00 million kilo calories per tonne of urea by 1.4.2002 when Stage II begins.

43. In the case of FO/LSHS, the present average of 10.9 million kilo calories per tonne of urea is an average of a mixed bag of units with Neyveli at 14.69 million kilo calories and Sindri at 13.03 million kilo calories and the three units of NFL varying between 9.53, 10.48 and 10.02 million kilo calories. In case of these units, the target to be achieved is taken as 9.75 million kilo calories and the concession fixed on that basis. It may be mentioned that GNFC, which has a new modern unit, has an energy efficiency of 8.13 million kilo calories per tonne of urea. Such a level cannot possibly be achieved by any of the other units without major changes in the existing facilities and so a modest achievable target of 9.75 million kilo calories is taken.

44. In the case of mixed plants where there is no comparable new plant or norm, the Commission has assumed an improvement in energy consumption from the present average of 7.3 million kilo calories per tonne of urea now to a figure of 7.00 million kilo calories per tonne of urea. As a lead-time of about 18 months should be sufficient to put through the changes necessary for achieving the higher efficiency norms suggested above, the Commission would recommend the introduction of the second stage with effect from 1.4.2002. Those units, which are able to achieve the higher energy efficiency norms earlier, would stand to gain in the remaining period of Stage-I. This should serve as an incentive to all these units to push ahead with energy efficiency enhancement programme as fast as they can.

45. As far as the gas based plants are concerned, the reduction in concession is on account of the reduction in capital related charges in 2001-2002. The concession payable in Stage-II would stand reduced by Rs.250 per tonne in the case of pre-1992 plants and Rs.450 per tonne in the case of post-1992 plants.

46. On this basis, the total concession to be made available to the industry from 1.4.2002 would be Rs.6159 crore per annum.

47. In the third stage, on the assumption that all naphtha based plants as also FO/LSHS and mixed feedstock plants, if these find it economical, could move over to use of LNG as a feedstock in about 4 years, the concessions to be given to the units with effect from 1.4.2005 could be further reduced reflecting the changes suggested for the three stages and further reduction in capital recovery charges for all the units. On this basis, as will be seen from the statement at Annexe-I, the total concession payable to the industry, with an MRP of Rs.4600, would be Rs.4656 crore in the year 2005-06.

48. As can be seen in the spread sheet in the **Annexe - I**, the average retention price for all the units taken together in the year 2005-2006 works out to Rs.6913/-. If from this, the equated freight and handling charges are deducted, the net realization ex-factory would be around Rs.6400 per tonne which is the level of the LRAC for gas based plants as worked out by HPRC in 1998 and subsequently updated by the FICC as on 1.12.1999. Thus, the stage is set, as suggested by the HPRC, to move on to a system of determination of concessions on the basis of LRAC and feedstock differential. Considering however that in that year only units which switch over from naphtha to LNG will have a cost higher than this LRAC, it will be necessary to give feedstock differential only for these units while the LRAC will apply not only for the gas based units but also to FO/LSHS/mixed energy units as well. In the case of the LNG based plants – the new ones as well as existing Naphtha based plants converting to LNG - this additional amount would work out to Rs. 1,900 per tonne. For those naphtha based plants, which continue to operate with Naphtha as the feed stock, the feedstock differential will be limited to the amount allowed for a plant using LNG as the feedstock. Should any new unit be based on gas, it would get no feedstock differential. While new FO/LSHS plants may not be a viable option, both because of the high capital costs, as well as environmental considerations, should any such unit be put up, it would be entitled to feedstock differential as calculated for that particular feedstock, with the feedstock differential for LNG units acting as a ceiling.

49. Given the increasing gap between the urea price and the procurement prices for rice and wheat in the last two decades, there is a case for a substantial increase in the open market price of urea. However, the Commission would recommend a moderate increase in price every year of 7% in real terms every year from April 2001 onwards. With this order of increase, the MRP as on 1st April, 2006 will be Rs.6903 per tonne. This is close to the LRAC figure of Rs.7000 per tonne including freight and dealers' margin. Therefore 1st April 2006 will be the most opportune movement for decontrolling the industry and allowing it to compete with imports where the duty levels are so adjusted to ensure its availability at the farm-gate at Rs.7000 per tonne. This way no concessions would need to be paid to the existing units based on gas, FO/ LSHS or mixed energy while the Naphtha based units whether or not they convert to LNG, could be given a feedstock differential equal to the difference between LNG cost and domestic gas cost. The subsidy outgo in 2006-2007 will be limited to this feedstock differential outgo only which may be of the order of Rs.1000 crore. All new units, as well the existing units, adopting substantial expansion would be eligible for the feedstock differential, with that for LNG units operating as a ceiling.

50. The schedule of concessions are shown in the table 1:

Table 1 : Schedule of Concessions

Feedstock	Ist stage concession (Rs./MT) Based on existing RPS and domestic price of Inputs	Savings at import Parity Price	IInd Stage Net concession 1.2.2001 to 31.3.2002	IIIrd Stage 1.4.2002 to 31.3.2005 (Rs./MT)	IV th stage 1.4.2005 to 31.3.2006	from 1.4.2006
	1	2	3	4	5	6
Natural Gas						
Pre 1992	1300	0	1300	1050	800	0
Post 1992	2900	0	2900	2450	2000	0
Naphtha	8400	1900	6500	5800	3900	1900
FO/LSHS	6400	3250	3150	2200	2200	0
Mixed feedstock	4000	600	3400	3000	2450	0

New Plants : For non gas based new plants or existing plants adopting substantial expansion would be given appropriate feedstock differential subject to the feedstock differential for LNG plants acting as the ceiling.

Notes:

(a) The concessions in column (1) are so determined that along with the net receipt of Rs.4000 from the farm-gate price of Rs.4600, the concession gives nearly the weighted average retention price to each group.

(b) Column (3) shows the savings that can result in stage I, if feedstocks are at import parity prices. Freeing of imports will ensure that plants get feedstock at such prices by February 1,2001.

(c) The reduction in column (4) compared to column (3) reflects change in feedstock use efficiency in stage II. Modest achievable targets have been assumed and plants are expected to attain them by 31st March, 2002.

(d) Column (5) reflects the concession in the third stage, incorporating the further reduction on account of non gas based units switching over to LNG as feedstock.

(e) Column (6) reflects the concession, by way of feedstock differential only in the fourth stage commencing 1.4.2006 when the industry is decontrolled and the imports are made available at Rs.7000 per tonne at the farmgate.

(f) In all the three stages, the final concession levels determined have also to take into account the progressive reduction in capital recovery charges.

(g) The Commission has recommended a price increase of 7% in real terms per annum from 1.4.2001, reaching Rs.7000 on 1.4.2006. To the extent of price increase in earlier years, the concession indicated in columns 3,4 and 5 would stand reduced.

51. The schedule of subsidy outlay under various stages is given in Table 2.

Table 2 : Urea Subsidy Outlay in Different Phases

(Rs.Crores/year)

		2000-01	2001-02	2002-05	2005-06	Apr.1,2006 onwards
a)	**No increase in Issue price**					
	Farm-gate price - Rs./mt of urea	4,600	4,600	4,600	4,600	4,600
	Concession to industry	9,155	7,204	6,159	4,656	5,837
b)	**Increase in issue price @ 7 % p.a.**					
	Farm-gate price - Rs./mt of urea	4,600	4,922	5,267 to 6030	6,452	7,000
	Concession to industry (net)	9,155	6,556	4,817 to 3,280	927	1,004
c)	**Cost of coupon system :**					
	Coupons to 105 million farmers At 80 Kgs. of urea per family to be supplied At Rs.4,600 per Mt	-	270	560 to 1,201	1,556	2,016

52. Even after the urea market is freed from all controls, it could be ensured that the retail price to the farmer approximates the LRAC through the system of free imports and variable customs levy. The domestic sale price of urea in the open market should not be allowed to exceed this LRAC level as otherwise it would amount to penalizing the farmers by denying them the benefit of imports at zero duty.

53. To the extent achieving prescribed levels of self-sufficiency in urea require commissioning of new plants based on FO/LSHS/LNG, it will be necessary to continue to provide the feedstock differential cost reimbursement to these new units on the lines suggested earlier. This in turn means that the system of concessions for the new units and for the existing naphtha units would have to be continued on a long-term basis.

54. As pointed out earlier, raising farm-gate price for all farmers will have an adverse impact on small farmers. Some safety mechanism as suggested earlier is needed. If a coupon scheme should be introduced under which all 105 million farm households irrespective of their holding size, are given coupons for 120 kg. of fertilizers, including 80 kg. of urea at Rs.4600 per tonne, the additional subsidy burden on urea would be Rs.1500 crore. Thus, the total subsidy on urea will be around Rs.2500 crore.

55. The details of the units that will be covered under each group, the order of concessions to be made available to each group and in each of the three stages, the

basis on which these amounts have been worked out, as also the formulae to be adopted for adjusting, on a six monthly basis, the level of concessions, or for increasing the MRP with reference to the fluctuations in the price of feedstocks are all set out in the statements at Annexe I. The starting point for this exercise is the Retention price as estimated for each unit as on 1.4.2000 after taking into account the changes in the capacity assessment introduced by the Ministry of Chemicals and Fertilisers earlier this year and including the equated freight and distribution margins. The weighted average, calculated for each group and rounded off to the nearest lower one hundred rupees has been taken as the basis, on which are super-imposed the changes arising from the recommendations now made by the Commission for each group and in each stage. These figures have been worked out by the FICC based on the interaction with the Expenditure Reforms Commission and within the short time given to them. It will be necessary for the Department of Expenditure and the Department of Fertilisers to check these figures again with FICC for accuracy.

56. In all these calculations, the desired farm-gate price is prescribed as MRP. In order to encourage the industry to become fully competitive it would be necessary to dismantle such price control also as early as possible. In the circumstances, if the industry were seen to respond well and adjust to the changes in Stage-I, then the Commission would recommend that the MRP be replaced by an indicative price in Stage II itself. Given the dominant position that the public sector units have and using imports (through these units) as an added leverage, it should not be difficult to have an indicative price regime, announced at the beginning of each season at more or less the same level as the MRP for the earlier period. The only shortcoming in such an arrangement would be the eagerness of each unit to maximize it's sales in nearby areas and as a result distant areas not getting adequate supplies and at the indicative prices. At that stage, it would be necessary to set apart about Rs.200 crore for compensating the units for the additional freight charges involved in effecting supplies in the North East, Jammu & Kashmir and other difficult areas. Correspondingly, the concessions payable to the different groups of units would stand reduced by Rs.100 per tonne, as the concession amounts have been fixed, to start with, allowing for full compensation for equated freight.

57. The subsidy is now paid out to the industry on the basis of despatches. The distribution control acts as a check on despatches being effected in excess of the likely consumption. As the distribution controls are to be removed when the concession scheme is introduced, a situation could arise in which the units claim the concession amounts are on the basis of despatch, a good part of which could remain unsold, if the off-take is poor for some reason or other. It will therefore be necessary to fix a cut off point – say 95% of the capacity as recently reassessed, up to which the concessions could be disbursed with reference to despatch. A suitable mechanism would need to

be put in place, whereby concessions on further despatches are paid out on the basis of an assessment of the likelihood of these stocks being actually sold. The ideal arrangement would be to shift the payment of the entire concession amount on the basis of certification of sales by state government agencies, as is now the case in respect of DAP Sales. There are however complaints of inordinate delays in the payment of subsidy on the sales of DAP effected in some States. The Commission would not therefore favour a change over to this system, till the procedures followed in the case of DAP sales are streamlined and payment of subsidy amounts are effected within a reasonable time limit, say three or four weeks.

(ii) Phosphatic and Potassic Fertilisers

58. Till 1992, these fertilizers were also covered by the subsidy scheme administered by the Department of Fertilisers. While potash is wholly imported, in the case of phosphatic fertilizers a part is imported, while the balance is domestically manufactured but based on imported rock phosphate/sulphur/ phosphoric acid.

59. In 1992, both sets of fertilisers were decontrolled and the subsidies removed. The resultant increase in prices lead to a sharp drop in the off-take of these fertilizers, thus upsetting the NPK balance built up over the earlier three decades. These fertilizers were therefore again brought under control, this time under the aegis of the Ministry of Agriculture. Necessary subsidy is given on imported potash, imported DAP and domestically manufactured DAP, at levels, which will ensure availability of these fertilizers at pre-determined maximum retail prices. The subsidy is released with reference to sales as certified by state government agencies.

60. In 1999-2000, the total consumption of potassic and phosphatic fertilizers, including complexes was 170 lakh tonnes consisting of 67 lakh tonnes of DAP, 37 lakh tonnes of SSP, 45 lakh tonnes of complexes and 21 lakh tonnes of MOP. Of the DAP sales, 33 lakh tonnes was met through imports, while the balance was produced by the 9 units in the country. Of the domestic output, about 70% was based on imported ammonia and imported phosphoric acid; 12% on domestically manufactured ammonia and imported phosphoric acid, 14% on imported ammonia, rock phosphate and sulphur; while 4% was based on domestically manufactured ammonia, imported sulphur and rock phosphate. The cost of production as assessed by BICP in 1998 varied from Rs.11483 for the first group to Rs.9499 per tonne for the last group. The subsidy is a uniform one, determined with reference to the cost of production of the first category.

61. The provision in the current year's budget towards the provision of subsidy on these fertilizers is Rs.4093 crore. For the muriate of potash the subsidy is Rs.2800 per tonne with reference to a maximum retail price of Rs.4255 per tonne. In the case of DAP it is Rs.950 per tonne for imported DAP and Rs.2800 in the case of domestic manufactured DAP, both related to a MRP of Rs.8900 per tonne.

62. In the case of both these fertilizers, the MRP will have to be so fixed in relation to the MRP/indicative price of urea so as to ensure a desired NPK balance. In the circumstances the ERC will only suggest that once urea price is re-determined every six months, the prices of potassic and phosphatic fertilizers should be suitably adjusted, as advised by the Ministry of Agriculture to ensure the desired NPK balance. It will be useful if government could announce in advance the formula to be adopted for fixing the prices of P & K fertilizers with reference to a given urea price. It should be noted that whenever Government raise the real price of urea, the prices of P and K fertilizers should also be increased to maintain a balanced use, with a corresponding reduction in subsidy given for P and K.

63. Having said this, the ERC has three other observations to make, all relating to DAP. First, with one more unit commissioned last year for the manufacture of 1.5 million tonnes of DAP based on imported rock phosphate and sulphur, the proportion of DAP manufactured, based on imported ammonia and imported phosphoric acid will go down sharply. The appropriateness of continuing with the present arrangement of giving a uniform rate of subsidy to all the units, with reference to cost of production of DAP based on imported ammonia and imported phosphoric acid needs to be examined preferably by the Tariff Commission.

64. The second issue relates to the inordinate delays in certification of sales in some state governments, which in turn results in delay in disbursement of the subsidy amounts to the industrial/importing firms. While there are reports that action has already been initiated to minimise such delays, the arrangements need to be streamlined so as to ensure payment of the amounts due to the units within three to four weeks from the time of sales. Once such arrangements are in place, then in the case of urea also the payment of concessions could be shifted from ‘despatch’ to ‘sales’.

65. The third relates to the ministry that should be administering these subsidies. As it is basically a question of dealing with industrial units – at least in the case of DAP – these subsidies should appropriately be administered by the Ministry of Chemicals and Fertilisers, along with the concessions for the urea units. The Ministry of Agriculture will continue to have a major role in the fixation of the Maximum Retail/ indicative prices for all types of fertilizers, be it N or P or K.

VII Conclusion:

The Commission wishes to emphasize that the suggested scheme to take the fertilizer industry to a liberalized competitive set up :

- Retains self sufficiency;
- Preserves viability of existing units;
- Protects small farmers;
- Reduces subsidy outlay; and
- Is implementable.

Annexe-I

Statement showing tentative financial impact of Urea Concession Scheme

								Stage I (W.E.F. 1.2.2001 to 31.03.2002)					Stage II (1.4.2002 to 31.3.2005)		Stage III @ (1.4.2005 to 31.03.2006)	
								Concession (Rs./MT)								
Sl. No.	Company - Unit	Year on stream	Estimated Production 2000-2001 (Lakh Mts.)	Average energy consumption 1998-99 (M Kcal per) Mt of urea)	Estimated R.P. as on 1.4.2000 including E.F.&D.M. (Rs./Mt) #	Existing subsidy at estimated retention Price (Rs./Cr.)	Market Price (Rs./Mt)	Based on domestice price of inputs	Savings at import parity price	Net concess-ion (Rs./MT)	Total estimated realisation including concession (Rs./Mt)	Total Annual pay out (Rs./Cr.)	Net concess-ion (Rs./MT)	Total Annual pay out (Rs./Cr.)	Net concess-ion (Rs./Mt)	Total Annual pay out (Rs./Cr.)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Feedstock - Gas pre 92																
1	HFC, Namrup III$	1987	1.40	20.750	4,851	4	4,600	1,300	-	1,300	5,900	18	1,050	15	800	11
2	KRIBHCO	1985	16.20	6.359	5,558	155	4,600	1,300	-	1,300	5,900	211	1,050	170	800	130
3	IFFCO,Aonla	1988	8.53	6.107	5,700	94	4,600	1,300	-	1,300	5,900	111	1,050	90	800	68
4	NFL,Vijaipur	1988	8.53	6.311	5,878	109	4,600	1,300	-	1,300	5,900	111	1,050	90	800	68
5	RCF,Trombay V	1982	3.23	11.062	6,935	75	4,600	1,300	-	1,300	5,900	42	1,050	34	800	26
6	IGFC Jagdhishpur	1988	8.53	5.827	6,833	191	4,600	1,300	-	1,300	5,900	111	1,050	90	800	68
	Sub - Total		**46.43**	**6.967**	**5,953**	**628**	**4,600**	**1,300**		**1,300**	**5,900**	**604**	**1,050**	**489**	**800**	**371**
Feedstock - Gas post 92																
1	IFFCO,Aonla Expn.*	1996	8.53	5.751	6,893	196	4,600	2,900	-	2,900	7,500	247	2,450	209	2000	171
2	NFL,Vijaipur Expn *	1997	8.53	5.898	6,913	197	4,600	2,900	-	2,900	7,500	247	2,450	209	2000	171
3	NFCL - Kakinada	1992	5.97	5.947	8,122	210	4,600	2,900	-	2,900	7,500	173	2,450	146	2000	119
4	CFCL - Gadepan	1994	8.53	6.056	7,614	257	4,600	2,900	-	2,900	7,500	247	2,450	209	2000	171
5	Oswal Fert	1995	8.53	6.182	7,667	262	4,600	2,900	-	2,900	7,500	247	2,450	209	2000	171
6	TCL _ Babrala	1994	8.53	5.743	8,319	317	4,600	2,900	-	2,900	7,500	247	2,450	209	2000	171
	Sub - Total		**48.64**	**5.929**	**7,558**	**1,439**	**4,600**	**2,900**		**2,900**	**7,500**	**1,408**	**2,450**	**1,191**	**2000**	**974**
Feedstock - Naphtha																
1	FACT Cochin	1973	2.60	11.743	15,343	279	4,600	8,400	1,900	6,500	11,100	169	5,800	151	3900	101
2	Dunkans Kanpur	1969	6.75	7.964	13,087	573	4,600	8,400	1,900	6,500	11,100	439	5,800	392	3900	263
3	IFFCO-Phulpur	1981	5.12	8.192	11,927	375	4,600	8,400	1,900	6,500	11,100	332	5,800	297	3900	199
4	MCF Mangalore	1976	3.40	7.490	13,233	294	4,600	8,400	1,900	6,500	11,100	221	5,800	197	3900	133
5	MFL, Madras	1971	4.28	9.579	15,175	453	4,600	8,400	1,900	6,500	11,100	278	5,800	248	3900	167
6	SFC - Kota	1969	3.30	7.370	11,287	221	4,600	8,400	1,900	6,500	11,100	215	5,800	191	3900	129
7	SPIC-Tuticorin	1975	6.24	7.438	13,637	564	4,600	8,400	1,900	6,500	11,100	405	5,800	362	3900	243

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
8	ZACL-Goa	1973	4.13	7.900	14,159	394	4,600	8,400	1,900	6,500	11,100	268	5,800	239	3900	161
9	IFFCO,Phulpur Expn*	1997	8.53	6.222	13,242	738	4,600	8,400	1,900	6,500	11,100	555	5,800	495	3900	333
10	CFCL expansion*	1999	8.53	6.222	11,940	626	4,600	8,400	1,900	6,500	11,100	555	5,800	495	3900	333
	Sub-Total		**52.88**	**7.606**	**13,142**	**4,517**	**4,600**	**8,400**	**1,900**	**6,500**	**11,100**	**3,437**	**5,800**	**3,067**	**3900**	**2,062**
Feedstock - FO/LSHS																
1	FCI Sindri $	1979	2.45	18.800	11,401	167	4,600	6,400	3,250	3,150	7,750	77	2,200	54	2200	54
2	NLC (Neyveli) $	1979	1.37	16.338	12,496	108	4,600	6,400	3,250	3,150	7,750	43	2,200	30	2200	30
4	GNFC Baruch	1982	6.44	8.130	8,461	248	4,600	6,400	3,250	3,150	7,750	203	2,200	142	2200	142
4	NFL - Nangal II $	1978	3.30	9.534	10,890	208	4,600	6,400	3,250	3,150	7,750	104	2,200	73	2200	73
5	NFL,Bhatinda	1979	5.12	10.480	11,217	338	4,600	6,400	3,250	3,150	7,750	161	2,200	113	2200	113
6	NFL, Panipat"	1979	5.12	10.019	10,479	301	4,600	6,400	3,250	3,150	7,750	161	2,200	113	2200	113
	Sub-Total		**23.79**	**10.808**	**10,360**	**1,370**	**4,600**	**6,400**	**3,250**	**3,150**	**7,750**	**749**	**2,200**	**525**	**2200**	**525**
Mixed energy																
1	GSFC Baroda	1967	3.60	7.993	10,845	225	4,600	4,000	600	3,400	8,000	122	3,000	108	2450	88
2	IFFCO,Kalol	1975	5.45	6.776	8,016	186	4,600	4,000	600	3,400	8,000	185	3,000	163	2450	133
3	RCF,Thal	1983	14.58	7.140	7,589	436	4,600	4,000	600	3,400	8,000	496	3,000	437	2450	357
4	NFCL - Expn*	1998	5.97	7.047	10,524	354	4,600	4,000	600	3,400	8,000	203	3,000	179	2450	146
	Sub-Total		**29.60**	**7.158**	**8,658**	**1,201**	**4,600**	**4,000**	**600**	**3,400**	**8,000**	**1,006**	**3,000**	**887**	**2450**	**724**
	Total		**201.34**	**7.366**		**9,155**						**7,204**		**6,159**		**4,656**
Weighted average realisation per Mt of urea					**9,147**						**8,178**		**7,659**		**6,913**	

NOTES:

Stage-I

(1) # The estimated retention price given in Column-6 have been arrived after incorporating –

- The effect of interim reassessment of capacity (Method IV) with effect from 1.4.2000.
- Estimated escalations/de-escalations in the prices of gas, naphtha and FO/LSHS on a tentative basis.
- Further these prices do not reflect the VII Pricing due from 1.7.97 because no decision has been taken so far with regard to revision of consumption norms and recognition of capital expenditure.
- In respect of gas based plants, the consumption of alternative feedstock/fuel i.e. naphtha to the extent of about 10%-15% is also built in the above retention prices.

(2) * Estimated retention price for expansion units of IFFCO-Aonla, NFL-Vijaipur, IFFCO-Phulpur, NFCL-Kakinada and CFCL-Kota have been further increased on tentative basis by 5% for increase in consumption norm and revision in conversion cost because final retention price of these units are yet to be fixed.

(3) In case of NFCL-1, CFCL-1 and TCL the FICC has approved the revision of Retention prices on account of time overrun. Further, the effect of 3% interest concession for which entitlement period is already over has not been built up in the retention price. If all these are considered at a later date, retention price would go up provided no further reassessment of capacity and VII Pricing is done.

(4) In case of NFCL expansion consumption of raw material is assumed in the ratio of 30:70 for gas and naphtha respectively. However, this ratio is likely to change in future in view of additional allocation of gas. Hence actual mix needs to be reviewed periodically at the time of grant of concession.

(5) $ In case of HFC – Namrup, FCI – Sindri and NLC only FICC norms have been adopted because actual energy consumption is much higher than FICC norms mainly due to low capacity utilization.

(6) A unit will be in the mixed energy group if consumption of naptha/FO/LSHS is more than 25%.

(7) KRIBHCO – Hazira and RCF – Thal at the landfall point for gas. Hence are not incurring gas transportation charges as other units at HBJ pipeline are required to bear the same. Similarly, HFC –Namrup is getting gas at concessional rates. These being unit specific advantages have not been adjusted for.

(8) Savings at export parity price for naphtha and FO/LSHS have been derived based on the price behaviour prevailing in March 2000. Any subsequent increase in the international prices without corresponding increase in the domestic price will distort the assumption. Further, if fertilizer units fail to get naphtha, FO/LSHS at the assumed prices, the required concession will require to be modified suitably.

Stage-II

(9) Concessions have been reduced in Stage-II towards targetted savings in energy in respect of naphtha, FO/LSHS and mixed energy plants assuming that plants will carry out necessary modifications and make their own investments.

Stage-III

(10) @ In Stage-III, LNG price has been assumed at 75% of import parity price of naphtha. Based on this the reduction in concession for naphtha based and mixed energy based units works out at about Rs.1500 and Rs.550 per MT of urea respectively. For switching over to LNG a unit will have to incur additional capital cost. The impact of the same has not been accounted for in the above calculation in the absence of firm estimates of the investment required.

Annexe - I (a)

STAGE I

Saving at import parity price

Particulars	Gas	Naphtha	FO/LSHS	Mixed	Total
Price (Rs.per unit) - Indian	3,984	14,537	11,482	-	-
Avg. Price (Rs.per unit) - Imported	3,984	11,900	8,480	-	-
Savings - Rs. Per unit	-	2,637	3,002	-	-
Energy per unit (Mkcal)	9,250	10,500	10,000	-	-
Average price (Rs. Per Mkcal) - imported	431	1,133	848	-	-
Price (Rs. Per Mkcal) - Indian	431	1,384	1,148	-	-
Savings (Rs.per Mkcal)	-	251	300	-	-
Energy (Mkcal per MT of urea)	-	7.60571	10.85654	7.3316	-
Savings (Rs. Per MT of urea)	-	1,910	3,259	600	-
Production (MT)	9,507,500	5,287,700	1,735,000	3,603,300	20,133,500
Savings (Rs./Crores)	**-**	**1,010**	**565**	**216**	**1,792**

Statement showing the savings per MT of urea for mixed energy group at import parity price

Unit	Year	Energy distribution (Mkcal)				
		Gas	Naphtha	FO/LSHS	Others	Total
GSFC - Baroda	1999-2000	3.01	2.23	1.73	1.02	7.99
IFFCO - Kalol	1999-2000	3.62	1.9	0.84	0.43	6.79
RCF - Thal	1999-2000	5.21	1.93	-	-	7.14
NFCL - Kakinda expansion	1999-2000	2.12	4.94	-	-	7.06

Unit	Year	Rate difference per Mkcal			
		Gas	Naphtha	FO/LSHS	Others
GSFC - Baroda	1999-2000	-	251	300	-
IFFCO - Kalol	1999-2000	-	251	300	-
RCF - Thal	1999-2000	-	251	300	-
NFCL - Kakinda expansion	1999-2000	-	251	300	-

Savings at import parity price

Unit	Year	Savings in cost (per MYT of urea)					Production
		Gas	Naphtha	FO/LSHS	Others	Total	(MT)
GSFC - Baroda	1999-2000	-	561	520	-	1,081	360,000
IFFCO - Kalol	1999-2000	-	476	251	-	727	544,500
RCF - Thal	1999-2000	-	484	-	-	484	1,458,000
NFCL - Kakinda expansion	1999-2000	-	-	-	-	-	-
				Weighted average		**631**	**2,362,500**

NFCL expansion has been excluded for working out the weighted average because of allocation of gas to the unit as a result of which the unit is likely to become a gas based unit.

Annexe - I (b)

STAGE II

Statement showing the capital cost and weighted average cost oc capital recognised in RPS

Sl. No.	Particulars	Estimated production 2000-01 (MT)	Capital cost Rs.Crores	Financing of capital cost (Rs.Crores) Equity	Long term Loans	Total
1	IFFCO Aonla expansion	853400	986	0	986	986
2	NFL Vijaipur expansion	853400	1031	0	1031	1031
3	CFCL Kota	853400	1153	366	787	1153
4	TCL Babrala	853400	1164	45	1119	1164
	Total / Weighted average	3413600	1084	411	3923	433

\# *As per the decision of FICC, internal resources are to be treated as loans. Accordingly internal resources deployed in M/s. IFFCO, Aonla expansion, NFL Vijaipur expansion and TCL Babralla have been treated as loans and thus, shown as above.*

Sl.No.	**Particulars**	
1	Average capital cost (Rs.Crores)	1084
2	Average cost of capital (%)	17.88
3	Depreciation for 3 years (Rs. Crores)	206
4	Reduction in NFA assuming no capital additions has been done - Impact thereof (Sl.No3 * Sl.No.2)- Rs.Crores	37
5	Annual production - Est. MT	853400
6	Reduction in return - (Rs.per MT)	431
	Say	**Rs. 450**

Sl. No.	Particulars	Targeted reduction in energy consumption (Mkcal) Present Actual Weigh.avg.	II Stage Target	Targeted saving in energy	Imported price Rs.per Mkcal	Savings Rs. Per MT of urea
1	Gas based units -					
	Pre 1992	6.62	6.62	-	-	-
	Post 1992	5.93	5.93	-	-	-
2	Naphtha based units - overall	7.61	7.00	0.61	1,133	686
3	FO/LSHS based units - overall	10.86	9.75	1.11	848	938
4	Mixed Energy based units - overall	7.33	7.00	0.33	1,133	376

Annexe - I (c)

STAGE II

Estimated savings on account of switch over to LNG by existing Naphtha based and Mixed Energy plants assuming that LNG cost will be 75 % of the import parity price of Naphtha

Particulars	Naphtha	Mixed Energy	Total
Avg. Naphtha Price - Imported	11,900	-	-
LNG price (75 % of imported Naphtha)	8,925	-	-
Savings (Rs. Per unit)	2,975		-
Energy per unit (Mkcal-Naphtha)	10,500	-	-
Energy per unit (Mkcal-LNG)	10,500		-
Naphtha cost (Rs. Per Mkcal)-Imported	1,133	-	-
LNG cost (Rs. Per Mkcal)	850	-	-
Savings (Rs.per Mkcal)	283	-	-
Energy (Mkcal per MT of urea)	7.00000	-	-
Savings (Rs. Per MT of urea)	1,983	550	-
Production (MT)	5,287,700	3,603,300	-
Savings (Rs./Crores)	**1,049**	**198**	**1,247**

Statement showing the savings per MT of urea for mixed energy group at import parity price

Unit	Year	Energy distribution (Mkcal)				
		Gas	Naphtha	FO/LSHS	Others	Total
GSFC - Baroda	1999-2000	3.01	2.23	1.73	1.02	7.99
IFFCO - Kalol	1999-2000	3.62	1.90	0.84	0.43	6.79
RCF - Thal	1999-2000	5.21	1.93	-	-	7.14
NFCL - Kakinda expansion	1999-2000	2.12	4.94	-	-	7.06

Unit	Year	Rate difference per Mkcal			
		Gas	Naphtha	FO/LSHS	Others
GSFC - Baroda	1999-2000	-	283	-	-
IFFCO - Kalol	1999-2000	-	283	-	-
RCF - Thal	1999-2000	-	283	-	-
NFCL - Kakinda expansion	1999-2000	-	283	-	-

Savings at import parity price

Unit	Year	Savings in cost (per MYT of urea)					Production
		Gas	Naphtha	FO/LSHS	Others	Total	(MT)
GSFC - Baroda	1999-2000	-	633	-	-	633	360,000
IFFCO - Kalol	1999-2000	-	537	-	-	537	544,500
RCF - Thal	1999-2000	-	546	-	-	546	1,458,000
NFCL - Kakinda expansion	1999-2000	-	-	-	-	-	-
				Weighted average		**557**	**2,362,500**

NFCL expansion has been excluded for working out the weighted average because of allocation of gas to the unit as a result of which the unit is likely to become a gas based unit.

Annexe - I (d)

Formula for dealing with Escalation in prices of feedstocks

Raw Material cost escalation formula

Because MRP is being fixed by the Government, there is need for periodic correction of the concession amount for the increase/decrease in the cost of raw materials.

Price variation for naphtha

For naphtha the following formula could be used

Base Import parity price		US $
FOB		230
Premium		6
Ocean freight & insurance		12
Port charges		3
Inland freight		9
Total landed cost		260
Exchange rate	Rs./US$	45.60
BASE IMPORT PARITY PRICE in Rs.		11855

Current import parity price to be revised every quarter

FOB	Current FOB	to be reckoned on the basis of average of daily FOB prices Ex. Singapore and Ex. Gulf as published in Platts, Singapore
Premium	6	This will be as per base price
Ocean freight & insurance	12	This will be as per base price
Port charges	3	This will be as per base price
Inland freight	9	This will be as per base price
Total landed cost	**Current FOB+30**	
Exchange rate	ER = SBI	Average of the daily TT selling rates of SBI for the preceeding quarter
CURRENT IMPORT PARITY PRICE in Rs.		(Current FOB+30) X ER
Differential cost per tonne of naphtha		Current import parity price - Rs.11855

The amount of variation in the concession payable to all naphtha based units will be computed on a normative energy consumption of 7 mmkcal per tonne of urea. Thus for every Rs. 100 increase/decrease in the landed cost of naphtha as calculated above the concession has to be increased/decreased by Rs. 67 per tonne of urea (i.e. 100 X 7/10.5).

For **fuel oil based units** the differential cost will be worked out on the same basis as naphtha by taking the appropriate rates and duties

		For feed	For fuel	
Base Import parity price		US $		
FOB		128	128	
Premium		6	6	
Ocean freight & insurance		12	12	
Port charges		3	3	
Inland freight		9	9	
Total landed cost		158	158	
Duty		0	22	15%
		158	180	
Exchange rate	Rs./US$	45.60	45.60	
BASE IMPORT PARITY PRICE in Rs./Mt		7218	8219	
Average base import parity price Rs./Mt			7719	

Current import parity price to be revised every quarter

FOB	Current FOB	to be reckoned on the basis of average of daily FOB prices Ex. Singapore and Ex. Gulf as published in Platts, Singapore
Premium	6	This will be as per base price
Ocean freight & insurance	12	This will be as per base price
Port charges	3	This will be as per base price
Inland freight	9	This will be as per base price
Total landed cost	Current FOB+30	
Exchange rate	ER = SBI	Average of the daily TT selling rates of SBI for the preceeding quarter
CURRENT IMPORT PARITY PRICE in Rs.		(Current FOB+30) X (ER)
Differential cost per tonne of FO/LSHS		Current import parity price - Rs.11855

The amount of variation in the concession payable to all FO/LSHS based units will be computed on a normative energy consumption of 9.75 Mmkcal per tonne of urea. Thus for every Rs. 100 increase/decrease in the landed cost of FO/LSHS as calculated above the concession has to be increased/decreased by Rs. 97.5 per tonne of urea (I.e. 100 X 9.75/10)

For gas based units the variation in the concession payable is to be calculated on a normative energy consumption of 6 Mmkcal per tonne of urea. The average domestic price considered is Rs. 4000 per 1000 SM 3 at a calorific value of 10000 MMKcal per 1000SM3 of gas. Therefore for every Rs.100 increase/decrease in the price of natural gas the concession for gas based units is to be increased/decreased by Rs. 60 per tonne of urea (I.e. Rs.100*600/1000).

Methodology for effecting changes in the MRP for neutralising the feedstock price increases/decreases

It is the government's intention that the total concession outflow shouldnot increase due to future increases in feedstock prices. In order to recoup the entire impact offeed stock price increases and consequent increase in concession amounts, as computed above, the issue price may be adjusted from time to time.

To illustrate, if there is an increase of Rs. 500 in the import parity price of naphtha, then the change in the issue price will be as follows :

Increase in the Naphtha import parity price - Rs. per Mt.	500	
Increase in cost per tonne of urea at energy consumption of 7 Mmkcal	333	(500X7/10.5)
Production by naphtha based units - Lakh Mts.	53	
Total impact - Rs. Crores	176	
Total production in the country - Lakh Mts.	201	
Increase in issue price required - Rs per tonne of urea	88	

The issue price increase/decrease if any, for whatsoever reason will be adjusted in the concession amount. Input cost increases will independently be adjusted in the concession amounts to the concerned category of units.

Other cost escalations

This is towards salaries & wages, insurance, repairs and maintenance, selling expenses, freight charges and other overheads.This will be computed on the basis of the change in the WPI as published by RBI on an yearly basis. 50 % of such change shall be the basis for calculation of the escalation required. This (50 % of percentage WPI change) shall be calculated on the issue price for determination of the quantum of per tonne increase in concession amount for all catogery of units. Should however the Government want to not to increase the outflow of concession on account of such cost escalations, they may increase the issue prices appropriately.

Annexe II

Break up of Retention Prices of Urea Various Fertiliser Units

As on 1/1/2000

Sl. No	Company-Unit	Assessed Prodn. (MT)	Variable Cost	Conversion Cost inclu. Selling Exp.	CRC Including Dep.	Retention Price Notified*
1	2	3	4	5	6	7
	UREA					
	Feedstock: Gas					
1.	GSFC-Baroda	306543	7964	1147	646	9757
2.	HFC- Namrup III	289760	1669	738	1670	4077
3.	HFC- Namrup I & II	161500	1702	1147	733	3582
4.	IFFCO-Aonla	691651	2935	607	1756	5298
5.	IFFCO-Aonla Exp.	620000	2442	508	3399	6349
6.	IFFCO-Kalol	313950	5164	608	994	6766
7.	INDOGULF-Jagdishpur	689368	3396	764	1883	6043
8.	KRIBHCO-Hazira	1276319	3027	584	1205	4816
9.	NFL- Vijaipur	690519	3217	505	1477	5199
10.	NFL-Vijaipur Exp.	620000	2628	480	3442	6550
11.	NFCL-Kakinada	461985	2079	1218	4790	8087
12.	RCF-Thal	1305325	3259	722	1233	5214
13.	RCF-Trombay-V	286283	4244	845	573	5662
14.	CFCL-Kota	697304	3317	699	3727	7743
15.	TATA Chemicals	690936	2965	814	3763	7542
16.	OCFL	697304	3032	726	3727	7485
		9798747	**3197**	**704**	**2266**	**6167**
	Feedstock: Naphtha					
1.	FACT-Cochin	255872	12539	1016	536	14090
2.	HFC-Barauni	147200	13685	1708	1329	16722
3.	HFC-Durgapur	138400	11820	1718	825	14363
4.	ICI-Kanpur	555813	10492	1128	526	12146
5.	IFFCO-Phulpur	406487	8825	913	1075	10813
6.	IFFCO-Phulpur II	620000	7768	535	3697	12000
7.	MCFL-Mangalore	271257	10288	1053	695	12036
8.	MFL-Madras	110812	12522	1337	450	14309
9.	SFC-Kota	267667	8862	1252	378	10492
10.	SPIC-Tuticorin	428927	10602	1272	599	12473
11.	NFCL II-Kakinada	413217	5325	842	4015	10182
12.	ZACL-Goa	228744	12057	972	408	13437
		3844397	**9663**	**1031**	**1513**	**12208**
	Feedstock: F.O./LSHS					
1.	FCI-Sindri	246955	7984	1218	445	9647
2.	GNFC-Bharuch	492282	5768	788	1077	7633
3.	NLC-Neyveli	121355	8690	2093	425	11208
4.	NFL-Nangal	260328	8620	1039	363	10022
5.	NFL-Bhatinda	461697	8369	1138	1003	10510
6.	NFL-Panipat	403855	7779	1051	877	9707
		1926472	**7586**	**1087**	**801**	**9474**
	Feedstock: Coal					
1.	FCI-Ramagundam	222750	9290	1221	735	11246
2.	FCI-Talcher	222750	8440	1383	848	10671
		445500	8865	1302	792	10959
	Total-Urea	**16015116**	**5435**	**845**	**1868**	**8148**

* *Ad-hoc Retention Price*

Annexe-III

Cumulative Percentage Distribution of (All) Rural Households by size class of Operated Area (ha) – Year 1992

	nil	Less than 0.002	0.002-0.20	0.21-0.41	0.41 -0.51	0.51 -1.0	1.01 -2.00	2.01 -3.00	3.01 -4.00	4.01 -4.00	5.01 -6.00	6.01-8.00	8.01 -10.0	10.01 -12.0	12.01 -20.0
INDIA	0	0	1	3	5	16	34	49	58	67	72	79	85	88	96
	20	22	42	50	55	70	84	91	94	96	97	98	99	99	100
Andhra P.	0	0	1	3	6	17	40	60	67	75	78	86	90	93	97
	37	37	49	56	62	74	88	94	96	98	98	99	99	100	100
Bihar	0	0	3	8	12	29	54	69	77	85	89	93	96	98	99
	14	19	47	59	65	80	92	96	98	99	99	100	100	100	100
Gujarat	0	0	0	1	3	9	22	37	48	59	66	76	82	90	95
	22	25	37	43	48	60	75	84	89	93	95	97	98	99	100
Haryana	0	0	0	1	2	5	14	28	40	51	55	64	69	72	88
	15	19	42	45	49	58	70	80	87	92	93	96	97	97	99
Karnataka	0	0	0	1	3	9	25	41	50	61	65	74	81	85	96
	18	19	35	39	45	59	75	86	90	94	95	97	98	99	100
Madhya P.	0	0	0	1	1	7	22	37	48	57	65	74	83	87	96
	18	22	30	33	36	49	70	81	87	91	93	96	98	99	100
Maharashtra	0	0	0	1	2	7	18	32	43	55	61	72	80	85	95
	29	32	43	46	49	60	73	83	88	92	94	96	98	99	100
Orissa	0	0	1	4	8	22	52	72	80	87	90	94	96	97	100
	27	27	40	47	55	71	89	95	97	99	99	100	100	100	100
Punjab	0	0	1	1	2	6	17	30	44	54	63	75	84	89	98
	23	26	61	63	64	71	80	87	91	94	95	98	99	99	100
Rajasthan	0	0	0	1	1	6	15	23	32	40	44	54	62	69	87
	11	13	22	28	30	46	63	73	80	85	87	91	94	95	99
Tamil Nadu	0	0	3	8	12	29	56	73	80	88	90	93	94	96	99
	36	37	63	70	75	85	94	98	99	99	100	100	100	100	100
Uttar Pradesh	0	0	2	5	9	25	51	68	77	85	89	94	96	97	99
	10	12	33	44	51	71	88	94	97	98	99	100	100	100	100
West Bengal	0	0	5	12	18	40	71	85	93	97	98	100	100	100	100
	14	15	49	61	68	83	95	98	99	100	100	100	100	100	100
Kerala	0	0	12	23	28	52	76	86	91	94	95	97	98	99	100
	6	7	65	77	80	92	98	99	100	100	100	100	100	100	100
Himachal P.	0	0	3	12	18	41	64	77	85	90	91	94	95	95	96
	9	12	30	50	60	82	93	97	99	99	99	100	100	100	100

Upper line represents percentage of operated area and lower line percentage of households.
Source: *NSSO(1998), Sarvekshana Vol.XXII, No.12, July-Sept. 1998 based on tables 1R.*

Annexe IV

Percentage distribution of net irrigated area for broad size-class of operational holding for each season

	Broad size-class of operational holding (ha.)	Percentage of net irrig. Area to oper. Area
Khariff		
	0.002 – 0.20	36.56
	0.21 – 0.50	46.13
	0.51 – 1.00	43.54
	1.01 – 2.00	40.85
	2.01 – 4.00	37.66
	4.01 – 10.00	32.90
	10.01 & above	23.43
	All sizes	36.00
Rabi		
	0.002 – 0.20	37.37
	0.21 – 0.50	55.93
	0.51 – 1.00	55.92
	1.01 – 2.00	54.30
	2.01 – 4.00	50.35
	4.01 – 10.00	43.59
	10.01 & above	32.81
	All sizes	47.69

Source: *Sarvekshana, January-March 1997, pp.436*

Rate of Application of Fertilizers on Irrigated and Unirrigated lands by size class of farmers

Size class of farmers	Total Area operated ('000 Ha.)	Fertilizer Applied (Kg. of Nutrient/Ha.)		Total Fertilizer Consumed ('000 Tonnes Nutrient)	
		N	N+P+K	N	N+P+K
Marginal					
Irrig.	13037	74.51	112.59	975	1468
Unirrig.	16446	25.81	40.12	430	660
Small					
Irrig.	13288	71.36	109.26	980	1452
Unirrig.	20081	23.00	36.50	460	733
All groups					
Irrig.	63224	74.22	111.74	4800	7065
Unirrig.	106973	18.76	30.55	2000	3268

Source: *Based on Input Survey (1991-92)*

Appendix

Two schemes to protect small farmers

(A) Dual Price Through Coupons

1. To reduce fertilizer subsidy without hurting the marginal and small farmers, one option would be to give every cultivator, irrespective of the amount of land he cultivates, 120 kg. of fertilizers (80 kgs. of nitrogenous fertilizers, 30 kgs. of phosphatic fertilizers and 10 kgs. of potassic fertilizers which provide 60 kgs. of nutrient) at the present subsidized price, and sell the remaining fertilizer in the open market at full cost. This will provide more fertilizer than what they currently use to the poorest 50 percent of the farmers. The fertilizer may be given in the form of coupons, which can be traded. The coupons should be of small denominations so that the farmer can buy fertilizer as and when he needs it.

2. In 1998-99, the total consumption of fertilizer material was 32.72 million tonnes (16.797 million tones of nutrient). There are about 105 million cultivation households in the country and giving 120 kg. of fertilizer (of which 80 kg. may be urea) to each household would require 105 x 120/1000 = 12.60 million tonnes of fertilizers. The subsidy required to protect marginal farmer would be 100 * (12.6 ¸ 32.72) = 38.5 percent of around Rs.12,651 crore budgeted for 2000-01, i.e. about Rs.4870 crore. The remaining subsidy would get reduced as the free market price is raised.

3. This is possible because land distribution is highly uneven, as will be seen from the statement at Annexe III. In rural India, 44 percent of the cultivators operate only 5.48 percent of the total cultivated land and 63 percent operate only 15.5 percent of the land. It is also known that the farmers irrespective of their land-size use the same amount of fertilizer per hectare. Of course, the intensity differs for irrigated and unirrigated lands and from state to state. Yet, for a given crop in given agro-climatic conditions, the intensity of fertilizer use per hectare does not vary by size of plot. The poorer farmers do have a relatively higher share of irrigated land on which fertilizer intensity is higher, as will be seen from the two statements at Annexe IV. Still the share of the poorest 63 percent of the farmers in irrigated land is less than 20 percent. The poorest 63 percent of the cultivators thus use between 15.5% to 20 % of the fertilizer. At 60 kg. of nutrient per cultivator, they will get more than what they use today. As a group they would be better off and the poorer one will be much better off.

4. The weighted average (weighted by irrigated and unirrigated land shares) use of fertilizer per hectare by farmers who operate 0.5 to 1.0 hectare of land is 72/kg. of fertilizer nutrients. Even a farmer who operates 1 hectare of land, all of which is irrigated, uses 112.6 kg of fertilizer nutrients. 120 kg. of fertilizers (60 kgs. of nutrients) will constitute 53 % of his needs. He will have to buy 53 kgs. of fertilizer nutrients from

the market. However, such a farmer would have adequate marketable surplus to benefit from higher output prices.

5. In fact, the very small farmers who constitute 25 percent of cultivator households, cultivate less than 0.2 hectare of land (average size being only 0.06 hectare) will get much more fertilizer than they need, which they could sell. If they get the market price, this would be an additional income of Rs.400 per household.

6. The statewise data for the use of fertilizer, reveals considerable variation from state to state. The land distribution is uneven in all states. Thus, the poorest 62 percent cultivator households operate 17.5 percent of the land in Andhra Pradesh. The corresponding comparable figures are 56 and 12 for Bihar, 47 and 8.7 in Gujarat, 62 and 14.2 in Haryana, 51 and 9.5 in Karnataka, 61 and 22.3 in Madhya Pradesh, 61 and 18.3 in Maharashtra, 62 and 22 in Orissa, 62 and 6.2 in Punjab, 60 and 14.7 in Rajasthan, 63 and 12 in Tamil Nadu, 68 and 24.6 in Uttar Pradesh, 63 and 17.8 for West Bengal, 64 and 12 for Kerala, and 55 and 18.4 in Himachal Pradesh. Thus, 60 kg. per household would fully protect at least the poorest 50 percent of the cultivating households, and if landless labour households are also given the right to fertilizers, it would provide 70 percent of the poorest households additional income.

7. Another way to examine the adequacy of fertilizer distributed at subsidized price for the poorer households is to see if it would be adequate to produce enough foodgrains for the family to subsist on. For a family of five, 850 kg. of cereals per year is the subsistence requirement. 60 kg. fertilizer nutrients per household would be adequate to produce this in all the major states. For example in Punjab, the average cereal yield is 3670 kg/ha. and the average fertilizer use is 177 kg./ha of nutrients. At that yield rate, 0.275 ha. of land should be enough to produce 850 kg. of cereals. At 177 kg/ha. this requires 49 kg. of nutrients, less than the 60 kg. suggested here. If the farmer has a larger plot, he will need to buy additional fertilizer at the market price, but at the same time, he would have marketable surplus and he would be compensated by the higher procurement price. Thus, the suggested scheme will protect all farmers, small or large, substantially reduce fertilizer subsidy and will constitute a more effective and progressive anti-poverty measure. It would increase effective demand for food and the amount government spends on buying foodgrains for price support operations even with the higher procurement price to compensate for higher fertilizer price, is not likely to increase much and may even come down.

8. As the fertilizer coupons are to be given to everyone and as no targetting is involved, it should be relatively easy to implement. Also the coupons have to be distributed only once a year. It should be possible to do it publicly with transparency and without leakage. This scheme thus should be easier to enforce than any other

mass targeted subsidy scheme of the government. It should be a lot more easy to enforce than the targeted PDS.

(B) Employment Guarantee Schemes of Rural Works Programmes:

9. An alternative to the fertilizer coupon scheme to protect the income of marginal farmers when fertilizer prices are increased is set out in the succeeding paragraphs.

10. Employment Guarantee Schemes (EGS) can provide additional employment to poor households. They are self-targeting in that only the poor would come to work on them. They are also self-adjusting. If the rains are good and employment is available on farms, fewer persons would report for work on EGS. On the other hand in a bad year more would demand employment. Also they are self liquidating. If development provides more remunerative jobs, then the demand for employment under EGS would wither away. Moreover, productive assets can be created through EGS, which can increase productivity and create additional productive employment. Even when the assets created are totally infructuous (such as digging holes one day and filling them up next day) the poor get a larger fraction of the money spent by the government compared to untargeted PDS. In Maharashtra, micro-studies show that additional wage income to be 50 paise for every rupee spent.

11. The 15 percent increase in urea price announced in the 2000-01 budget raised the price of urea by Rs.600 per tonne. A marginal farmer with half a hectare of irrigated land and using 120 kg. of urea would pay Rs.72 more for fertilizer. Two days of additional employment provided by an EGS programme can provide the farmer that much in wages. With the saving in the subsidy expenditure by raising fertilizer price the government should be able to run employment guarantee schemes at levels that would more than protect the incomes of the small and marginal farmers. If the rural works programmes are directed towards improvement of land and development of minor irrigation schemes, they would, in addition to providing wage income, increase the productivity, farmers would get higher incomes even with less fertilizers and would be able to pay more for fertilizers.

12. Of course, the problems of leakages and fictitious workers on the muster rolls have to be tackled. Any transfer mechanism requires monitoring.

To summarize –

(a) The Commission would recommend introduction of a dual price scheme in fertilizers. Every cultivator household could be given tradable coupons with which it can purchase 120 kg. of fertilizers(80 Kgs. of urea, 30 Kgs. of phosphatic and 10 Kgs. of potassic) at a specified subsidized price.

The remaining fertilizer has to be bought in the open market at a higher price.

(b) The price of the balance of fertilizer that is to be bought in the open market should be raised gradually, over a period of time to a price level, which is equal to import parity price. If the price required to ensure a desired level of self-sufficiency in fertilizer production is higher than import parity price, then to that extent fertilizer subsidy to the industry will have to continue.

(c) If a coupon scheme is considered difficult to implement, the Commission would recommend that adequate expansion of Employment Guarantee Schemes, over and above the normal allocations for such schemes be made and directed to programmes of land improvement and development of minor irrigation.

PART II

OPTIMISING
GOVERNMENT STAFF STRENGTH
-SOME GENERAL ISSUE

OPTIMISING GOVERNMENT STAFF STRENGTH

- SOME GENERAL ISSUES

The Fifth Central Pay Commission's recommendations, taken in their entirety, seek to transform the style of governance in the country towards a modern, non-feudal, honest, professional and citizen friendly one. Their new charter for the central government visualises a change in the perceived role of the government, increased delegation of authority to other levels of government, and transfer of many functions to the non-government sector. The entire gamut of central government functioning on the civilian side is to be examined de novo and redetermined in the light of three key criteria:

(i) Does this need to be done;

(ii) Does this need to be done by government; and

(iii) Does this need to be done by the central government

To this list, the Expenditure Reforms Commission would add one more criterion viz. if it is to be done by the central government, which ministry/ department/ organisation is best suited for doing it.

2. The Fifth Central Pay Commission expected this process to lead to the abolition of some ministries and departments and to a drastic reduction in the size of the others. While a number of examples of such likely downsizing have been cited, the Report does not go into the details of the downsizing of functions and staff strength in each organisation. The Commission has however, taking a total picture recommended, as far as the total number of civilian posts are concerned, a 30% across the board cut, over a ten year frame @ 3% per annum, roughly equivalent to the number expected to retire each year. As part of the overall package, they have also recommended that all vacant posts, numbering over 3.5 lakh be abolished and, that there should be a total freeze on fresh recruitments in the categories of supporting and auxiliary staff and a reduction in the intake in all services that operate at the level of executives and supervisory staff. The package further includes a statutory ceiling to be enacted on total sanctioned posts in the central government, appropriate packages for compulsory retirement, voluntary retirement, golden hand shake scheme etc.

3. According to the Fifth Central Pay Commission, that the government itself has been self-conscious of this need and has been taking necessary action to contain the total work force size even from the earlier years, is evident from the fact that while the total number of sanctioned posts increased by 71.7% between 1957 and 1971, the growth rate came down sharply to only 27% between 1971 and 1984 and

further down to 10.3% between 1984 and 1994. This inference is based on the statistics set out in the Appendix to the volume I of the Expenditure Budget brought out every year. The budget documents for the subsequent years - 1994 to 2000 - show that the growth rate has further gone down to 2.4% in this six years period. If one allows for the fact that during the last fifteen years, there has been a substantial increase in the police forces as well as in some ministries like Information & Broadcasting where there has been a vast expansion in the field network, then it would appear that there has been a good measure of success in containing the growth in staff strength in most other wings of the government during this period, a containment achieved less through a conscious examination of functions with a view to reducing/abolishing these, than by measures like freeze on fresh recruitment, difficult procedures adopted for filling up of vacancies, adhoc cuts in posts from time to time and so on. All these measures reflect the growing concern that a large staff strength tends to pre-empt scarce resources and also slow down expeditious processing and thus impede quick decision-making.

4. The picture however changes considerably, and the extent of containment gets diluted, when two factors are taken into account. The first is the extent of automation that has taken place in most offices in the last two decades. The information technology revolution has indeed dramatically reduced the workload in very many areas. Just to illustrate, the budget printing now takes much less time than ten years ago, while the storage and retrieval of data relating to provident fund accounts can be handled by a much smaller number of officials, than in the earlier decades. Use of personal computers, E-mail and fax facilities and networking has not only considerably reduced the communication and correspondence time but also reduced the workload in typing and copying. Gone are the days when the preparation of a twenty page note with corrections and revisions at two or three levels in the hierarchy, necessitating taking of clean copies at each stage and in the end cutting the stencil and using a gestetner machine or laboriously photocopying the pages. Most offices already have all these equipments. As more and more officials become proficient in using these facilities, the number of officials required in these activities would go down considerably.

5 The second development is the creation of a large number of autonomous bodies and also delegating more and more powers to these organizations in various matters including creation of posts and making appointments. A study carried out last year places the number of autonomous organizations at 301 and their total budget at over Rs. 8,000 crore. Though details of the number of officials engaged in each of these organizations are not readily available, it is a safe guess that a good part of the budget is spent on salaries. In other words, the total number employed in these organizations will be quite large. A quick back of the envelop calculation, in respect of autonomous organizations in three areas viz. agriculture, human resource development

and health & family welfare shows an increase in the budget of these organizations from Rs.1,300 crore to over Rs. 6,200 crore in the last ten years. Thus, in this ten year period alone there would have been a substantial increase in the staff strength of these organizations. But, the financial allocations to most of these organizations figures in the budget is a single entry - "grants" -. In the absence of the detailed break up into items like salary etc, the staff strength of such organizations is not included in the statements relating to the ministry wise staff strengths and pay and allowances statement in the Expenditure Budget documents. If the increase in the staff strength of these autonomous organizations were also taken into account, then the growth rate of the total central government civilian staff strength would be much, higher than the percentages set out earlier.

6. The picture also changes dramatically when one looks at the total salary bill. Thanks to the last pay revision and half-yearly dearness allowance increases, the total 'civilian' salary bill (not including the expenditure on traveling allowance) of the central government has gone up from Rs.18,094 crore in the Budget Estimate for 1996-97 (this was before the impact of the pay revision) to Rs.32,843 crore, in the Budget Estimate for 2000-2001 i.e. an increase of Rs.14,749 crore. As the central government pay scales act as the bench mark for similar pay revision in the states and public sector undertakings, the total additional annual salary bill, over this four year period, for the over 20-21 million officials, in the central and state governments, public sector undertakings, local bodies and aided institutions would work out to a whopping Rs.70,000 crores. If one takes into account the pension payments that have registered a three-fold increase during this four year period, the increase will be much larger. No wonder some states are finding it difficult even to meet the salary bill while many others are left with very little resources, after meeting the wage bill and other non plan expenditure like interest etc., for investment requirements, human resources development or poverty alleviation. As the Centre will have to necessarily step in to bail out these states sooner or later, the Centre's own financial position will be seriously threatened.

7. Thus, a drastic downsizing of the government staff strength becomes necessary not only for securing modern and professional governance as visualised by the Fifth Central Pay Commission, but also to ensure that the burgeoning salary bill does not pre-empt scarce resources, that could otherwise be applied to priority areas like infrastructure development, human resource development and poverty alleviation.

8. The Expenditure Reforms Commission has so far taken up for study the functions and activities of more than 20 ministries/departments/organisations of the Government of India. While it may take a little time to complete these studies, it is already becoming evident that there is enormous scope for abolishing/reducing

functions and activities, leading to reduction in the staff complement required. Spelling out clearly the lines on which action should be taken for dealing with personnel rendered surplus due to abolition/reduction of functions and activities thus becomes a pre-requisite. Equally important is ensuring that the problems do not get aggravated through creation of new posts, filling up of vacancies, etc. which would result in further increase in staff strength.

9. Suggestions for rationalising staff strength and also how the issue of surplus personnel should be tackled are set out in the succeeding paragraphs.

(i) In order to bring about fiscal prudence and austerity, government imposed a 10% cut across the board in the number of sanctioned posts as on 1st January, 1992. Instructions were also issued in January, 2000 directing a 10% reduction in the number of posts created between January, 1992 to December, 1999. The Expenditure Reforms Commission would recommend a further 10% cut in the sanctioned strength of staff as on 1.1.2000 to be carried out by each ministry/department by the year 2004-2005. In the process,ministries/departments may (a) go into the prevailing organizational structure; (b) keep in view the changing work load in each division/wing/ branch; (c) identify areas which are amenable to computerization; and (d) effect reorganization where considered necessary so as to achieve the prescribed percentage cut by 2004-2005. This would provide a certain flexibility to departments in determining posts required at various levels keeping in view functional requirements.

While the above would result in appropriately rationalizing the organizational structure, it would also substantially reduce the need for additional direct recruitment. The Commission feels that there is a need to regulate and monitor the scale of direct recruitment in each department so that there is an additional check on the growth of government work force. For this purpose, the Expenditure Reforms Commission recommends that each ministry/department should prepare annual direct recruitment plans covering the requirements of all cadres, whether managed by that ministry/department itself, or managed by the Department of Personnel and Training (DOPT) etc. The task for preparing annual recruitment plans should be undertaken in each ministry/ department by a screening committee headed by the secretary of that ministry/department and one senior representative each of the Department of Personnel and Training and the Department of Expenditure with the Financial Adviser concerned acting as the member secretary of the committee. The association of the Department of Personnel and Training would ensure that the recruitment plan drawn up for each Ministry/

Department also reflects fully the concerns of the centralized cadres administered by Department of Personnel and Training etc., while the association of the Department of Expenditure will enable them to ensure that these recruitment plans take into account the instructions issued from time to time by way of effecting economy in expenditure. While the annual recruitment plans for groups B, C and D could be cleared by this Committee itself, in the case of Group 'A' Services, the annual recruitment plan should be cleared by a committee headed by Cabinet Secretary with secretary of the department concerned, Secretary (DOPT) and Secretary (Expenditure) as members. This procedure should result in the direct recruitment being kept at the minimum. The Expenditure Reforms Commission hopes that the direct recruitment would not exceed 25% of the total vacancies in the year.

(ii) There has also to be a total ban on creation of new posts, at least for a two year period. The Commission notes that a number of new departments, and autonomous organizations have been created in recent years and a number of commissions set up in recent years. In each case there has been creation of a number of fresh posts. Considering the general perception that there is a large excess staff at almost all levels, the Expenditure Reforms Commission would recommend a total ban on creation of new posts for a two year period, whether required in an existing organization or in a new organization. All such special requirements should be met by lateral transfer of identical level posts (with officials) from the existing ministry/departments/organisations.

(iii) Once a function or activity is declared as wholly or partly unnecessary and some personal are identified as surplus, the question arises as to how such surplus personnel are to be dealt with. A scheme for redeployment of surplus staff has been in operation in Government of India since 1966. The work relating to redeployment and readjustment of surplus officials belonging to Group A, B and C is handled by the Central (Surplus Staff) Cell located in the Department of Personnel and Training, while that relating to Group D staff is handled by the Director General of Employment & Training (DGET) of the Ministry of Labour. Till 1989, there was a provision for compulsory retirement of all those surplus officials who neither opted for voluntary retirement nor could be redeployed within six months of being declared as surplus. This provision was discontinued in that year. So far, of the 9214 Group A, B and C officials accepted in the Central Cell, 8662 are reported to have been redeployed, 72 retrenched or resigned, 235 retired voluntarily or on superannuation, while 245 are still on the list of surplus personnel awaiting redeployment. Of the 6211 Group D personnel declared surplus, 563 were subsequently withdrawn from the Special Cell, (possibly, reabsorbed in the parent departments), and 5559 placed/nominated in alternate jobs, leaving only 89 still awaiting redeployment as at the end of June, 2000. Considering that the number of officials likely to be found surplus consequent on the present exercise of downsizing of functions and activities will be on a much larger scale than the cumulative figures of surplus personnel for the last 34 years, the Expenditure Reforms Commission would suggest the following:

(a) When a decision is formally taken that a function/activity is unnecessary and therefore could be discontinued, the concerned ministry/department/organisation should be given a maximum time limit of one month to wind up that function/activity. This period should be utilised for an orderly phasing out of all current work and for transferring of files and permanent records to other wings of the organisation designated for this purpose.

(b) At the end of this one month period, the personnel declared surplus along with their service records should be transferred to the Surplus Cell, to be re-designated as the Division for Retraining and Deployment, which will be responsible not only for re-training and redeployment but also for payment of salaries and allowances, retirement benefits, etc. to these personnel. However, at these centres, where the number of surplus personnel is quite small, the present practice of the surplus personnel drawing their salaries from their erstwhile parent organisation could be continued, even as their retraining/redeployment, consideration of voluntary retirement etc. would be processed by the Division of Retraining and Redeployment at New Delhi.

(c) All surplus personnel could be made eligible for the more liberal Voluntary Retirement Scheme as recommended by the Fifth Central Pay Commission, with the modifications as suggested by this Commission in Para 9(iv). This option would need to be exercised within three months of the transfer to the Division of Retraining and Deployment. For those who do not opt for the more liberal voluntary retirement scheme, the Division of Retraining and Redeployment would make all efforts for retraining and redeployment. Appropriate retraining programmes would need to be drawn up in advance to meet the requirements of different categories of surplus personnel. As far as the redeployment of Group A and B officials are concerned, the Department of Personnel should examine whether the flexibility already enjoined on the UPSC in favourably considering appointment of these officials against vacancies under their consideration, cannot be enhanced further.

(d) All surplus personnel who neither opt for the more liberal Voluntary Retirement Scheme within the first three months period nor could be redeployed within a period of one year would be discharged from service at the end of that period under the existing service rules. Whereas till 1989, such discharge was to be enforced at the end of six months period, the Expenditure Reforms Commission deliberately recommends a larger period i.e. one year, with a view to maximising the opportunities for retraining and redeployment of the surplus personnel.

(e) Considering the magnitude of the problem, it would be desirable to bring in Group D personnel also under the purview of the above Division of Retraining and Redeployment in the Department of Personnel & Training rather than leave this task with the DGET. Officials with experience in formulating and conducting training programmes and having a humane attitude in dealing with the problems on hand, should be appointed to the various positions in the proposed Division.

(iv) The Fifth Central Pay Commission has recommended a more liberal Voluntary Retirement Scheme for those who are declared surplus, and in whose case the separation from government cannot therefore be considered voluntary. The Expenditure Reforms Commission finds the package recommended by the Fifth Central Pay Commission quite an attractive one. The Expenditure Reforms Commission would however suggest two modifications. The first relates to the option to be given to the official concerned to opt for full commutation. At one level, this could result in an official concerned spending the entire moneys that he receives within a short time and becoming a problem again for society and the government. At another level, where an official aged say 40, opts to retire with full commutation, under the present dispensation, that person would become eligible for the full pension even before the year of retirement in the normal course. The Expenditure Reforms Commission would therefore recommend that the proportion of pension to be commuted should be the same as that for officials who retire in the normal course. The second relates to the option to be given to the officials concerned in regard to the ex-gratia amount to be given in proportion to the number of years of service put in or still left. The Expenditure Reforms Commission would advise against the lump sum option and recommend that the ex-gratia amount be made available in monthly instalments over a five year period.

(v) As recommended by the Fifth Central Pay Commission, Group A officials opting for the more liberal Voluntary Retirement Scheme may be exempted from the two-year restriction on accepting commercial employment.

(vi) In all cases, where there is a separation by way of liberal Voluntary Retirement Scheme, the same order should also stipulate the abolition of the resultant vacant posts as well.

10. **SUMMARY OF RECOMMENDATIONS**

(1) A cut of 10% of the staff as on 1.1.2000 to be carried out by the year 2004-2005.

(2) A screening committee consisting of secretary of the concerned ministry, a representative of DOPT and a representative of Department of Expenditure should prepare annual direct recruitment plan for all cadres, with the approval in respect of group A posts, being accorded by a committee consisting of the Cabinet Secretary, concerned secretary, Secretary (DOP&T) and Secretary (Expenditure).

(3) There should be a total ban on creation of new posts for two years.

(4) Staff declared surplus should be transferred to the Surplus Cell to be re-designated as the Division of Retraining and Deployment, who will pay their salary, retirement benefits etc. In these centres, where the number of surplus staff is quite small, the present practice of the parent organizations making these payments may be continued.

(5) Surplus staff should be made eligible for a liberal Voluntary Retirement Scheme recommended by the Fifth Central Pay Commission with the exception that commutation entitlements will be as at present and the ex-gratia amount will be paid in monthly installments covering a five year period.

(6) Those who do not opt for Voluntary Retirement Scheme and are not redeployed within one year will be discharged from service.

(7) Redeployment of Group D will be handled by DOPT and not DGET.

(8) Group A official opting for Voluntary Retirement Scheme will not be required to seek approval for commercial employment after retirement.

Extract of the Report of the Fifth Central Pay Commission relating to workforce size control and voluntry Retirement are given at Appendix.

Appendix

Extracts of the Report of the Fifth Central Pay Commission

27
Workforce Size Control

INTRODUCTION

27.1 Optimization of the Government machinery, rightsizing of Government, work-force size control - these are various facets of the same problems. It must have been noticed that reduction in the overall size of the bureaucracy is the underlying idea behind all the civil services reforms that we have advocated in the preceding chapters. **Here we would like to gather all the threads and describe the overall strategy in clear-cut terms.**

OVERALL STRATEGY

27.2 We would like to divide the overall strategy into four main sections as under:

Reduction in quantum of work

a) Suggestions that will lead to reduction in the quantum of work left with the Central Government. We have to:

i) Ascertain tasks that need not be done by Government

ii) Pass on tasks to State Governments

iii) Transfer certain tasks to corporate entities in public sector

iv) Contract out tasks to the private sector

v) Transfer some entities to the cooperative section

vi) Convert some institutions into autonomous bodies

Reduction due to organizational restructuring

b) Suggestions that will lead to reduction in number of organizational employees required, because of organisational restructuring. These include:

I) Reduction in number of Ministries and Departments

II) Introduction of officer-oriented system in Government

III) Dellayering and level-jumping

IV) Multiskilling

Reduction due to induction of technology

c) Suggestions that will reduce the necessity for so many employees due to induction of technological change in Government. These include:

i) Computerization

ii) Office automation

iii) Creation of a paperless office

iv) Changes in office systems and file management

Rightsizing strategies

d) Rightsizing strategies that will enable Government to shed some fat. These include:

i) Abolition of vacant posts

ii) Freeze on recruitment

iii) Across the board cut

iv) Statutory control on creation of new posts

v) Voluntary retirement

vi) Compulsory retirement

27.3 The items at (a) to (c) have already been covered elsewhere. In this chapter, we will concentrate on rightsizing under item (d).

ABOLITION OF VACANT POSTS

Number of vacant posts

27.4 Currently, there are around 3.5 lakh posts vacant in Government. Some of these have been vacant for some time and there has possibly been no deterioration in Government's functioning because of the vacancies. In fact, certain areas might have improved because a few posts are vacant. Even today, the instructions of the Government day down that if a post has remained vacant for more than a year, the post is deemed to have been abolished.

Our recommendations

27.5 **We recommend that Government abolish these 3.5 lakh posts at one stroke,** unless in some particular case Government feels otherwise. Various arguments will naturally be brought up against such a course of action. Posts fall vacant due to various reasons. They remain vacant due to other, very cogent reasons. None of these reasons are possibly the fault of the administrative department. As such, they should not be made to suffer.

Strategy for abolition

27.6 It may also be pleaded that vacancies arise at different levels. If at all such vacant posts are to be abolished, Ministries should be allowed to fill up the higher posts and only the posts at the lowest level where fresh direct recruitment is to take place should be abolished. This would ensure that promotions to higher posts are not retarded due to abolition of posts.

Abolition based on functional considerations?

27.7 Another argument could be that abolition, like creation, should be a conscious decision based on functional considerations and it should be resorted to only it a surplus is identified after a proper work study.

The arguments are faulty

27.8 All these lines of reasoning proceed from a central assumption which is faulty. It is being assumed that more people make an organization efficient. Once we understand that we have too many employees in Government, reduction in numbers will be seen as an attempt to reduce the crowd. People will welcome it as a step in the right direction. Secondly, experience has shown that work studies often lead to recommendations for additional staff due to the counter-strategies for inflation of workload adopted by the existing staff. If we wait for work studies to identify surpluses, we may have to wait indefinitely. As far as promotion prospects are concerned, we cannot make an omelette without breaking some eggs. Whenever downsizing initiatives are undertaken, someone will be hurt. That is why we are introducing the Assured Career Progression Scheme as an antidot, so that people do not a least suffer financially.

No arguments to be allowed

27.9 **We, therefore, recommend that no arguments should be allowed against the decision to abolish the existing vacant posts.**

FREEZE ON RECRUITMENT

Current status of fresh recruitments

27.10 It would be of no use abolishing the vacant posts, if further recruitment goes on merrily, without any brakes being applied. It is reported that currently around 70,000 posts are filled up every year. Obviously, most of these are at the level of supporting and auxiliary staff.

Total freeze suggested at some levels

27.11 Our basic thesis is that we are holding too much manpower at the level of supporting and auxiliary staff and that we should move towards an officer-oriented organisational structure. **This can only be achieved if a total freeze on**

fresh recruitment of manpower in the categories of supporting and auxiliary staff is applied.

Reduction in intake at other levels

27.12 As regards the executives and supervisory staff, the fresh recruitment cannot be stopped, as this would result in cadres that are twisted out of shape. Government has already brought down the fresh intake into the IAS, IRS and other services. **The reduction in intake has to be applied in all services that operate at the level of executives and supervisory staff.**

ACROSS THE BOARD CUT

27.13 The next step is to frame a ten-year manpower plan. **If we have to plan for a 30% cut across-the-board within a time frame of ten years, it would amount to 3% reduction in manpower levels every year.** As this is the normal attrition rate due to retirements, deaths, resignations etc., a total freeze on fresh recruitment alone can achieve the 30% reduction within ten years. To the extent that fresh recruitments are made, as in the cadres on executives and supervisory staff, recourse may have to be had to other methods of reducing manpower levels.

STATUTORY CONTROL ON CREATION OF NEW POSTS

27.14 There is a tendency on the part of departments to send proposals for creation of new posts for any additional schemes that they may be called upon to implement. It is rate for a Secretary or Head of Department to figure out ways and means of dovetailing the scheme in the job list of existing functionaries. Resultantly, even if some jobs are cut, we are back at square one if an equivalent number of fresh jobs are created in the meantime. This has been the fate of all the 10% cuts that are ordered, sometimes by the Ministry of Finance, sometimes by the Prime Minister. Parkinson’s Law operates, inviolate.

27.15 One method adopted elsewhere in the world is to have a statute on number of posts sanctioned in all Ministries and Departments of Government. This number then acts as the ceiling beyond which no one can raise the number of sanctioned posts without approaching Parliament for an amendment of the Act. **We recommend that such a Ceiling on Sanctioned Posts Act be got enacted by the Government.**

VOLUNTARY RETIREMENT

27.16 We have in a separate chapter enunciated our concept of voluntary retirement. Two kinds of schemes are envisaged. The normal procedure for voluntary retirement after completing 20 years of service is to be continued. Over and above this, a special scheme of voluntary retirement can be started in any department where surplus manpower has been identified. In such a scheme, there will be provision for selective retirement of persons, the initiative always resting with the Government, and for a golden handshake. **It is hoped that such schemes will be made use of, in order to render it easier for people to tide over the difficult period of unemployment following the operation of redundancy procedures.**

COMPULSORY RETIREMENT

27.17 Compulsory retirement is not exactly tuned in to the rightsizing of government. In fact, the accent here is on getting rid of people who are either incompetent or lacking in integrity. But **it is possible to launch campaigns for retirements of compulsory nature in departments where redundancies have been noticed.**

INCENTIVES FOR RIGHT-SIZING

Savings can be diverted

27.18 It is also possible to conceive of in building incentives for rightsizing of departments. One idea has been floated by us in the context of manpower levels in the armed forces. It has been suggested that long-term perspectives on defence budget allocations be approved by the Ministry of Finance, with the proviso that **if the Chiefs are able to save on manpower-related expenditure the savings can be used on other expenditure of their choice,** say, for purchase of equipment. **A similar incentive can be offered to all Secretaries and Heads of Departments. This would be a one-way valve. Only savings on manpower-related expenses can be diverted to other productive uses. The reverse would not be permissible.**

Incentives out of savings

27.19 Another variant on the same theme is the idea that in case a group of persons working in a team are asked to reduce the size of the team, **a certain percentage of the saving on manpower-related expenditure can be distributed among the remaining members of the team, provided that the reduction in team size is made permanent through abolition of the post and all the production or service targets are fulfilled in time.**

No awards without savings

27.20 **Awards, Rewards, Prizes etc. could be made contingent on having achieved a certain minimum reduction in the manpower of the organization headed by person concerned.**

CONCLUSION

27.21 It is our firm belief that if an atmosphere for rightsizing is created right from the top, very soon we can achieve the optimum size of the Government machinery. **Some detailed strategies for individual sectors are outlined in the next few chapters.**

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Voluntary Retirement

INTRODUCTION

Two-pronged strategy

129.1 Currently, we already have a procedure for voluntary retirement. In the context of economic liberalization and the need for rightsizing the Government machinery, the question of liberalizing the provisions of the present Voluntary Retirement Scheme (VRS) arose. After considerable thought, and considering the report of M/s Noble & Hewitt, our consultants on the subject, **the Commission has evolved a two-pronged strategy on voluntary retirement as under:**

(a) **Retain the existing VRS as it is, on a regular year-round basis to take care of those who want to leave Government service of their own volition.** Here the assumption is that they have weighed the pros and cons of their decision and have already lined up a job in all probability. For them, the normal provisions would be adequate.

(b) **Evolve a new special short-term Golden Handshake Scheme only for those who are identified by Government as surplus.** Here it is the Government which is taking the painful decision of sending such employees home, although there may be no fault of theirs. To ease the position, special provisions are necessary.

129.2 We first consider the present provisions relating to Voluntary Retirement and the demand and issues pertaining thereto.

HISTORICAL BACKGROUND

Provisions in Rules

129.3 The scheme of Voluntary Retirement for Central Government employees was first introduced in 1977 through executive instructions. It was given a statutory backing by introduction of Rule 48-A in the CCS (Pension) Rules in November, 1978. Under the Scheme, a Government servant who has completed not less than 20 years of qualifying service may seek voluntary retirement by giving a notice of not less than 3 months in writing to the appointing authority. Retirement under this rule is on a voluntary basis, the initiative resting with the employee. The Government does not have the right to retire the employee at this stage.

129.4 Provisions providing for premature retirement are also contained in Rule

48(I)(a) of Central Civil Service (Pension) Rule. A Government servant can under this Rule, seek retirement at any time after completion of 30 years of qualifying service. Rule 56(k) of fundamental Rules provides for premature retirement by a Group 'A' or 'B' officer on his attaining the age of 50 years, provided he had entered Government service before attaining the age of 35 year and in all other cases after attainment of the age of 55 years. The Government also has a corresponding right to retire a Government servant in public interest under Rule 48(I)(b) and FR 56(j), but this is a kind of punishment and we have dealt with compulsory retirement in our Chapter on Service Matters.

Weightage in service

129.5 Initially, a weightage of five years in qualifying service was admissible in cases of voluntary retirement under Rule 48-A. This was subject to the condition that the total qualifying service after the weightage did not exceed 30 years and it did not take a employee beyond the norms date of his superannuation. Subsequently, however, the position was liberalized and the weightage of five years has been given in all cases of voluntary retirement covered by Rule 48(I) (a) and Rule 48-A of CCS (Pension) Rules and Rule 56(k) of the Fundamental Rules. The limit of 30 years was also raised to 33 years. The benefit of weightage is, however, not admissible in cases where a Government employees is retired compulsorily by the Government in public interest.

MAJOR ISSUES AND OUR RECOMMENDATIONS

Reduction in qualifying service for voluntary retirement

129.6 It has been urged before the Commission that the qualifying service for seeking voluntary retirement should be reduced from the existing 20 years to 15 or 10 years. Some employees have pleaded that they be permitted to retire after 15 years of service or on completion of 50 years of age irrespective of the fact that they had entered Government service before attaining the age of 35 years.

Our recommendations

129.7 Similar requests had been examined by the first three Pay Commission, who chose not to recommend any special provisions for early retirement. The existing rules which permit voluntary retirement after 20 years of service or on attaining 50/55 years of age already provide an opportunity to those who do not wish to continue in service. Any further reduction in the period of service for voluntary retirement is likely to create difficulties in the retention of trained manpower in Government, besides casting upon Government the liability to pay a life-long pension to the employee and his family after his death. Any employer, including the Government, expects an employee to render service for a reasonable period before entering into a commitment for the payment of a life-long pension and family pension on a liberal scale. There is also no justification for allowing different periods of qualifying service for seeking voluntary retirement in case of outstanding sportsmen, women employees, Groups ‘A’ and ‘B’ officers or employees posted in remote areas as has been demanded. Taking an overall view of the matter, **the existing provisions providing for voluntary retirement are adequate and do not call for any modification.**

Increase in weightage of qualifying service

129.8 It has been urged that the weightage in qualifying service on voluntary retirement should be raised from 5 years to 10 or 15 years. Also that the weightage of 5 years in qualifying service may be allowed to those who sought voluntary retirement prior to 10.9.1983.

Our recommendations

129.9 the present provisions relating to voluntary retirement are considered to be quite reasonable and adequately compensate those desirous of quitting government service for whatever reasons. **Any further liberalization of these provisions would not appear to be justified.** As regards the extension of **weightage of 5 years in qualifying service** to those who retired prior to 10.9.1983, benefits improving the conditions of service of government employees **should logically be extended only prospectively from a date** to be specified for the purpose. Under the circumstances, it would not be desirable to reopen past cases already decided.

Financial benefit for added years of service

129.10 Another demand received by us is that an additional benefit in the form of five advance increments should be extended to those seeking voluntary retirement for the purpose of calculation of their pension and other benefits.

Our recommendations

129.11 An increment is granted after an employee renders service for 12 months. Since an employee ceases to render any service on voluntary retirement, **the question of granting any further increments would not obviously arise. No change is recommended in the existing procedure.**

Repeal of Rule 10 of CCS (Pension) Rules

129.12 It has been urged that Rule 10 of the CCS (Pension) Rules which requires a pensioner to seek the previous sanction of the government before accepting any commercial employment within a period of two years of his superannuation should be deleted or modified slightly to provide that the request of an employee seeking permission to accept such employment should be decided before the expiry of the notice period. This has been justified on the ground that the rule places unnecessary restrictions on pensioners.

Our recommendations

129.13 Rule 10 of the CCS (Pension) Rules would not appear to be very relevant in the context of the circumstances prevailing after the liberalization of the economy. It could, in fact, be considered an anachronism. There is, therefore, much force in the argument that the existing provisions place unnecessary restrictions on pensioners. **We, recommend deletion of Rule 10 of the CCS (Pension) subject to other liabilities of Government employees for acts committed by them while in service continuing to remain in force as per the existing rules. It may also be clarified that if it turns out later that a government employee had obtained a post-retirement job from an individual or a company in lieu of certain undue favours extended by him during service, he shall be proceeded against under the Prevention of corruption Act and other legal provisions.**

Appointment of dependents on voluntary retirement

129.14 It has been represented by some of the associations and employees that a dependant child or other dependants of an employees opting for voluntary retirement should be employed in government service on compassionate grounds.

Our recommendations

129.15 In this context, it would be quite appropriate to make reference to a decision of the Supreme Court in Auditor General of India and other Vs. Shri G. Anantha Rajeswara Raj, 1994 SCC(L&S) 500. In that case, the question posed for consideration was whether the compassionate appointment of near relations tantamounted to appointment on the basis of descent and was, therefore, violative of Article 16(2) of the Constitution. The Supreme Court held as under:-

> "If the appointments are confined to the son/daughter or widow of the deceased Government employee who needs immediate appointment on grounds of immediate need of assistance in the event of there being no other earning member in the family to supplement the loss of income from the breadwinner to relieve the economic distress of the members of the family, it is unexceptionable. But in other cases, it cannot be a rule to take advantage of the memorandum to appoint the persons to these posts on the ground of compassion."

129.16 In view of the above, **no change is called for in the existing provisions.**

Cent per cent commutation on voluntary retirement

129.17 It has been urged that employees seeking voluntary retirement should be given the option to commute even 100% of their pension. It has also been suggested that such persons should be paid a lump sum amount in lieu of monthly pension.

Our recommendations

129.18 At present employees seeking voluntary retirement are treated at par with employees retiring on superannuation and are allowed to commute up to one-third of their pension. The facility of commutation of one's entire pension which was available to employees permanently absorbed in public sector undertakings and autonomous bodies has been withdrawn w.e.f. 31.3.1995. Pension is primarily intended to provide a regular income to an employees after his retirement. It also ensures that he leads an independent life without having to rely on others for support and sustenance. This has been rendered even more necessary after the breakdown of the joint family system. Commutation of the entire pension would not meet the desired objectives. On the contrary, it is not unlikely that the lump sum amount received in lieu of pension may be frittered away in speculative ventures to the detriment of a pensioner's interests. Having regard to all relevant factors, we recommend that the **employees seeking voluntary retirement should be allowed to commute pension upto the same percentage as is allowed to employees on superannuation.**

GOLDEN HANDSHAKE SCHEME

Amendment to Rule 29 of CCS (Pension) Rules, 1972

129.19 While any further liberalisation of the existing scheme of voluntary retirement as contained in Rule 48-A of the CCS(Pension) Rules is not considered justified, it is felt that a **more attractive "golden handshake scheme" needs to be formulated in respect of employees who are identified as being surplus to requirements in the context of right-sizing the machinery of Government.** At present employees who are declared surplus are given a weightage of five years' service under Rule 29 of the CCS (Pension) Rules, provided they had rendered a service of not less than 15 years. With a view to protecting the interests of an employee declared to be surplus due to abolition of posts of reduction in establishment, the provisions of Rule 29 of the Pension Rules need to be revised. The following guidelines are proposed to be incorporated in Rule 29 of the Pension Rules in substitution of the existing provisions. Some of the suggestions contained here have been taken from the Report of M/s Noble & Hewitt. our consultants on the subject.

Weightage in service

129.20 A Government servant who is declared surplus to the establishment in which he is servicing **shall be entitled to an additional of five years to the qualifying service rendered by him provided** that the qualifying service rendered by him is not less than 15 years on the date on which he exercises an option to retire and the qualifying length of service after taking into account the aforesaid addition is not more than the service he could have rendered had he retired on the date of his normal superannuation, and the option to retire is exercised and is communicated to the authority competent to sanction pension within the period specified by the competent authority.

129.21 with a view to effecting an across-the-board reduction in the staff strength to the extent specified by the Commission in its recommendations on reducing the size of the government machinery, a special task force consisting of senior officers not below the rank of Joint Secretary may be constituted under the Secretary of each administrative ministry, to identify the surplus categories of employees and their numbers. Every department will have to carry out this exercise on a continuing basis. The scheme being proposed will be applicable to persons within the age group of 35-50 years. The scheme shall be opened for a limited period of 3 months at a time, during which period options will be invited from the categories of staff identified as surplus. If the staff identified as surplus apply for voluntary retirement, they shall be relieved from service and if they do not exercise the option to retire in response to the scheme, action shall be taken to discharge them from service under the existing provisions of various Service Rules. With a view to ensuring that only those persons are discharged from service who are sought to be discharged and not others who are to be retained, the final decision to accept the notice of retirement would rest with the special task force. **The posts vacated by the incumbents shall be abolished. The persons identified as surplus would be entitled to the following benefits:-**

a) **Full commutation of pension** by surrender of the right to receive monthly pension with an option to avail, instead of commutation up to the limit prescribed for employees retiring on superannuation and to receive monthly pension.

b) **Ex-gratia amount equivalent to 1.5 months emoluments (Pay+DA) for each completed year of service or the remaining years of service left before the normal date of retirement, whichever is lower.** The weightage allowed in qualifying service shall not be count for the purpose of computation of ex-gratia amount. The employee shall be given an option to receive the amount of ex-gratia and retirement gratuity either in lump sum or in the shape of a Monthly Protection Allowance, equivalent to the ex-gratia, gratuity and interest thereon at the rate applicable to GPF accumulations, spread over 60 months. This allowance could help the employees to pull on during the period of transition, by providing him with a substantial monthly income sufficient to cater to his basic needs at least.

c) Computation of pension and retirement gratuity by allowing a weightage of five years to the qualifying service on the date of relief.

- **d) Encashment of Earned Leave accumulated on the date of relief.**
- **e) Payment of accumulations in the General Provident Fund.**
- **f) Payment of savings element with interest in the CGEGIS.**
- **g) TA/DA as on transfer for self and family for settling anywhere in India.**
- **h) Exemption on pensionary benefits including ex-gratia amount from Income Tax and Wealth Tax.**

CONCLUSION

129.22 It is our firm belief that Government can, by a judicious mix of the normal Voluntary Retirement Scheme and the special Golden Handshake Scheme be able to achieve its objective of rightsizing the Government machinery within a reasonable time-frame.

PART III

RATIONALISATION OF THE FUNCTIONS, ACTIVITIES AND STRUCTURES OF THE MINISTRY OF INFORMATION AND BROADCASTING

RATIONALISATION OF THE FUNCTIONS, ACTIVITIES AND STRUCTURE OF THE MINISTRY OF INFORMATION AND BROADCASTING

CONTENTS

RATIONALISATION OF THE FUNCTIONS, ACTIVITIES AND STRUCTURE OF THE MINISTRY OF INFORMATION AND BROADCASTING

Introduction

Mass communication has developed in the country rather comprehensively in its different dimensions – the electronic, print and the film media. The folk media has also been utilised to reach out to the people in different parts of the country.

"Broadcasting and other like forms of communication" is a central subject, being covered by entry No.31 in the Union List of the Seventh Schedule of the Constitution. "Newspapers, books and printing presses" is a concurrent subject, being entry No.39 in the Concurrent List. Subject to "sanctioning of Cinematograph Films for exhibition" under entry No.60 of the Union List, "cinemas" is entry No.33 in the State List.

The Ministry of Information under the union government and Departments/ Directorates of Information under the state governments have played their respective roles with a high degree of sensitivity in developing mass communications, considering the significant role it plays in our democratic system.

The broadcasting infrastructure developed in the country by the All India Radio and Doordarshan have had a strong orientation to disseminating information on government programmes and policies for economic development through Five-Year Plans and on the points of views of the governments of the day.

Television brought about a sea change in communication and we built up one of the world's extensive terrestrial networks. Satellite technology has revolutionalised communication both within and outside the country. The establishment, in 1983, of the Indian National Satellite System (INSAT) – a multi-purpose system including for television broadcasting and radio and television programme distribution – has helped us put Doordarshan and All India Radio in possession of a very vital broadcasting infrastructure. Further, there has been a very vigorous growth of private television channels based on satellite technology. Concurrently, there has also been extensive growth of cable TV network.

Economic reforms and liberalisation have also had some impact on our thinking in respect of mass-communication in the country. The All India Radio and

Doordarshan have been constituted into a professedly autonomous corporation, though the corporation continues to be predominantly government funded. Following up on a Supreme Court judgement that airwaves are "public property", government is also intending to create an independent telecasting authority.

Government controlled media as such does not also carry credibility amongst the people the world over who believe in the freedom of the media. In this background, it is only appropriate that the government information and broadcasting system is reviewed with a view to making it credible, modernising it and rendering delivery of mass-communication services more cost effective. Special emphasis has to be laid on –

* economy in administrative expenditure,
* rationalisation of old and avoidably unbalanced, and therefore, expensive staff norms,
* enhancing productivity, and
* generation of internal resources, especially through economic use of capacities including by involvement of private entrepreneurs.

THE BUSINESS RULES

According to the Allocation of Business Rules (corrected upto 10-10-1997), the mandate of the Ministry of Information and Broadcasting consists of –

* Radio and Television Broadcasting through All India Radio and Doordarshan, especially with a view to informing, educating and entertaining the people and incidental matters;
* Cable television policy;
* Films especially in relation to entry 60 of the Union List of the Constitution and incidental and allied matters;
* Advertising and Visual Publicity;
* The Press;
* Publications and internal and external publicity;
* Research and Reference support to the Media Units of the Ministry;
* Publicity for the policies and programmes of the Government of India;
* Financial support to artistes – musicians, instrumentalists, dancers, dramatists etc.;
* Asia Pacific Broadcasting Union, Commonwealth Broadcasting Association and the Non Aligned News Agency Pool; and
* Cadre Management of the Indian Information Service (Groups A and B).

Particulars of the attached and subordinate organizations, autonomous organizations and public sector undertakings under the ministry are presented in subsequent paragraphs, while dealing with each one of them. (There are 15 attached and subordinate organisations, 5 autonomous organisations and 2 public sector undertakings under the ministry.)

LEGAL FRAMEWORK RELATING TO THE MEDIA

PRESS-RELATED LAWS

1. **Press & Registration of Books Act, 1867, as amended in 1955** – (Based on first Press Commission recommendation).

Object

* Registration of Printing Presses and Newspapers;
* Preservation of copies of books and other printed matter (under the International Standard Book Numbering System – ISBN – copies of books are to be delivered; they are preserved in a library which is under the Ministry of HRD); and
* Office of the Registrar of Newspapers for India (RNI) created in 1956 under the law.

2. **Official Secrets Act, 1923**

Object

* To maintain security of state;
* Prevent leakage of important information; and
* Prevent sabotage.

3. **Criminal Law Amendment Act, 1961 (Act 23 of 1961)** – (In replacement initially of Indian {Press} Emergency Powers Act, 1931 & subsequently Press {Objectionable Matter} Act, 1951).

Object

Operate restrictions upon freedom of expression/press, freedom of assembly/ movement on grounds of –

* Security of state
* Public order

4. **Press Council Act (1965, 1978).** This is patterned on a British Law. The 1965 Act has been replaced by the 1978 Act.

Object

* To preserve freedom of press;
* Maintain & improve standards of newspapers in India; and
* Establishment of a code of conduct to prevent legally unpunishable, but objectionable writings.

Structure

* Has representative composition.

5. The Newspaper Price & Page Act, 1956.

Object

To issue price and page control orders:-

* Fixation of minimum price
    # to relate prices to volume so as to prevent unfair competition between large and smaller newspapers;
    # so as to prevent concentration of ownership in the hands of a few commercial groups.

6. Defence of India Act 1962, 1968, 1971 – The 1962 law was enacted after the Chinese Aggression; the 1968 law was entitled the Civil Defence Act and was meant to replace the 1962 law on its expiry on a permanent basis. There was Proclamation of Emergency in 1971 and Defence of India Act, 1971 was enacted; it was meant to be a more rigorous law. After the proclamation of Emergency in 1975, the 1971 law was amended to deal with internal disturbances as well. The Central Censorship Order promulgated by the government during the Emergency of 1975 was revoked in 1977 along with revocation of the Emergency Proclamation. This law itself has since been replaced by the National Security Act.

Object From Media point of view –

* Censorship to prevent prejudice to civil defence – military operations.

7. The Indecent Representation of Women (Prohibition) Act, 1986.

Object

* To prohibit indecent representation of women in
    # Advertisements;
    # Publications
    # Writings;
    # Paintings;
    # Figures or in any other manner.

FILM RELATED LAWS

8. Cinematograph Act, 1952 (replacing the earlier Act of 1918)- amended in 1981 and 1984 – for streamlining the law.

Object

* Certification of films—
    # For exhibition;
    # Regulation of exhibition by issue of certificates such as U, U/A, S-Professional etc.

9. (a) Cine Workers and Cinema Theatres Workers (Regulation and Employment) Act, 1981,

(b) Cine Workers Welfare Cess Act, 1981

(c) Cine Workers Welfare Fund Act, 1981

Object

To provide labour protection to cine & theatre workers.

The Cess Acts are implemented by Labour Ministry in consultation with the Ministry of I&B.

ELECTRONIC MEDIA – RELATED LAWS

10. Indian Telegraph Act, 1865 as amended in 1961.

Object

* To establish, maintain and work broadcasting services.

As of now, broadcasting is central government monopoly.

11. Prasar Bharati (Broadcasting Corporation of India) Act, 1990.

Object

To give autonomy to AIR/DD

12. Cable Television Networks (Regulation) Act, 1995

Object

* Regulation of operation of cable television networks in the country –
    - Registration of cable operators;
    - Implementation of programme code;
    - Implementation of advertisement code;
    - Compulsory transmission of 2 D.D Channels; and
    - Maintenance of standard of equipment.

Implementation of the law is with state governments.

ANALYSIS OF MEDIA UNITS UNDER THE MINISTRY OF I&B

(Budget figures presented below are as on 1.4.2000, unless otherwise specifically stated)

1. Central Board of Film Certification

This is one of the attached and subordinate organisations of the Ministry of I&B, set up under the Cinematograph Act, 1952.

The head quarters are in Mumbai. It has 9 regional offices in Bangalore, Calcutta, Chennai, Cuttack, Guwahati, Hyderabad, Mumbai, New Delhi and Thiruvananthapuram.

The organisation certifies annually about 2500 Indian and 750/800 foreign feature/video films.

Object

* Certification of films—
  - # For exhibition;
  - # Regulation of exhibition by issue of certificates such as U, U/A, S-Professional etc.

There could be non-certification as well.

Annual Budget Rs. 2.44 Crore

Staff Strength

Groups				Total
A	B	C	D	
9	8	54	27	98

Staff Expenditure Rs.1.15 crore (51.34% to total budget)

Physical Performance

Particulars	Year	Numbers
Indian and foreign films (celluloid films and video films of "feature", "long" and "short" categories) certified:	1997	3359
	1998	3206
	1999	3438

Comments & Recommendations:

Film certification is a statutory work; it has to be necessarily continued; as film production takes place in different parts of the country, the regional formations also will have to continue.

2. Films Division

This is one of the attached and subordinate organisations under the Ministry of I&B. Headquarters is in Mumbai. Field formations are located in Delhi, Bangalore, Calcutta. There are 10 branch offices. Cameramen of the Division are located in State Capitals.

Object

Production and distribution of newsreels, documentaries and news magazines.

Annual Budget: Rs.32.83 crore (Non-Plan is Rs.25.83 crore)

Staff Strength

	Groups				Total
	A	B	C	D	
	53	174	637	315	1179

Staff Expenditure Rs. 10.60 crore (32.28% of total budget)

Physical Performance

Particulars	Production (Nos.)		Distribution* (No. of Prints and Cassettes)	
	1998	1999 (anticipated)	1998	1999 (anticipated)
In-house production of news magazines and documentaries for theatrical and non-theatrical release; and of instructional films.	69	80	46,369	27,646
Production of documentaries and special feature films through outside producers	20	33		

* Distribution includes those supplied to Directorate of Field Publicity and to DD News.

Comments & Recommendations*:*

Documentaries could be produced by the respective ministries themselves, which are in possession of expert subject knowledge. With the growth of the electronic and print media, including in regional languages, it is no longer necessary for a separate Films Division to produce documentaries, dub them in different languages, take several prints, maintain a chain of distribution network and distribute the same for exhibition in theatres. The Motion Picture Association and others litigated against compulsory exhibition of documentaries on several grounds including that this casts considerable financial commitment on the exhibitors. The Supreme Court in Civil Appeal Nos. 3766-67 of 1999 etc. etc., have dismissed the case of the Motion Picture Association and others and gave a ruling that compulsory exhibition is statutorily provided for and that financial commitment for exhibitors is only in the nature of fee paid by agreement with the Films Division for the service of making documentaries of public interest available. However, even as brought out in the judgment of the Supreme Court itself, recoveries by the Films Division in the form of rentals is only Rs.7-8 crore whereas the expenditure incurred by the division for taking prints alone is of the order of Rs.12 crore. It is obvious, then that the revenue aspect is not necessarily a justification for documentary production by the Films Division.The film exhibitors may also have a tendency to load the cost of exhibiting documentaries on the

filmgoers amongst the general public, which includes a large number of poor rural folk. Above all else, the ministry gives Plan and Non-Plan resources of over Rs.900 crore to the Prasar Bharati Corporation, apart from around Rs.170 crore as capital (loans and advances). It is only appropriate, therefore, that the ministry arranges with the Doordarshan for exhibition of documentaries in fulfillment of its role as a public service broadcaster as well. More intensive and effective use of the medium of the radio can also be taken recourse to for dissemination of information handled in the documentaries of the Films Division. (The radio has much wider outreach amongst the people than television. It is also known as a "companion" medium, high resolution hand and pocket sets of which are also within the reach of most people, not to speak of community radio sets that are available in most panchayats and even villages.)

In any case, compulsory exhibition of documentaries has been provided for in state cinematograph laws. And, state governments could continue to be free to exercise their powers of securing compulsory exhibition by exhibitors of such documentaries as they may themselves procure or produce.

3. Childrens' Film Society, India (CFSI)

This is an autonomous organisation under the Ministry of I&B. It was earlier, known as the National Centre of Films for Children and Young People, and was established in 1955.

Object

* To advance education and culture among children through the medium of films.
* To produce, promote and exhibit films of interest to children.
* To provide healthy entertainment to the younger generation.

Annual Budget Rs.6.65 crore
(Plan is Rs.6 crore)

Staff Strength

Groups				Total
A	B	C	D	
4	13	43	9	69

Staff Expenditure Rs.15 lakh (2.25% of total budget)

Physical Performance

Particulars	1997-98 (Nos.)	1998-99 (Nos.)	1999-2000 (anticipated) (Nos.)	Remarks
Production, purchase, dubbing and sub-titling of films	26	6	21	Includes films pro duced by carrying them from previous years
Organisation of, and participating in, international children's films festivals	16	—	15	Organisation of one film festival by the society is a biennial event

Comments & Recommendations*:*

There is no need for the government to get involved through one of the organisations under it in production of films for children. Reputed non-government Institutions engaged in child welfare activities could be given grants-in-aid for production of films oriented to children and young persons.

The world trend is one of insisting that all TV channels including private channels should spare telecasting time for programmes of interest and relevance to children. If need be, by legislation, it should be made mandatory for all TV channels in India also to telecast such programmes and at timings appropriate for viewing by children.

4. National Film Archive of India

This is one of the attached and subordinate organisations under the Ministry of I&B. Headquarters is in Pune. It was set up in February 1964.

Object

* Preservation of heritage of Indian cinema.
* Undertake research relating to films.
* Dissemination of film culture.

Annual Budget Rs.2.33 crore (Non-Plan is Rs.98 lakh)

Staff Strength

Groups				Total
A	B	C	D	
4	3	23	27	57

Staff Expenditure Rs.46.50 lakh (20% of the total budget)

Physical Performance

Particulars	1998-1999	1999-2000 (Apr-Dec.99)
Acquisition of –		
Films	180	315
Books	245	271
Video Cassettes	100	24
Stills	1839	1636
Slides	666	416
Wall Posters	1634	584
Scripts	120	3343
Pre-recorded Audio Cassettes	118	56
Disc Records	72	—
Audio Compact Discs	7	11
Song Booklets	364	181
Pamphlets	10	2

Comments & Recommendations:

The archival function being oriented towards preservation of heritage of national cinema etc., this media organisation could continue. In the management of the archive, the industry should be closely associated, drawing upon the experience and expertise of eminent film producers and film technocrats and even senior artistes of repute drawn from various disciplines. (The National Film Archive being only a departmental formation, at present, there is only an advisory body).

In many countries, films gaining entry in the archives is considered to be a privilege. It is not that every film is selected for archival entry. Producers of films selected for preservation should also be asked to pay for archival entry. That would also reflect industry partnership in this area.

5. Film and Television Institute of India

This is an autonomous organisation under the Ministry of I&B. The Film Institute was set up at Pune in 1960. In 1970, the television wing was added to the institute and it was renamed as Film and Television Institute of India.

Object

Imparting training in the art and techniques of film making.

Trains DD employees in television production.

Conducts diploma courses in different disciplines (3-year courses, generally). At a time, there are around 150 students.

Annual Budget Rs.11.17 crore (Non-Plan is Rs.5.67 crore)

Staff Strength

	Groups				**Total**
	A	B	C	D	
	65	46	123	104	338

Staff Expenditure Rs.3.80 crore (34.01% of total budget)

Physical Performance

No. of Students undergoing various courses*

Course	Nos.
Basic Course (Students of 1997)	25
Basic Course Students Admitted in 2000	80
Certificate Course Students of 2000	48
Total	**153**

* *Courses include those on film production, cine-photography, and sound engineering-recording/editing.*

Comments & Recommendations:

Some of the graduates of this institute have, of course, turned out to be highly reputed artistes and technicians. However, a budget of over Rs.11 crore per annum of which staff expenditure is around 34% is patently disproportionate to the student strength of around 153 persons.There are also a number of private film and television training institutions in the country. Therefore, the ministry could divest itself of this institution and may explore the possibility of the film industry creating an association or agency and taking it over, details of asset transfer being carefully worked out so as to safeguard government investments. For example, pricing could be based on the model of disinvestment/ privatisation procedures.

As film industry directly or indirectly provides employment opportunities in several film related vocations like cinematography, editing, processing, dubbing, film advertisement etc., apart from acting and directing, vocational training capabilities of the institute should be built up and larger number of trainees should be inducted. This should be done whether it be through the new dispensation of the institute being taken over by the industry or if that does not materialise, in the existing dispensation itself.

6. Directorate of Film Festivals

This is one of the attached and subordinate organisations under the Ministry of I&B. This was set up in 1973.

Object

Promotion of good cinema by organizing –

* Film festivals in India and abroad;
* Promoting Indian films in India and abroad;
* Incidental activities including organization of National awards for films.

Annual Budget Rs.12.72 crore

(Non-Plan Rs.3.52 crore)

Staff Strength

Groups				Total
A	B	C	D	
11	2	36	7	56

Staff Expenditure*:* Rs. 60 lakh (4.71% of total budget)

Physical Performance

Particulars	1998-99	Apr.1999 to Feb.2000
Participation in foreign film festivals	59	59
Conduct of film festivals in India and abroad under Cultural Exchange Programme	12	13
Organisation of International Film Festival of India	1	1
Preparation of sub-titled prints of feature and non-feature films	36	45

Comments & Recommendations*:*

Film festivals could be left to be organised by the film industry itself. Participation in film festivals can also be organised by the industry, Ministry's role being limited to releasing financial support to the Industry and coordination. A matter worthy of notice in this context is that the government almost invariably comes under criticism from the industry in regard to organisation of film festivals. The Ministry, however, could continue the National Film Awards for the purpose of recognising films and artistes of creative excellence. The work relating to National Awards could be performed by a limited cell operating within the Ministry.

7. Satyajit Ray Film and Television Institute of India

This is an autonomous organisation under the Ministry of I&B and was set up at Calcutta in 1995 as a society under West Bengal Societies Registration Act, 1961.

Object

- To function as a national institution for film and television;
- Television education in the Eastern and North Eastern Regions.

Conducts 3-year diploma courses on technical subjects.

Annual Budget Rs.8 crore

Plan Rs.6.5 Cr; Building Rs.1.5 Cr)

Staff Strength

Groups				Total
A	B	C	D	
13	19	27	16	75

Staff Expenditure : Rs.1.24 Crore (19.07% of total budget)

Physical Performance

Particulars	Nos.
Students admitted for Diploma Courses on Film Related Subjects	64

* *Infrastructure including civil construction is still being created.*

Comments & Recommendations:

Same comments as under Film and Television Institute of India, Pune.

8. Indian Institute of Mass Communication

This is an autonomous organisation under the Ministry of I&B and was set up in 1965 as a centre of advanced study, research and training in various fields of mass communication.

This has been registered as society under Societies Registration Act of 1860.

It has been recognised as a “Centre of Excellence” by UNICEF, UNESCO, WHO, etc.

Has Branches in Dhenkanal (Orissa)

Kottayam (Kerala)

Jhabua (M.P.) and

Dhimapur (Nagaland)

Object

* Conduct of teaching, training and research on mass communication;
* Undertaking consultancy;
* Conduct of refresher courses;
* Organisation of workshops, seminars and conferences.

Runs 5 diploma courses; 2 training courses on journalism, advertising etc. for Indian and foreign students.

Annual Budget Rs.8.26 crore (Plan Rs.4.62 crore)

Staff Strength

	Groups				**Total**
	A	B	C	D	
	47	37	65	43	192

Staff expenditure Rs.1.45 crore (17.6% of total budget)

Physical Performance

Courses Conducted	Subjects
Post Graduate Diploma	Journalism, Advertising and Public Relations and Radio and TV Journalism
Advanced Diploma	Development Journalism (for non-aligned and other developing countries)
Orientation	For Officers of Indian Information Service

Comments & Recommendations*:*

This has developed into a very good educational and training Institution in the area of journalism and has acquired international repute. This would need to be continued and encouraged. However, the branch institutions could be discontinued as they lack in infrastructure. Scarce resources that may be required to develop them could rather be deployed on developing the main institute.

In the post graduate diploma courses run by the institute, the annual intake is about 150 students. The per capita student expenditure, considering the annual non-plan expenditure of Rs. 4.36 crore (staff expenditure being Rs.1.45 crore) is on the high side. The institute should explore the feasibility of enhancing students' intake considering that journalism, as a profession is also vocational in nature. The need for enhancing user charges should be gone into, as the annual receipts are not more than Rs.7 to Rs.8 lakh.

9. Research, Reference and Training Division

This is one of the attached and subordinate organisations under the Ministry of I&B, set up in 1945.

Object

* To provide basic information material on various subjects to I&B Ministry, its media units and field offices;
* To project policies and programmes of the government;
* Production of "India-Reference Annual";
* Production of "Media Update" fortnightly;
* Production of monthly paper – "Development Digest";
* Production of fortnightly daily – covering national and international events.

Annual Budget Rs. 99 lakhs (Non-Plan Rs.85 lakh)

Staff Strength

Groups				**Total**
A	B	C	D	
8	17	22	13	60

Staff Expenditure Rs.63 lakh (63.63% of total budget)

Physical Performance

Particulars	1997-98	1998-99 (Numbers)	1999-2000
Preparation of reference papers – speeches, briefs, write-ups etc., for senior officials of I&B Ministry, media units and field officers.	47	44	227
Preparation of Reference Annual on India, based on materials received from various ministries	1	1	
Production of paper entitled "Media Update"	Fortnightly		
Production of Dairy of Events	Fortnightly		
Production of "Development Digest"	Monthly Paper		

Comments & Recommendations:

This Division could be downsized retaining essential staff required for production of only "India – Reference Annual".

10. Directorate of Advertising and Visual Publicity (DAVP)

This is one of the attached and subordinate organisations under the Ministry of I&B. It has a network of 35 field institutions.

Physical modalities of action

* Audio visual publicity programmes on radio and TV
* Exhibitions
* Print publicity
* Outdoor publicity
* Advertisements in press

Object

* To serve as a central agency of Government of India to organise publicity for Government of India on their policies, programmes and achievements.
* To cater to the publicity needs of central ministries through
  # Advertisements
  # Printed material
  # Audio-Visual material

Around 20,000 press advertisements are issued in a year through DAVP.

Annual Budget Rs.52.46 crore out of which Non-Plan is Rs.51.10 crore. Half the budget is for advertisements.

Staff Strength

Groups				Total
A	B	C	D	
44	231	364	256	895

Staff Expenditure Rs.8.60 crore (16.39% of total budget).

Physical Performance

Particulars	1998-99	1999-2000 (anticipated)
DAVP implements developmental publicity programme under which it produces, for various ministries, "spots" for telecasting/broadcasting; and audio "spots". It also produces films on national values.		
Exhibitions conducted	455	361
Display/classified advertisements released	20724	22500
Radio/TV advertisements prepared through accredited agencies	5752	4700

Conduct of print publicity (Production of folders, posters, booklets, brochures etc.) for various Ministries	143	150
Outdoor Publicity on subjects of various Ministries (through hoardings, bus tickets, wall paintings, slides, banners, etc.)	341	350

Comments & Recommendations:

The principal activity of this organisation in the ministry is facilitation of centralised advertising for various ministries. Distribution of advertisements is also seen as a matter of patronage. Printed materials – posters, folders, booklets etc., are also produced by the DAVP for field exhibitions. These activities, including release of advertisements, could be decentralised and left to the ministries. The Ministry of Information and Broadcasting need only concern itself with establishment of rate contracts to be followed by the various ministries releasing advertisements on a decentralised basis.

At present, the various ministries are obliged to go through the DAVP for release of advertisements by virtue of Allocation of Business Rules of Government of India. These rules should be suitably amended deleting reference to release of advertisements by various ministries through the DAVP.

11. Press Information Bureau (PIB)

This is one of the attached and subordinate organisations of the Ministry of Information and Broadcasting.

User agencies of PIB are news agencies, radio and television organisations.

Has 40 regional branch offices in different state capitals and major newspaper centres.

Has its officers of the rank of Dy. Principal Information Officers/ Information Officers in different ministries.

Modalities of Action

* Issue of press releases
* Release of features
* Release of computer graphics
* Supply of photographs
* Organisation of Ministry level press conferences, interviews, press tours

Object

* To function as a nodal and authentic Government of India agency for dissemination of information on government's policies, programmes, initiatives and achievements.
* To provide feedback to government on media reactions.

Annual Budget Rs.20.37 crore
(Non-Plan is Rs.18.27 crore)

Staff Strength

Groups				**Total**
A	B	C	D	
159	240	456	343	1197

Staff Expenditure Rs.13.58 crore (65.58% of total budget)

Physical Performance

Particulars	1998	1999
Press releases issued	26137	27946
Features released		1809
Computer graphics released		54
Photographs of government functions, projects and programmes supplied to various newspapers and periodicals		191658 up to Dec.99
"Hits" on PIB Home Page on the Internet on developmental initiatives of Government		2 lakhs per month
Digest of news and views on the print media to provide feedback to government on their policies, programmes and schemes (circulated to President's office, PMO and Union Ministers' Offices)		Daily

Comments & Recommendations*:*

The Press Information Bureau is the core infrastructure of the ministry for dissemination of information from government to the people through media and also for receipt of feedback information from the people. This institution which has its representative presence in the various ministries and also in state capitals would need to be continued. It would also need to be modernised so that it could function as a truly professional body. Out of a total of 40 branch offices, there are about a dozen branch offices outside state capitals. Offices in state headquarters alone need be continued and the rest would up. Savings out of the pruning could rather be deployed for modernizing offices in state capitals.

12. Press Council of India (PCI)

This is an autonomous organisation under the Ministry of I&B. It was set up as a quasi-judicial body under the Press Council Act, 1978. It is a body corporate.

Modalities of function

* Adjudication of –
    # complaints against the press for violation of journalistic ethics;
    # complaints by the press for jeopardizing its freedom;
* Suo moto initiation of studies of freedom of the press and its standards.

Object

* To preserve freedom of the press.
* To maintain and improve standard of newspapers and news agencies.

Annual Budget Rs.2.27 crore (Entire budget is Non-Plan)

Staff Strength				
Groups				Total
A	B	C	D	
6	27	23	30	86

Staff Expenditure Rs.1.38 crore (60.79% of total budget).

Physical Performance

Particulars*	Complaints by the the Press (Nos.)	Complaints against Press (Nos.)
Cases expected to be adjudicated	159	305
Cases expected to be dismissed at preliminary stages	351	854
Total	**510**	**1129**

* *Figures in respect of these particulars relate only to the year 1999*

Comments & Recommendations*:*

This is an important organisation meant to preserve press freedom and secure ethics in the media. This has to be continued.

13. Office of the Registrar of Newspapers for India (RNI)

This is an attached office of the Ministry of I&B created in 1956.

Object

* Verification of titles of newspapers
* Registration of printing presses and newspapers;
* Preservation of copies of books and other printed matter (under the International Standard Book Numbering System – ISBN – copies of books are to be delivered; they are preserved in a library which is under the Ministry of HRD); Budget Rs.2.20 crore (entire outlay is under Non-plan).

Annual Budget Rs.2.20 crore (entire outlay is under Non-plan)

Staff Strength

Groups				Total
A	B	C	D	
2	46	68	22	138

Staff expenditure Rs. 1.70 crore (77.27% of total budget)

Physical Performance

Particulars	1998-99 {Nos.}	1999-2000 (up to 30.11.99) {Nos.}
Issue of eligibility certificates to newspapers to import newsprint/purchase newsprint from indigenous newsprint mills (non-statutory function)	756	568
Issue of certificate of registration under press and Registration of Books Act (Maintenance of record and statistics of newspapers and periodicals is a basic function of the RNI)	2972	2381
Clearance of titles of new publications	19876	17662
Production of the publication entitled "Press in India"		
This is an Annual Report on the state of the print media		
Checking of claims of circulation of newspapers	1577	802
Certification of the printing and allied machinery needs of newspaper establishments	4	4

Comments & Recommendations*:*

The Office of the Registrar of Newspapers of India has to discharge statutory functions; it has to be continued for securing the orderly development of newspaper journalism as well as book industry.

The revenue earned by the RNI annually is about Rs.60, 000. (the earnings last year, 1999-2000, was Rs.58, 000. A meaningful set of fees for the services of RNI should be established.

14. Directorate of Field Publicity

This is one of the attached and subordinate organisations under the Ministry of I&B and was set up in 1953 as the 'Five Year Plan Publicity Organisation'. In December 1959, it was renamed as Directorate of Field Publicity. It now has 22 regional offices and 268 field publicity units.

Modalities of Action

* Films
* Shows
* Song and drama
* Photo exhibitions
* Rural sports
* Public meetings, seminars, symposia and debates

Now the organisation is closely associated with and financed by Ministry of Health and Family Welfare as well.

Object

* To function as Five-year Plan publicity organisation.
* To involve rural people in the process of national development.
* It also gives feedback to government, people's reaction to various programmes and policies of government.

Annual Budget Rs.21 crore (Rs.19.33 crore is Non-Plan)

Staff Strength

Groups				Total
A	B	C	D	
29	283	978	621	1911

Staff Expenditure Rs.13.89 crore (66.14% of total budget).

Physical Performance

Particulars	1998-99 {Nos}	1999-2000 (up to Dec.99) {Nos}
Conduct of film shows	49495	35153
Organisation of conducted tours	7	4
Conduct of special programmes	10937	6000

Comments & Recommendations*:*

Mass communication has had considerable technological development. With Doordarshan having come to achieve a population coverage of about 88% and area coverage of 73% and with satellite channels providing news based programmes competitively – some of them round the clock – there is no case for continuance of the field publicity organisation with a massive staff of over 1900 persons. State governments also have come to organise their own extensive and often efficient field publicity formations. Field publicity equipment could be transferred to the state governments, as activities are discontinued.

15. Song and Drama Division

This is one of the attached and subordinate organisations under the Ministry of I&B and was set up in 1954.

Infrastructure

Headquarters	– Delhi
Regional Centres	– 10 in different parts of India
Border Publicity Centres	– 7
Sub-centres	– 6
Sound and Light Units	– 3
Tribal Centre	– 1

Object

* To create awareness amongst the people about socio-economic, democratic and secular issues using a wide range of art forms.
* Facilitating cultural integration of the country; and
* Presentation of entertainment programmes for the jawans in forward areas.

Annual Budget Rs.16.11 crore (Non-Plan is Rs.13.86 crore)

Staff Strength

Groups				**Total**
A	B	C	D	
17	46	102	76	241

Staff Expenditure Rs.10.60 crore (65.79% of total budget)

Physical Performance

Particulars	1999 (up to December) {Nos.}
Programmes presented in local languages by departmental drama troupes	185
Sound and light programmes organised by Delhi and Bangalore units	32
Programmes presented in local dialects along international border in Punjab, J&K, Chandigarh and North-Eastern States through private registered parties	1298
Programmes presented in Madhya Pradesh, Bihar and Orissa utilising the medium of tribal performing arts	633
Programmes presented on local developmental issues through local troupes	1031

Comments & Recommendations*:*

Same as under Field Publicity (Item 14 above).

16. Photo Division

This is one of the attached and subordinate organisation under the Ministry of I&B.

Object

* Photographic documentation of developmental programmes of the government and the social changes in the country.
* Supply of photographs and transparencies to:
    # the Press Information Bureau for release to newspapers;
    # DAVP for its exhibitions;
    # Publications Division for its publications;
    # Ministry of External Affairs for external publicity;
    # State governments, PSEs etc., on priced basis.

Annual Budget Rs.3.72 crore (Non-Plan is Rs.2.52 crore)

Staff Strength

Groups				Total
A	B	C	D	
7	9	88	26	130

Staff Expenditure Rs.1.40 crore (37.63% of total budget)

Physical Performance

Particulars	1998-99{Nos.}	1999-2000 (up to Nov.99) {Nos.}
Production of black and white prints	495000	355000
Production of colour prints	97000	82000
Production of colour slides	1500	980
Presentation of photo albums (VIPs)	140	100
Assignments covering important events	4000	3200

Comments & Recommendations:

Almost all the ministries and formations under them do engage professional photographers to cover all government programmes. It may be made mandatory for various ministries to furnish copies of photographs taken in relation to their programmes to the Ministry of I&B. And, it may be made one of the responsibilities of the Press Information Bureau to perform archival functions as well in respect of selective preservation of these photographs.

17. Publications Division

This is one of the attached and subordinate organisations under the Ministry of I&B set up in 1941, as a branch of Bureau of Public Information, renamed as Publications Division in 1944.

* Considered as one of the largest publishing houses in the country;
* Has 400 agents in different parts of the country.

Modalities of action

* Production and publication of series like 100 volume book – “Collective Works of Mahatma Gandhi” books on India’s art and culture, land and people, flora and fauna, books for children.
* Publication of periodicals (There are 21 periodicals brought out by the Division);
* Publication of books on subjects of national importance not brought out by other publishing Houses;
* Organisation of book exhibitions/ fairs.

Object

* To disseminate information on the diversified life and culture of the country and on progress in different sectors of the economy.

Annual Budget Rs. 12.25 crore (Non-Plan is Rs.11.27 crore)

Staff Strength

Groups				Total
A	B	C	D	
47	144	294	213	698

Staff Expenditure Rs.6.72 crore (54.85% of total budget)

Physical Performance

Particulars	1998-99 {Nos.}	1999-2000 ({Nos.}
Journals produced	21	21
Annuals brought out	3	3
Books brought out	161	120
Book fairs/exhibitions conducted (up to Oct. 99)		21

Comments & Recommendations:

Since 1941, the Publications Division has brought out a total of 7000 titles in English, Hindi and different Indian languages. Only about 1,500 of them are said to be “in circulation”. The publishing industry in the country has also grown in size and become extensive. There is no need for an exclusive media unit under the ministry to undertake publication of books. Any major project for production of books on special subjects that may be identified by the government can always be negotiated with major publishing houses. The National Book Trust under the Ministry of Human Resource Development has developed special

expertise in production of various kinds of books. If need be, wherever needed, the services of this Trust also could be availed of. The Trust also organises book fairs involving the associations of publishers. Employment News/Rozgar Samachar is a weekly journal being brought out by the Publications Division to provide information on job opportunities in central and state governments and public and private sectors. The function of bringing out this journal could be left to the Ministry of Labour, Directorate of Employment and Training, who are already engaged in collection of job market information.

ANALYSIS OF PUBLIC SECTOR ENTERPRISES UNDER THE MINISTRY OF I&B

1. National Film Development Corporation

This is a public sector enterprise set up in 1975.

Modalities of action

* Financing of quality films
* Import and distribution of films
* Export of films
* Provision of infrastructure to the Industry
* Organisation of film festivals etc.
* Theatre financing
* Telecasting own/acquired films on Doordarshan channels.

Object

* To plan, promote and organise an integrated and efficient development of the film industry;
* To foster excellence in cinema;
* To develop State of the art infrastructure and quality of software in the audio-visual and related fields.

Annual Budget Rs.6.10 crore (Plan)

Staff Strength 207 (Group-wise particulars not made available)

Staff expenditure Rs.4.15 crore (As on 31.3.1999) {68.03% of total budget)

Loss (1998-99) Rs.10.56 crore

Loss on distribution of films (1998-99) Rs.5.54 crore

Comments & Recommendations*:*

The commercial film industry itself is producing a number of quality films these days. The so-called parallel cinema is, indeed, a reality today. The film industry is itself, in the ordinary course of its business, engaged in export of films. Import of films also has been decanalised. Major film studios have come up in different parts of the country and state governments also are providing financial support for creation of studio infrastructure and even production of films. A public sector enterprise under the ministry is not required to undertake these activities. A large number of regional language private channels have come into existence. They exhibit regional language films and film based programmes. It is no longer necessary for the NFDC to acquire films and telecast the same through Doordarshan channels incurring considerable loss. The Auditor’s Report in respect of the National Film Development Corporation for the year 1998-99 has brought out that there are many parties who are defaulters in

repaying the principal (and/or interest thereon) of the loans obtained from the corporation for various purposes. Over the years, an amount of Rs. 4 crore of bad debts have been written off. Some of the constraints, weaknesses and threats brought out by the corporation itself in one of its "overview" documents are: -

* **Difficulties in raising finances in the market;**
* **Having to play in a high risk industry in which financing is often without collateral security;**
* **Difficulties in distribution of its films which are "inherently" economically unviable, though high in quality with creative and artistic excellence;**
* **Dependence on Doordarshan channels, terms of allotment of slots in which, may not be stable; and**
* **The corporation could disinvest; and if not feasible, be wound up.**

2. Broadcasting Engineers Consultants India Limited {BECIL}

This is a Public Sector Enterprise under the Ministry of I&B

Object

To undertake consultancy and turnkey jobs in the fields of acoustics, audio/video systems, terrestrial transmission for radio and television broadcasting and satellite uplinking and downlinking systems.

Annual Budget (1998-99): Rs. 1.76 crore

(Rs.1 crore allocated under Plan towards equity in BE 2000-01. Government Budget support is expected also in terms of interest bearing loans)

Staff Strength 45 of which 27 are regular.

Non-regulars are project staff.

Comments & Recommendations:

The general policy of the government at present is to disinvest/ privatise public sector enterprises. Even though budget allocation is only Rs. 1 crore under equity, apart from support in terms of interest bearing loans, the government need not get involved in the growth of another public sector enterprise, which, in this case, is not also in any strategic area.

3. Prasar Bharati (Broadcasting Corporation of India)

The functions earlier discharged by the All India Radio and Doordarshan have now been vested in the Prasar Bharati Corporation created under a law enacted in 1990 and notified on 15th September 1997. As these functions are now being discharged by the Prasar Bharati Corporation, a statutory corporation, it follows that these functions are no longer required to be discharged by government through the entities specifically set up for the purpose earlier i.e. DD and AIR. These erstwhile organizations need to be wound up, giving a months notice to all officials of these two organizations to get absorbed against corresponding posts created in the Prasar Bharati Corporation. Those who do not opt for such absorption within the stipulated time period would have to be treated as surplus, and dealt with on the lines recommended by the Expenditure Reforms Commission in the report " Optimizing Government Staff Strength- Some General Issues". The Commission's other comments and recommendations pertaining to the functions/staff strength in both these areas are set out below:

Doordarshan

The subordinate formations of the Doordarshan are:

Doordarshan Kendras	32
Programme Generation Facilities(PGFs)	9
Programme Production Centre (PPC)	1
T.V Studios	2
T.V.Relay Centres	4
Transportable Communications Terminals (TRACTS)	10

In the Kendras, PGFs, PPCs and T.V.Studios, programmes are produced for telecasting.

In the Relay Centres, no programmes are produced. Programmes produced elsewhere are obtained and simply relayed.

Other facilities of Doordarshan are:

Commercial Service, Delhi,	3
Central Purchase and Stores, Delhi	11
Maintenance Centres	111
High Power Transmitters (HPTs)	46
Low Power Transmitters (LPTs)	639
Very Low Power Transmitters (VLPT)	72

All India Radio

The All India Radio has an infrastructure of 185 full-fledged stations, ten relay centres and 310 transmitters (Medium Wave, Short Wave and VHF and FM).

Annual Budget (2000-2001)

Government Support

Plan	Rs. 43 crore
Non Plan	Rs. 923 crore
Capital	Rs. 170 crore
Total	**Rs.1136 crore**

Internal Resource

Generation reckoned Rs. 775 crore

Grand Total Rs.1911 crore

Staff Strength:

	Groups					Total
	A	B	B (NG)	C	D	
DD	1102	1901	1941	11293	4238	20475
AIR	2621	5940		9569	5935	24065

Vacant Posts

DD	2603	Majority of these vacant posts is that of Group C and of
AIR	5124	Engineering Assistants, Technicians etc.
Total	**7727**	

Staff Expenditure Rs. 474.94 crore (27.22% of the total budget excluding capital)

As posts have to be created in Prasar Bharati Corporation only to facilitate absorption of officials of DD & AIR who opt for absorption in Prasar Bharati Corporation, there will be no need for treating these vacant also in the Corporation.

Comments & Recommendations:

Some of the measures that could be considered for effecting economy in expenditure/generation of revenues in the Prasar Bharati Corporation are:

1. **The transmitters are over-staffed. The maintenance staff for supply of power to the transmitters is based on norms reportedly laid down by the Staff Inspection Unit (SIU). According to these norms, the staff strength (electrical supervisors etc.) provided per transmitter per shift is 11 (that is, 11+11, a total of 22).**
2. **Programme production studios are underutilised. The principal reason is that programmes are produced on sponsored basis. The producers have a lot of hassles in availing of the studio facilities of the Prasar Bharati Corporation. Programme production facilities could be hired out to private parties and staff reduction of a significant order considered.**
3. **Doordarshan need only confine itself to two main channels – DD1 and DD2. Continuous news channel does not seem to be necessary, considering that there has been considerable growth of private channels, which are already being accessed extensively through cable services.**

4. Considerable lot of AIR time remains unutilised on account of limited programmes. The unutilised time could be commercialised.

The ministry had established a five member Committee under the Chairmanship of Shri N.R. Narayanamurthy, Chairman and Chief Executive, Infosys, to study and report on the working of the Prasar Bharati Corporation. The Committee has since submitted its report. A statement of limited cross-reference to this report is presented in Annexe 1. (Parts of this report relevant to the mandate of the Expenditure Reforms Commission have been extracted in this Annexe.) Some of the points strongly brought out by the Committee are: that by international standards, the engineering staff employed by the Doordarshan and All India Radio is 36 times larger than needed; that a drastic overhaul of the human resource of the corporation in terms of pruning and jettisoning of deadwood, redeployment of staff etc., would be required; and that the Indian Broadcasting Service may be abolished, treating it as a dying cadre.

Much before the Narayanamurthy Committee, the Staff Inspection Unit (SIU) of the Ministry of Finance, Department of Expenditure, gave a detailed report, vide reference No.27/5/92-SIU dated 10th March 1995, identifying the surplus engineering staff. That is, the Civil Construction Wing (CCW) created exclusively for servicing the All India Radio and Doordarshan in 1971-72 and which had grown over the years was brought under a thorough study by the SIU, which collected comprehensive qualitative and quantitative data covering all categories of staff at the headquarters, field formations and various wings. The study was conducted on a participatory basis as well, based on interactions with the officers of the CCW. The SIU assessed the required staff strength of the CCW as 2113, against a sanctioned strength of 3620, reflecting a surplus of 1,507. The SIU also found that the strength of staff actually working against the sanctioned strength of 3,620 was only 2789, shortfall over sanctioned strength being 831. Group-wise breakup of the staff position presented by the SIU was as follows:

Group	Sanctioned	Working	Shortfall*	Assessed	Surplus
Group A	128	98	30	98	30
Group B	484	420	64	324	160
Group C	2390	1785	605	1231	1159
Group D	618	486	132	460	158
Total	3620	2789	831	2113	1507

* *Shortfall of working staff against sanctioned strength.*

The recommendation made by the SIU in 1995 should be brought under implementation immediately and the Prasar Bharati Corporation should be moved for the purpose.

Consistent with the recommendation of the Narayanamurthy Committee that an independent review of staffing is required, such a review in respect of wings other than Civil Construction Wing as well needs to be undertaken and completed before the presentation of the budget for the financial year 2001-2002. This review could be entrusted to a reputed management institution in the country, say an Institute of Management or any other agency as may be considered appropriate by the Prasar Bharati Corporation.

GENERAL

1. The total manpower of the Ministry of Information and Broadcasting including its media units, attached and subordinate organisations and autonomous organisations, but excluding NFDC and BECIL is **52319.** The total expenditure on salaries and allowances is Rs. 725.89 Crore. (Rs.250.95 crore for the Ministry and its media units plus Rs.474.94 crore for All India Radio and Doordarshan). A brief analytical statement on the budget of the Ministry of Information and Broadcasting is presented in Annexe 2.

2. Of the total manpower, that of All India Radio and Doordarshan is **44540,** (i.e. 24065 for AIR and 20475 for DD), **85.13%** of the total manpower strength of the ministry mentioned above.

3. Excluding All India Radio and Doordarshan, manpower intensive media units of the ministry are five in number, and they account for a staff strength of **5880** out of a total of **7779 (**75.58%). Details are furnished below:-

*	Directorate of Field Publicity	………	1911
*	Press Information Bureau	………	1197
*	Films Division	………	1179
*	Directorate of Advertising and Visual Publicity	…	895
*	Publications Division	……….	698
*	**Total**	**……….**	**5880**

All posts earlier sanctioned for AIR and DD need to be abolished after giving all these officials the opportunity for absorption against equivalent posts created in Prasar Bharati Corporation.

4. If any significant manpower downsizing is to take place, it is these manpower intensive areas of the ministry, which should be looked for, because, it is only such areas that offer scope for meaningful rationalisation, subject of course, to functional necessities being kept in view.

5. The major part of the manpower strength of the ministry is accounted for by Group C&D posts. These posts are **5756** in number out of **7779** (73.99%).

6. In AIR and DD, Group C&D posts are **31035** in number out of a total of **44540** (69.68%).

7. Group C&D posts are predominantly clerical – upper division clerks, lower division clerks and peons etc. Any significant economy in staff expenditure has to necessarily come from the introduction of an officer-oriented system. This would involve a new work culture in which officers themselves would have to directly handle their responsibilities without depending on hosts of clerical and Group 'D' staff for assistance. This change in work culture is quite feasible because of modern electronic technology that is available. Every officer will have to learn to handle computers personally including for correspondence on e-mail. (Indeed, even senior officers of the level of Joint Secretaries and above, when they get inducted in international organisations become self reliant and are not given the support of plethora of supporting staff).

8. As on the first of April, 2000, according to the information furnished by the ministry, 408 out of 5756 of Group C&D posts (7.09%) are vacant. In AIR and DD 7727 posts are vacant – which are predominantly Group C&D posts. This accounts for a vacancy position of 24.90% in these categories against a total Group C&D strength of 31035.

Statement on Group C&D Posts

	Group C		Group D		Groups		Total C&D Strength of A, B, C&D
	S	V	S	V	S	V	
Central Board of Film Certification	54	3	27	2	81	5	98
Films Division	637	107	315	22	952	129	1179
Children's Film Society	43	9	9	1	52	10	69
National Film Archive of India	23	2	27	2	50	4	57
Film and Television Institute of India	123	16	104	16	227	32	338
Directorate of Film Festivals	36	5	7	—	43	5	56
Satyajit Ray Film and Television Institute	27	4	16	—	43	4	75
Indian Institute of Mass Communication	65	6	43	2	108	8	192
Research, Reference and Training Division	22	1	13	—	35	1	60
Directorate of Advertising and Visual Publicity	364	41	256	10	62	51	895
Press Information Bureau	456	33	342	13	798	46	1197
Press Council of India	23	—	30	1	53	1	86
Office of Registrar of Newspapers for India	68	3	22	1	90	4	138
Directorate of Field Publicity	978	73	621	20	1599	93	1911
Song and Drama Division	102	4	76	1	178	5	241
Photo Division	88	3	26	1	114	4	130
Publications Division	294	3	213	1	507	4	698
Secretariat of I&B	125	1	81	1	206	2	359
Total	3528	314	2228	94	5756	408	7779

S - Sanctioned Strength; V - No. of Vacant posts

9. As a first step in introducing rationalisation of manpower, for the aforesaid reasons, it is recommended that Group C&D posts vacant as on 1, April, 2000 shall not be filled up. For the present, available Group C&D staff should be redeployed and their services shared by the officers.

10. The Ministry should work out a time bound programme for phasing out Group C&D categories, limiting it to not more than 30% of the total staff strength. Until this reduced level is reached, retirement vacancies should not be filled, nor new Group C&D posts created.

11. A consolidated statement on rationalisation of the I&B Ministry and its formations and implications for downsizing of manpower and economy in expenditure (including in respect of the Secretariat of the Ministry) is presented in Annexe 3.

Summary of Recommendations

* **Films Division may be wound up. Documentaries etc. may be produced by individual ministries.**
* **Children's Films Society may be wound up and its functions transferred to NGOs who may be provided funds for the purpose.**
* **The Film & Television Institute of India and the Satyajit Ray Films and Television Institute of India at Calcutta may be handed over to the film industry. The modalities of transfer be worked out to safeguard government investment.**
* **Directorate of Film Festivals may be wound up and organisation and participation in film festivals be left to the industry. However, the work relating to National Film Awards may be handled by a small cell in the ministry.**
* **Indian Institute of Mass Communication be further developed and encouraged while four branches may be closed down.**
* **The Research, Reference and Training Divisions may be downsized retaining minimal staff for production of "India – Reference Annual".**
* **Directorate of Advertising and Visual Publicity may concern itself with the establishment of rate contracts relating to advertisements etc. leaving the actual release of advertisements to individual ministries.**
* **The Press Information Bureau may be modernised and made into a lean and professional organization. The branch offices not located in the state capitals may be closed down.**

* **The Directorate of Field Publicity and Song and Drama Division may be wound up. Its objectives can be performed by the Doordarshan and state governments.**
* **Photo Division may be wound up and its archival functions transferred to Press Information Bureau.**
* **The Publications Division may be wound up.**
* **Government may disinvest its equity in National Film Development Corporation and Broadcasting Engineers Consultants India Limited since it is not a strategic area in which government should get involved.**
* **The staff strength in the ministry itself may be rationalized on the lines set out in Annexe 3.**
* **All the above suggestions would result in the total staff strength of the Ministry of I&B and the various organizations under it, other than DD & AIR, being reduced from 7779 posts to 2176 posts.**
* **With the functions hitherto discharged by Doordarshan and All India Radio being vested in the newly created statutory corporation – Prasar Bharati – these functions are no longer required to be discharged by government and the posts created for this purpose could be abolished and those personnel, who do not opt for absorption against corresponding posts created in Prasar Bharati, treated as surplus.**
* **Prasar Bharati be revamped taking into account, inter alia, the recommendations of the Narayanamurthy Committee and the 1995 recommendations of SIU and the need for effecting economy in expenditure and raising internal revenue.**

Annexe 1

STATEMENT OF LIMITED CROSS-REFERENCE TO THE REPORT OF THE COMMITTEE APPOINTED BY THE GOVERNMENT OF INDIA TO STUDY THE WORKING OF THE PRASAR BHARATI CORPORATION

The Government of India in the Ministry of Information and Broadcasting appointed a Committee of five persons {Sh. N.R.Narayanamurthy, Chairman and Chief Executive, Infosys, Shri Kiran Karnik, Managing Director, Discovery Communications India, Shri Shunu Sen, Chairman and Chief Executive, Quadra Advisory, Marketing Consultant, Shri R.C.Mishra, Joint Secretary (Broadcasting) of the Ministry and Shri Rajeeva Ratna Shah, Chief Executive, Prasar Bharati Corporation (Special Invitee)} to study and report on the working of the Prasar Bharati Corporation. Some of the points made by the Committee in its Report recently presented to the Government and which have relevance to the working of the Expenditure Commission are presented below: -

Para 8.0 Transmission and Engineering

"The Engineering and Transmission function in Prasar Bharati account about 41% of the total staff strength of nearly 45,000 people. In contrast, programming function employs 24% and administration and finance functions employ 35%.

"Engineering is the largest single user of human resources, and has occupied the central position in the organisation. The imperatives of infrastructure expansion during 1980s and 1990s and the unwillingness of the organisation to switch over to "unmanned transmitters' has resulted in gross overstaffing on the engineering side. As a result, the engineering numbers employed by Doordarshan and All India Radio combined is nearly 36 times that deployed by Crown & Castle, the private company in U.K., which is responsible for the transmission network for BBC, network on radio and television even though the number of transmitters in the Prasar Bharati network are nearly the same.

"The critical reform needed in the Engineering function is to move towards a much slimmer transmission organisation, **shedding at least 75% of its number in a time bound manner**. This can be achieved if Doordarshan and All India Radio move towards unmanned transmitters, controlled and monitored from a remote central location by telemetry. This will require some fresh investment in equipment to provide for (a) standby capacity (b) uninterrupted power supply and (c) telemetry. In addition, the proposed system will make the system fail safe.

"To achieve the objective of creating an efficient transmission operation, the Committee make the following recommendations:

1) The transmission system for Doordarshan and All India Radio must be made into a separate profit centre reporting to the Head of Transmission Services, a member of the Management Council.

2) For next 5 years vacancies in all engineering cadres other than IB (E) S should not be filled. Considering an annual attrition rate of about 4% to 5%. This should result in the reduction of about half of the surplus manpower.

3) Some of the remaining surplus could be re-trained and redeployed in other functions through a suitable retraining programme. However, before offering any retraining facility to a specific individual, his aptitude, capability and desire to be trained should be carefully assessed.

4) The Committee strongly recommend an accelerated Voluntary Retirement Scheme, as in other functions, before an opportunity is provided to continue in Prasar Bharati.

5) Prasar Bharati must evaluate and assess its staff carefully and screen those who are incompetent or unsuitable for continuing in employment before accepting the present government employees on its staff in Doordarshan and All India Radio.

6) To ensure that of the most talented through VRS, Doordarshan & All India Radio may be allowed as a special case to retain a limited number of the highest quality engineers on special terms.

"Doordarshan and All India Radio must conform to the worldwide practice of 24 hour uninterrupted terrestrial transmission and discontinue the existing system of limited-duration transmission. This is, the Committee felt, are an essential pre-requisite for a public broadcaster (sic). ………"

Para 10. Human Resource

"Human resources have been sorely neglected in Prasar Bharati. The result is an aging, inefficient, demoralised, bureaucratic overstaffed, organisation, without capability in certain critical areas. If the organisation is not in an even worse, state (sic) the credit must go to a few gifted individuals and to the overall growth of the broadcasting industry. A drastic overhaul is needed. This may well require redeployment of staff, the pruning and jettisoning of deadwood and the induction of energetic and innovative fresh blood. ……….

"On any rational criteria, certain functions are grossly overstaffed while others need more people. A thorough, independent review of the staffing is recommended, and must be entrusted to a competent professional organisation. ………"

Para 7. Programming Content and Production – sub-para 3

"………. Since Indian Broadcast Programming Service never really came into existence, as there was no direct recruitment, it may be best to abolish the service and treat it as a dying cadre. ………"

"………. As an immediate step, Prasar Bharati must select from its current staff those who they wish to retain within the organisation. This selection must be done through a rigorous evaluation process of each potential employee. Those who are not considered satisfactory, for the post of producer (sic) may be returned to their parent Ministry or offered a suitable Voluntary Retirement Scheme. ………."

Para 6.4 Radio Channels

"………. We would recommend that ………. Fully utilise (sic) the large number of FM transmitters set up to provide local services. It is, indeed, surprising to the Committee that many of these stations operate for only 3 to 4 hours a day. ………."

Para 5 Financing and Funding Mechanisms

"……….Two major commercial opportunities, which need to be exploited, are Prasar Bharati's transmission capabilities and its studio and production facilities. There is an opportunity to utilise the large transmission capability of the organisation to provide digital terrestrial transmission to private operators in addition to providing up linking facilities through the satellite network on which Doordarshan currently has excess capacity. Similarly, in the area of Radio there are transmission, engineering and studio capability, which All India Radio could profitably sell, to private operators.

"The Central Studios which belong to Doordarshan and All India Radio along with the regional production capabilities need to be refurbished; indeed, to professional capability, of the desired quality, it is certain that additional investment in equipment would be required. After the internal production requirements needs have been met, the opportunity to rent the available excess capacity should be considered. Not only will this bring in additional revenue, but it will also provide an incentive to these facilities to remain up to date and "top of the line" in its category. ……….".

Annexe 2

BRIEF ANALYTICAL STATEMENT ON THE BUDGET OF THE MINISTRY OF INFORMATION AND BROADCASTING

1. The Budget of the Ministry of Information and Broadcasting is covered by Demand No. 55 of the Demands for Grants (2000-2001).

2. The Budget figures for the years 1998-99 – 2000-2001 are as presented below:

(Rs. in crore)

1998-99 (Actuals)			1999-2000 (Budget Estimates)			1999-2000 (Revised Estimates)			2000-2001 (Budget Estimates)		
Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
41.86	166.51	208.37	48.00	178.33	226.33	45.51	181.02	226.53	270.00	1114.28	1384.28

3. The major Heads under which Budget provisions have been made for 2000-2001 are –

MAJOR HEADS			Provisions (in Rs.crore) Plan	Non-Plan	Total
Revenue Heads					
2251	–	Secretariat - Social Services	0.52	14.09	14.61
2205	–	Art and Culture	0.90	1.54	2.44
2220	–	Information and Publicity	39.11	178.65	217.76
2221	–	Broadcasting	43.00	920.00	963.00
Total of Revenue Heads			**83.53**	**1114.28**	**1197.81**
Capital Heads					
4220	–	Capital Outlay on Information and Publicity	16.17		16.17
6220	–	Loans for Information and Publicity	—	—	—
6221	–	Loan for Broadcasting	170.30	—	170.30
Total for Capital Heads			**186.47**		**186.47**
Grand Total for Revenue and Capital Heads			**270.00**	**1114.28**	**1384.28**

4. Bulk of the Plan provision of Rs.270 crore for the year 2000-2001 goes towards loans and advances to Prasar Bharati Corporation (Rs.170.30 crore) and Grants-in-Aid (Rs.66.14 crore) for various media organisations. (A total of Rs.236.44 crore {87.57%}).

5. Of the Plan Grant-in-Aid of Rs.66.14 crore, the amount given to Prasar Bharati Corporation alone is Rs.42.98 crore (64.98%).

6. Of the total Non-Plan provision of Rs.1,114.28 crore, Non-Plan Grant-in-Aid given to the Prasar Bharati Corporation is Rs.931.72 crore (83.62%).

7. All the Non-Plan provisions are exclusively under Revenue Heads. There are no Non-Plan provisions at all under Capital Heads.

8. The entire provision of Rs. 186.47 crore under Capital Heads is Plan provision and is used for purchase of machinery and equipment, execution of major works and loans and advances.

9. Of the total capital provision of Rs.186.47 crore, loans and advances to Prasar Bharati Corporation account for Rs.170.30 crore (91.33%).

Annexe 3

CONSOLIDATED STATEMENT ON RATIONALISATION OF THE I&B MINISTRY AND ITS FORMATIONS AND IMPLICATIONS FOR DOWNSIZING OF MANPOWER AND ECONOMY IN EXPENDITURE[1]

Name of the Media Unit	No. of employees to be treated as surplus on account of downsizing					Economy in expenditure (Rs. lakh)
GROUPS	A	B	C	D	Total	
Films Division	53	174	637	315	1179	1060.00
Childrens' Film Society, India (CFSI)	4	13	43	9	69	15.00
National Film Archive of India	4	3	23	27	57	46.50
Directorate of Film Festivals	11	2	36	7	56	60.00
Research, Reference and Training Division[2]	4	13	22	11	50	48.00
Directorate of Advertising and Visual Publicity (DAVP)	44	231	364	256	895	860.00
Directorate of Field Publicity	29	283	978	621	1911	1389.00
Song and Drama Division	17	46	102	76	241	1060.00
Photo Division	7	9	88	26	130	140.00
Publications Division	47	144	294	213	698	672.00
National Film Development Corporation (if wound up)						
Saving on Budget					207	610.00
Saving on avoidance of loss						1050.00
Secretariat of I&B Ministry[3]	13	43	33	21	110	120.00
Total	**233**	**961**	**2620**	**1582**	**5603**	**7130.50**

1 This statement does not reflect rationalisation of Prasar Bharati Corporation, downsizing of manpower therein and attendant economy in expenditure. This has to be pursued separately with the Corporation itself even in the light of the recommendations contained in the Report of the Committee on the working of the Corporation, vide annexe 1. This does not also reflect economy in expenditure in the event of branch offices of the PIB other than those at State Capitals being pruned out.

2 The number of posts in various groups suggested for downsizing and the figure of economy in expenditure indicated in respect of this division have been worked out after taking into account provision of a minimal staff strength of one Editor in DS scale, three Desk Officers in Under Secretary scale, four Group B Stenos and two peons for handling the work relating to production of "India – Reference Annual".

3 The 56 Group A & B Posts suggested to be abolished in the Secretariat consist of Joint Secretary – 1 (out of three), Director 2 (out of 6), Deputy Secretaries – 3 (out of 8), Under Secretaries – 7 (out of 11), Section Officers – 14 (out of 28) and 29 Assistants. {No pruning has been suggested in respect of the structure under the Additional Secretary and Financial Advisor as the overall set up is quite tight (one Joint Secretary, one Director, two Deputy Secretaries, five Under Secretaries and three Section Officers}. Further details are furnished below:

Secretariat posts:

To be retained		To be abolished		Remarks
Secretary	1			
Additional Secretary (including AS&FA)	2			Secretary of the Ministry needs an Additional Secretary to deputise him in several meetings that take place in the Government including at the level of the Cabinet Secretary; apart from providing help in the overall direction, control and coordination of work in the Ministry. AS&FA, of course, performs specialised functions.
Joint Secretary	2	Joint Secretary	1	There are three posts of joint secretary in the Ministry, apart from one post of Chief Controller of Accounts (CCA). The suggestion is to abolish one of the two posts of Joint Secretaries as brought out below in the division-wise details.
Films				
		Joint Secretary	1	
DS	1	D.S.	1	Shedding of these posts is consistent with the suggestion for the Ministry's withdrawal from the area of films excepting to the extent of providing support service for Film and Television Institutes and Film Certification. The residuary posts of one Deputy Secretary and two Desk Officers, one to deal with film institutes and another to deal with film certification should be adequate. One Deputy Secretary retained in the Films Division could report to one of the two Joint Secretaries as may be decided in the Ministry or, alternatively, this functionary could even directly report to the Additional Secretary.
		Film Facilities Officer (DS rank)	1	
		Under Secretary (Film administration)	1	
		Under Secretary (Film Festivals)	1	
Desk Officers	2	Desk Officer	1	

Policy, Administration and Vigilance

To be retained		To be abolished		Remarks
Joint Secretary	1			
Director	3	Director	1	There are at present four posts of Directors, one each for Policy Planning, Information Policy; Official Languages and Administration, Vigilance etc. The functions of Policy Planning and Information Policy can be combined in one Director.
Deputy Secretary	2	Deputy Secretary	1	There are three DSs at present, one each dealing with Administration, Indian Information Service (IIS) and Coordination and Training (C&T). DS (Administration) could take care of the functions relating to Information Service also, thus three posts of DSs being reduced to two. He would report to Director (Admn.). Even at present, two DS level Officers are reporting to a Director and so reporting should not present any problem.
Under Secretary	4	Under Secretary	2	There are six USs including one OSD. They deal respectively with Information Policy (IP), Media Coordination (MC), Information (I), Administration (Ad), Vigilance (Vig) and IIS. The suggestion is that the posts of OSD (IP) and US (IIS) may be dropped retaining the other four posts.
Section Officers	8	Section Officers	5	There are 13 posts of Section Officers, six dealing with administration related matters, two dealing with policy, and one each dealing with Film Societies, Media, Parliament, Press and Hindi. Five posts of Sections Officers may be dropped, retaining eight others with appropriate redistribution of work.
Broadcasting				
Joint Secretary	1			
Director	1	Director	1	There are, at present, two Directors, one dealing with broadcasting policy and legislation (BP&L) and another dealing with Broadcasting Development and Broadcasting Administration (BD&BA). There need be only one Director, particularly as Prasar Bharati Corporation has been given

To be retained		To be abolished		Remarks
				autonomy statutorily and even Budget for the Corporation is only a single entry. (This logic would also apply to rationalisation of other posts as well in the Broadcasting Division).
		Under Secretary	3	There are three Under Secretaries, one each dealing with Television Programme, Television Administration and Broadcasting Development. All the three posts could be dropped, Section Officers directly reporting to Deputy Secretaries.
Sections Officers	4	Section Officers	5	There are nine Sections Officers at present in the Broadcasting Division, three dealing with television programmes, two dealing with television development, one each dealing with broadcasting policy, broadcasting administration and broadcasting development and one constituting the Prasar Bharati Cell. There need be only four Section Officers in the Broadcasting Division reporting to two Deputy Secretaries.