Rationalisation of the functions, activities and structure of the Ministry of Steel

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1. Introduction

1.1 The rapid growth of the steel industry in India during the 60s and subsequent years is a consequence of the drive towards the goal of self-reliance in the Five Year Plans.

1.2 In accordance with the Industrial Policy Resolution of 1956, under which steel industry was reserved for the public sector, the expansion of the integrated steel industry took place largely in the public sector.

1.3 With the ushering in of economic reforms in 1991, which *inter-alia* opened up the steel industry for private investment, and the emergence of the secondary steel producers in a large way, the private sector currently accounts for more than half the domestic output of about 24 million tonnes of finished steel in the country.

1.4 Simultaneously, there have been several other changes affecting the steel industry. These include:

a) Decontrol of prices of steel and pig iron;
b) Liberalisation of imports along with reduction of import duties;
c) Freedom from allocation and distribution control providing for free market operation;
d) Discontinuance of contribution to Steel Development Fund;
e) Abolition of industrial licensing.

The steel industry has thus become totally market-oriented in terms of investment, production, demand-supply and prices.

1.5 It is in the background of these significant changes in steel policy that the functions and organisational structure of the Ministry of Steel have to be considered.

2. The Role And Functions Of The Steel Ministry

2.1 The Ministry of Steel is responsible for the planning and development of the iron & steel industry, development of essential inputs such as iron ore, lime stone, dolomite, manganese ore, chromite, ferro-alloys, sponge iron etc.

2.2 The main functions of the ministry include:

a) Coordination of the growth of the iron & steel Industry (including re-rolling mills, alloy steel and ferro-alloy industries, refractories) both in the public and private sector.

b) Formulation of policies in respect of production, pricing, distribution, import and export of iron and steel and ferro alloys;

c) Planning, development, control of, and assistance to the iron & steel industry in the country and;

d) Development of input industries relating to iron ore, manganese ore, refractories etc. required mainly by the steel industry.

The ministry is also administratively responsible for 12 public sector enterprises and management of a group of taken-over companies as indicated in ***Appendix-I.***

3. Organisational Structure

3.1 The ministry is headed by a Secretary who is assisted by 3 Joint Secretaries, 4 Directors, 4 Deputy Secretaries, 15 Under Secretaries, 1 Deputy Director and other supporting staff. The ministry also has a Financial Adviser in the rank of Additional Secretary and a Chief Controller of Accounts.

3.2 A technical wing consisting of Industrial Adviser, 4 Development Officers, 2 Assistant Development Officers provides advice to the ministry on technical matters.

3.3 The organizational chart of the ministry is at ***Appendix-II***. The details of personnel in position by category are given in ***Appendix-III.***

3.4 The ministry has an attached office, namely, the office of the Development Commissioner for Iron & Steel (DCI&S) at Kolkata. The DCI&S is an officer of the rank of Joint Secretary and is assisted by a Joint Development Commissioner. The DCI&S has 4 regional offices, one each at Delhi, Mumbai, Kolkata and Chennai headed by regional Development Commissioners for Iron & Steel. The organizational chart of the offices of DCI&S is at ***Appendix-IV***. The staff strength of the DCI&S and its regional offices as obtaining in July 2000 is also presented in ***Appendix-III***.

3.5 In all between the ministry and its attached office, there are 642 sanctioned posts (602 according to Expenditure Budget 2000-01). Details of categories of personnel are given in ***Appendix V***.

4. *Public Sector Enterprises Under The Ministry Of Steel*

4.1 As the major preoccupation of the ministry revolves around the functioning of the public sector undertakings, to what extent and how soon the Ministry of Steel can be reorganized and downsized will be determined largely by the measures taken to disengage the ministry's responsibility for these public sector enterprises.

4.2 Under the Disinvestment Policy already announced by the government, public sector enterprises that are not in the category of strategic industries will be privatised by disinvesting up to 76% of the government share holding in them; those that are not viable to be so privatised would either be closed down or sold outright. The public sector enterprises under the Ministry of Steel will need to be examined in the light of this policy.

4.3 As earlier indicated, there are 12 public sector enterprises under the Ministry of Steel, and the Bird Group of Companies that are managed by the government. On the whole, the performance of these enterprises has shown a decline in recent years. The post-tax profit / loss of these enterprises over the period 1996-97 to 2000-2001 is indicated in ***Appendix VI***. The two companies that have shown consistently satisfactory performance are National Mineral Development Cooperation (NMDC) and Kudremukh Iron Ore Company Limited (KIOCL). Two smaller companies Manganese Ore India Ltd. (MOIL) and MSTC have also remained profitable, though their contribution by way of dividends has been small.

The financial performance of SAIL declined sharply after 1995-96 and a major restructuring programme is now under way to restore its health. Similarly, the performance of MECON has also steadily deteriorated after 1996-97. The remaining companies have been ailing or have remained at the margin for several years. This lacklustre performance of most of the PSEs under the Ministry of Steel is reflected in the record of dividends paid by them as indicated in ***Appendix-VII***.

4.4 An analysis of the budget of the Ministry of Steel for 2000-01 and 2001-02 reveals that the major draft on the budget arises from the subsidies, loans and grants to the PSEs as compared to the establishment expenditure of the ministry. This is brought out in the statement at ***Appendix-VIII.***

4.5 This, however, does not tell the whole story. The commitments undertaken by the government in respect of these enterprises are staggeringly large – and an extremely small proportion of it is reflected in the budget. In order to contain the fiscal deficit, government has resorted to funding the massive restructuring programmes of some of these enterprises by standing guarantee to large loans agreed to be raised by them from the market. An example of the magnitude of government subsidies and guarantees can be seen from the pattern of financing adopted for the restructuring of SAIL. Similar commitments have been undertaken by the government with respect to other enterprises viz., VSP, HSCL and BRL as brought out in the following paragraphs.

A. Steel Authority of India Limited (SAIL)

4.6 Steel Authority of India Limited operates and manages five integrated steel plants – Bhilai, Bokaro, Durgapur, Rourkela and Indian Iron Steel Company Limited, Burnpur, which is a wholly owned subsidiary of SAIL. SAIL also operates four special and alloy steel and ferro alloy units at Durgapur, Salem, Chanderpur and Bhadrawati.

4.7 Two main factors have adversely affected the functioning of SAIL. A significant decline of steel prices internationally resulted in corresponding reduction in domestic prices cutting into the profitability of the company. Secondly, the cost and time overrun of the modernization programme at Durgapur, Rourkela and

Bokaro Steel Plants has resulted in a high depreciation provision, making a further dent into the profits of SAIL.

4.8 A major rehabilitation programme is under way as a part of a comprehensive plan to ensure the long-term viability of SAIL through financial and business restructuring. The Cabinet approved the following in February 2000:

a) Financial restructuring of SAIL by waiving of loans advanced to it from Steel Development Fund to the value of Rs.5073 crore and Rs.381 crore from the Government of India.
b) Provision of 50% interest subsidy and guarantee for loan, and interest thereon, of Rs.1500 crore to be raised by SAIL from market to finance reduction in manpower through VRS.
c) Provision of government guarantee for loan, and interest thereon, of Rs.1500 crore to be raised by SAIL from the market primarily for meeting repayment obligation on past loans during 1999-2000.
d) Initiation of the process of divestment of the following non-core assets:
   (i) Power plants at Bokaro, Durgapur and Rourkela;
   (ii) Oxygen plant-2 of Bhillai Steel Plant;
   (iii) Salem Steel Plant, Salem;
   (iv) Alloy Steel Plant, Durgapur;
   (v) Visvesvaraya Iron & Steel Ltd., Bhadrawati; and
   (vi) Fertilizer Plant at Rourkela.
e) Conversion of IISCO into a joint venture with SAIL having a minority share-holding.

This is one of the largest restructuring proposals considered by government, involving an amount of Rs.8000 crore.

B. Rashtriya Ispat Nigam Ltd. (RINL) / Vishakhapatnam Steel Plant (VSP)

4.9 A project that was initially planned for 3.4 million tonnes of liquid steel per annum was subsequently scaled down to 3 million tonnes owing to financial constraints. Further, because of the inability to allocate funds as required, the commissioning of the project also got substantially delayed, leading to considerable escalation of cost. The company has from the beginning been running at a loss, which has progressively increased over time. Notwithstanding two exercises in financial restructuring undertaken in 1993 and 1998, the losses continue and are estimated to be Rs.530 crore in 2000-2001.

4.10 In view of the continuing losses of the company, government considered it necessary that the company develop a comprehensive turn around plan for ensuring its viability on a long-term basis. A comprehensive revival package has since been prepared, which includes extension of government guarantees to loans to be raised by the company for financing its extension and other essential investment as contemplated under the revival package, extension of government guarantee for working capital loans and write off of Rs.3597 crore accumulated loans against government equity over 4 years from 1998-99 to 2001-2002. Meanwhile, Disinvestment Commission recommended the writing off of the accumulated losses and simultaneous disinvestment of not less than 51% to a strategic buyer. While a final decision on restructuring-cum-disinvestment is yet to be taken, the draft on public resources persists through continuing losses.

C. Hindustan Steelworks Construction Limited (HSCL)

4.11 HSCL as a construction company was primarily engaged in the establishment of the various steel plants in the public sector. However, with the decline in investment in the steel Industry, the company was in no position to secure substantial orders for steel construction activities. Hence, it has diversified into other sectors like power, coal, oil & gas and also infrastructural facilities, like roads and highways projects, etc.

4.12 Recently, government has approved a capital restructuring-cum-financial assistance package for revival of HSCL. This revival package consists of:

(i) Conversion of plan loans amounting to Rs.97.10 crore into equity.

(ii) Grant of moratorium on repayment of and interest holiday on all non-plan loans of Rs.189.93 crore for 10 years.

(iii) Waiver of interest accrued and outstanding on all government loans, amounting to Rs.957.82 crore.

(iv) Grant of a non-plan loan of Rs.79.33 crore during 1999-2000 with moratorium on repayment and interest holiday for five years.

(v) Continuance of government guarantee for Rs.12 crore cash credit and Rs.80 crore bank guarantee facility, with waiver of guarantee commission of 1%.

(vi) Raising of Rs.318 crore by the company from banks for separating 2000 employees a year for a period of 3 years through VRS, with the government providing guarantee and full interest subsidy to HSCL for this purpose.

The above revival package is currently under implementation.

D. Bharat Refractories Limited (BRL)

4.13 This company has been incurring losses and was referred to BIFR. BIFR sanctioned a revival package consisting of financial relief to be granted by government, which includes waiving of interest accrued on loans, conversion of a part of plan loan into equity and conversion of non-plan loans into non-cumulative preference shares. However, this revival package did not meet with the requirement of the situation because of the slow down in the steel Industry resulting in the fall of demand for refractories. Therefore, a second revival package has since been sanctioned and implemented, which includes a grant of non-plan loan of Rs.4 crore and non-plan interest free loan of Rs.16 crore for meeting the working capital needs, along with interest holiday and moratorium on loan repayment for existing loans, and government guarantee for an enhanced working capital limit. Even so, the company is still operating at a loss and it is not clear whether it is ever likely to turn the corner.

E. Bird Group of Companies

4.14 Out of 21 companies under the Bird Group that were nationalised by government in 1980, 8 have been placed under the administrative control of the

Ministry of Steel. Of these, the two coal companies, namely, Burrakar and Borrea have become non-operational. Kumardhubi Fire Clay and Silica Works Ltd. having been declared sick is in the process of winding up on the basis of the recommendation of the BIFR. Eastern Investments Limited is an investment company. The remaining 4 companies, while still operational, are running at a loss for the last several years and government continues to find funds to keep them going.

5. Need For A Plan Of Action

5.1 As is evident from the foregoing, the performance of the public sector enterprises under the Ministry of Steel, barring those that are in the iron ore business, is far from satisfactory, with most of them incurring continuing losses. This is in spite of considerable injection of new funds, in addition to write off of past loans, interest holidays and conversion of loans into equity.

5.2 In order that the direct draft on the central budget is kept to the minimum, much of the restructuring programme involving several thousand crores of rupees has been funded largely through the mechanism of providing government guarantees to massive loans being raised by these companies from the market. No doubt, this has the advantage of keeping the fiscal deficit in the budget lower than what it would otherwise be if financial assistance were directly provided by the government. But indirect financing through funds raised by the PSEs in the market would be meaningful only if the moneys so raised for restructuring and rehabilitation of these enterprises eventually transform these loss-making companies into profit-making enterprises. Otherwise, government still carries the large risk of eventually having to find the funds to redeem the guarantees provided to these companies. From the performance so far, it is far from clear whether the injection of funds through this mechanism and the restructuring programmes which are currently under way will eventually lead to a happy situation where these enterprises become viable and be in a position to repay the loans raised by them. It is therefore necessary to put in place mechanisms (either through memoranda of understanding or other means) that will ensure that the expected returns after restructuring actually flow.

5.3 Out of the 12 enterprises under the Ministry of Steel only 4 namely, Kudremukh Iron Ore Company Limited (KIOCL), Sponge Iron India Ltd. (SIIL), MSTC Ltd. and MECON are slated for disinvestment. Two of these viz., MSTC and Sponge Iron India Ltd. have been referred to the Department of Disinvestment for disinvestment / privatisation. In the case of KIOCL, government has for the present deferred the disinvestment till the mining lease issues (extension of the present mining lease as also grant of additional mining lease) are sorted out. The mining lease issues are critical to sustain the continued operation of the company and, therefore, until these are sorted out, there is little possibility of undertaking any meaningful disinvestment programme.

5.4 The remaining 8 enterprises, along with Bird Group of Companies, which are also incurring losses, need to be dealt with not merely in terms of managing their current problems through injection of funds as hitherto. They also have to be scrutinised in a more fundamental way by examining the need to retain them in the public sector or of taking them out of the responsibility of the government through a process of disinvestment /privatisation and /or closure. To the extent that the current restructuring proposals that are under implementation can improve their balance sheets it will make these companies attractive for private investment. This, however, does not seem adequate. The approach should be one of finally disengaging these enterprises and getting them out of the responsibility of the government through disinvestment /privatisation and /or closure within the framework of the existing policy on public sector enterprises.

5.5 It is recommended that a plan of action on these lines be drawn up as an integral part of the strategy for dealing with the public sector enterprises under the Ministry of Steel, with a definite time frame within which to implement it. This alone can eventually bring about a significant reduction in the direct and indirect budgetary requirements and commitments of funds of the Ministry of Steel.

6. Restructuring of the Ministry

6.1 The direct expenditure of the Ministry of Steel on its establishment charges is relatively small at Rs.6.0 crore compared to Rs.420.0 crore to be provided to the public sector enterprises in 2000-01 (RE). Even this latter figure pales into insignificance when compared to the several thousand crores of rupees committed to the various restructuring proposals. Thus, while with the decontrol and de-licensing of the steel industry functions relating to planning and policy formulation of the steel industry have come down drastically, concerns relating to resolution of problems of the public sector enterprises would warrant retention, at least in the near future, of all the senior level functionaries – the Group A officials – in this ministry. However, the nature of the functions to be performed is such as to make this ministry ideally suited for the introduction of the desk officer system recommended by the Pay Commission. While this could lead to creation of more posts at the desk officer level, there would be a drastic reduction – at the Group C and D level.

6.2 The Commission understands that persons from JPC and perhaps other organisations under the ministry work in the ministry on an informal or other basis. Perhaps this practice also extends to use of equipment and other facilities. These are pernicious practices that need to be stopped forthwith. All requirements of additional staff and equipment should be justified in their own right; resort to such camouflaged use of resources is deprecated.

7. Office Of The Development Commissioner For Iron And Steel

7.1 The Ministry of Steel has an attached office, namely, the Development Commissioner for Iron & Steel (DCI&S), which has a very large staff of about 250 personnel of which over 210 are in the C&D categories. They account for a substantial draft on the government budget. This is an area where an immediate reduction on expenditure can be undertaken. Whereas the DCI&S at Kolkata, with its regional offices, played an important role in implementing the regulatory and distribution controls on steel in the past, the office has almost become redundant following the decontrol of the steel industry in January 1992.

7.2 Although government has retained five major customers under the priority category for allocation of iron and steel materials by DCI&S even after decontrol, namely (i) Railways, (ii) Defence, (iii) North Eastern States, (iv) EEPC and (v) Small Scale Industries Corporations, there has been in practice little need for governmental intervention for such allocation, thanks to the easy availability of steel through domestic production and free imports. In effect, DCI&S has merely a few limited functions like monitoring the state of the market, follow up of investment proposals and collection of statistics on iron and steel. The continuation of DCI&S for such limited activities can hardly be justified.

7.3 A committee set up by the Ministry of Steel under the chairmanship of B. Mallik, Director, Finance, in its report recently submitted to the ministry, has noted that, "an organization derives its sanction from the objectives set for it; but once such objectives have faded away……..…, there is no justification for its survival". It has come to the conclusion that, "the organisation of DCI&S has no substantial role to play in the iron and steel sector in the changing economic scenario" and that the best option for this organisation (DCI&S) in the present circumstances is to cease to exist.

7.4 The Mallik Committee has, however, recommended a phased winding up of the organisation and transferring of the residual functions to its sister organisation, viz., Joint Plant Committee. The Mallik Committee has proposed reduction of the staff strength from the present level of 251 to 105 (involving a reduction of 146) with immediate effect and the organisation to be finally wound up following a review after two years.

7.5 As the primary functions for which the DCI&S was created have ceased to exist, and since in the assessment of the Mallik Committee itself there is no justification for its (DCI&S's) survival, this organisation needs to be closed down straightaway, allowing a maximum of two months for an orderly winding up. All the posts in this organisation should be abolished immediately thereafter and the staff declared surplus and dealt with accordingly.

8. Joint Plant Committee (JPC)

8.1 The Mallik Committee set up by the Ministry of Steel had not gone into the functioning of the JPC as this was not referred to it, presumably because it is a non-official body drawing no budget support. However, considering that this organisation is closely linked in many ways with the DCI&S and is also managing a variety of funds constituted during the control regime, a review of the functioning of the JPC becomes necessary in the context of restructuring of the Ministry of Steel.

8.2 The Joint Plant Committee (JPC) was set up by the government as a non-official institution, through a notification in February 1964 for formulating guidelines for production and distribution of steel materials. Under a subsequent notification in April 1971, its decisions on its notified functions were made binding on the main producers and consumers. The functions of the JPC were:

(a) Coordination of work of the main producers with a view to evolving common procedures and action in regard to planning, dispatch and pricing of products and drawing up of rolling programmes;

(b) To assist Steel Priority Committee on dispatch and allocation of iron and steel;

(c) Reviewing the general market situation and fluctuation of free market prices, trends of production, movement and availability of iron and steel.

8.3 The JPC was thus an important link in the organisational mechanism for implementing the control on production, distribution and prices of iron and steel materials. Regional offices were set up primarily to assist the Regional DCI&S in matters such as collection and compilation of statistics etc. In 1983, an Economic Research Unit was set up at Delhi to assist the Ministry of Steel in evaluation of project investments, and for undertaking studies in tariff related issues, production costs, demand projections etc. Currently, the total staff strength of the JPC, including its regional and other offices is 265 of whom 205 are in position; one-third are in executive positions and the rest are supporting staff. The administrative overheads of this organisation are met out of the JPC Cess Fund and there is no government budgetary support.

8.4 With the easy availability of most of the iron and steel material, the control on production and distribution exercised by the government through JPC was relaxed from time to time. And with the virtual decontrol of the steel industry in 1992, the main functions hitherto carried out by JPC ceased to exist. JPC at present occupies itself primarily in such matters as maintaining a data bank on iron and steel industry, particularly on dispatches and sales of various categories of steel products by main producers, and also to an extent on similar data on secondary producers, and imports/exports of iron and steel. The data so collected with analytical reports as necessary, are then disseminated to official and non-official agencies. JPC also undertakes surveys, issues quarterly bulletins, organises seminars and other similar activities generally supporting the cause of the iron and steel industry.

Development and Other Funds

8.5 Over a period of time as many as 10 funds were set up in this sector for different purposes. The most important has been the Steel Development Fund set up in 1978 with a levy of Rs.350 to Rs.500 per tonne of steel produced. The fund was primarily for extending development loans to major steel producers for expansion, modernisation and infrastructure projects. While the levy was discontinued in 1994 and the present balance is only around Rs.12 crore, the main steel producers (SAIL and TISCO) owe over Rs.2500 crore to the fund. There has neither been repayment of the loan instalments nor interest payments on these loans so far.

8.6 There are virtually no transactions or balances now in the three funds – Import Pool Price Equalisation Fund and Iron Steel Freight Equalisation Fund. However, recovery of loans – about Rs.11 crore granted to SAIL from the first fund is still pending.

8.7 The Billet Development Fund, the Billet Pool Price Equalisation Fund, Engineering Goods Export Assistance Fund, and Iron and Steel Contribution Fund have been merged in the JPC A/c General Fund. A balance of Rs.236 crore is currently available in that fund. There is also a Contingency Reserve Fund with a very small balance.

8.8 The monies available in these funds total up to around Rs.250 crore and these are kept with commercial banks. While there are virtually no current transactions except for release of funds to the JPC towards its administrative overheads and for the setting up of the training institution at Rourkela, the loans extended from these funds which are still pending recovery are quite substantial at around Rs.2500 crore.

8.9 As in the case of the Office of Development Commissioner for Iron & Steel, the JPC also needs to be wound up. An association of steel producers, à la SCOPE or IBA, could undertake such research work and collection of statistics as is now being done by this organisation. All the officials working in the JPC and its various offices should be given a suitable golden hand shake, expenditure on which would constitute a legitimate outgo from the surpluses available in the JPC Cess Fund. A maximum of 3 months could be provided for completing the winding up process in an orderly manner. It is hoped that the steel producers would in the near future be able to form an association of their own and undertake such promotional activities as may be considered to be in their common interest.

8.10 As far as the various funds are concerned the non-recovery clearly indicates either that at the time of sanctioning of these loans the economic viability of the projects was not properly examined or that the recovery process has been totally slack. In the circumstances, an entirely new mechanism needs to be put in place to attend to both the utilisation of the balances of these funds and for effecting recoveries. Towards this end, it is recommended that these funds be transferred, by appropriate legislative or executive action as may be necessary, to the Public Account of the Government of India, and into a new separate Steel Development Fund. All balances in these funds as certified by the Comptroller and Auditor General be transferred into this newly created consolidated fund, which could be administered by a committee that could be chaired by Secretary (Steel) with

Additional Secretary and FA (Steel) as Member Secretary and with representatives of different interests of the steel industry as members. In regard to the loans earlier given and which are pending recovery an early assessment needs to be made in the ministry on the prospects of recovery, so that such amounts as could be recovered are indeed recovered early while the balance is written off. Clear guidelines would need to be drawn up by the steel ministry regarding the purposes for which these balances could be utilised, which could include common facilities, setting up training or research institutions etc.

8.11 As earlier mentioned, JPC has already been utilising these funds for financing various activities and programmes, including economic and statistical data collection, technological research, training programmes etc. With the abolition of the JPC, these should also cease to be JPC run or managed activities. It is hoped that the structures created by JPC for this purpose would be taken over by an association of steel producers. To the extent these activities fall within the guidelines, they should then be eligible to apply for financing from the new separate Steel Development Fund administered by the committee under the chairmanship of Secretary (Steel).

9. Summary Of Conclusions And Recommendations

9.1 The Ministry of Steel is responsible for the planning and development of iron & steel industry and played a key role in the rapid growth of the steel industry in the public sector. It also administered an elaborate system of controls on production, imports, supply and prices of steel products through the powers vested under the Iron and Steel Control Order.

9.2 However, with the decontrol of the steel industry in January, 1992 and the opening up of the steel industry to private investment, exposing the industry almost totally to a market regime, functions relating to planning and policy formulation of the steel industry do not take a great deal of time of the ministry; the major concern of the ministry currently relates to dealing with the resolution of problems of 12 public sector enterprises under its charge and management of a group of taken over companies(Bird Group).

9.3 As the major preoccupation of the ministry revolves around the functioning of the public sector undertakings, to what extent and how soon the Ministry of Steel can be reorganized and downsized will be determined largely by the measures taken to disengage the ministry's responsibility for these public sector enterprises.

9.4 The performance of these enterprises, on the whole, has shown a decline in recent years. With the exception of National Mineral Development Corporation and Kudremukh Iron Ore Company Ltd., which have shown consistently satisfactory performance, all other enterprises have either built up large losses – like Steel Authority of India (SAIL) and Rashtriya Ispat Nigam Ltd.(RINL) – or have remained at the margin for several years.

9.5 This has resulted in a substantial draft on the budget of the Ministry of Steel by way of subsidies, loans and grants to these enterprises to meet their losses.

9.6 This apart, government has undertaken commitments of a staggeringly large order by funding the massive restructuring programmes of some of these enterprises by standing guarantee to large loans agreed to be raised by them from the market. Thus, for example, the restructuring programme of SAIL involves an amount of Rs.8000 crore, that proposed for RINL involves writing off of almost Rs.3600 crore of accumulated loans and guarantee for raising further loans for expansion and working capital. In the case of Hindustan Steel Works Construction Ltd. (HSCL), a restructuring programme involving interest waiver and subsidy, moratorium on repayment of and interest holiday on loans, conversion of loans into equity and government guarantee for fresh loans to be raised from banks, amounting in all to a financial package of over Rs.1700 crore.

9.7 In order that the direct draft on the central budget is kept to the minimum, bulk of the restructuring programmes involving several thousand crores of rupees have been funded largely through government providing guarantees to massive loans being raised by these enterprises from the market. Indirect financing by way of PSEs raising funds from the market is meaningful only if funds so raised for restructuring and rehabilitation of these enterprises eventually lead to transforming these loss-making companies into profit making enterprises. From the performance so far, it is far from clear whether the injection of funds through this mechanism and the restructuring programmes which are currently under way will eventually lead to a happy situation where these enterprises become viable and be in a position to repay the loans raised by them. It is therefore necessary to put in place mechanisms (either through memoranda of understanding or other means) that will ensure that the expected returns after restructuring actually flow.

9.8 Of the 12 enterprises under the Ministry of Steel, only 4 are slated for disinvestment. The remaining 8 enterprises, along with the Bird Group of Companies, which are also incurring losses, need to be dealt with by examining whether there is a need to retain them in the public sector and whether these cannot be taken out of the responsibility of the government through a process of disinvestments /privatisation and /or closure within the framework of existing policy on public sector enterprises. It is recommended that a plan of action on these lines should be drawn up with a definite time frame within which to implement it.

9.9 This alone can eventually bring about a significant reduction in the direct and indirect budgetary requirements and commitments of funds of the Ministry of Steel.

9.10 Even so, there is still considerable room for restructuring the ministry and bringing about a substantial reduction in the size of the ministry and its attached office, namely, the office of the Development Commissioner for Iron & Steel (DCI&S) at Kolkata.

9.11 The ministry has a staff strength of 290 of which two thirds are in the category of C&D posts. While the concerns relating to resolution of problems of public sector enterprises would warrant retention, at least in the near future, of all the senior level functionaries – the Group A officials -there is little in the nature of routine functions requiring a large complement of low-level staff. The nature of functions to be performed is ideally suited to an officer-oriented administration. This being so, it should be possible to make a drastic reduction in the C&D categories.

9.12 The Commission understands that persons from JPC and perhaps other organisations under the ministry work in the ministry on an informal or other basis. Perhaps this practice also extends to use of equipment and other facilities. These are pernicious practices that need to be stopped forthwith. All requirements of additional staff and equipment should be justified in their own right; resort to such camouflaged use of resources is deprecated.

9.13 This apart, the DCI&S has a very large staff of about 250 personnel, of which 210 are in the C&D categories. Whereas the DCI&S at Kolkata, with its regional offices, played an important role in implementing the regulatory and distribution controls on steel in the past, the office has almost become redundant following the decontrol of the steel industry in January 1992. Since the primary functions for which the DCI&S was created have ceased to exist, there is clearly no justification for maintaining it; it needs to be closed down straightaway, allowing a maximum of two months for an orderly winding up. All the posts in this organisation should be abolished immediately thereafter and the staff declared surplus and dealt with accordingly.

9.14 The Joint Plant Committee (JPC) set up by the government, as a non-official body, through a notification issued in February 1964 also had a significant role, along with DCI&S, in administering production and distribution control on steel products. Currently, the total staff strength of the JPC is 265 of whom 205 are in position. As in the case of DCI&S, the main functions hitherto carried out by JPC have ceased to exist after the decontrol of the steel industry in 1992. For the same reasons, as in the case of Office of Development Commissioner for Iron & Steel, the JPC also needs to be wound up. An association of steel producers, à la SCOPE or IBA, can undertake such research work and collection of statistics as is now being done by JPC. All the staff working in the JPC and its various offices should be given a suitable golden handshake, expenditure on which would constitute a legitimate outgo from the surpluses available in the JPC Cess Fund. A maximum of 3 months could be provided for completing the winding up process in an orderly manner.

9.15 The JPC has also been administering and maintaining different funds which were created for various purposes during the control regime. Contributions to most of these funds have since ceased. The monies available in these funds as of now, total up to around Rs.230 crore. With the winding up of the JPC, it is recommended that these funds be transferred, by appropriate legislative or executive action as may be necessary, to the Public Account of the Government of India, and into a new separate Steel Development Fund. All balances in these funds as certified by the Comptroller and Auditor General be transferred into this newly created consolidated fund, which could be administered by a committee that could be chaired by Secretary (Steel) with Additional Secretary and FA (Steel) as Member Secretary and with representatives of different interests of the steel industry as members. Clear guidelines would need to be drawn up by the steel ministry regarding the purposes for which these balances could be utilised.

9.16 JPC has already been utilising these funds for financing various activities and programmes. With the abolition of the JPC, these should cease to be JPC run or managed activities. It is hoped that the structures created by JPC for this purpose would be taken over by the association of steel producers. To the extent these activities fall within the guidelines, they should then be eligible for financing from the new separate Steel Development Fund administered by the committee under the chairmanship of Secretary (Steel).

9.17 With the work relating to planning and policy formulation of the steel industry having already come down drastically and with the suggested abolition of the office of the Development Commissioner of Iron and Steel and the winding up of the JPC, the Steel Ministry's work will revolve essentially around overseeing the implementation of the restructuring of some of the undertakings and disinvestment in the others. The question therefore arises whether "Steel" should continue as a separate ministry or whether this can be merged with another ministry/department with somewhat similar activities. The ERC will be making necessary recommendations in this regard in one of the subsequent reports.

Appendix I

Public Sector Undertakings under the Ministry of Steel

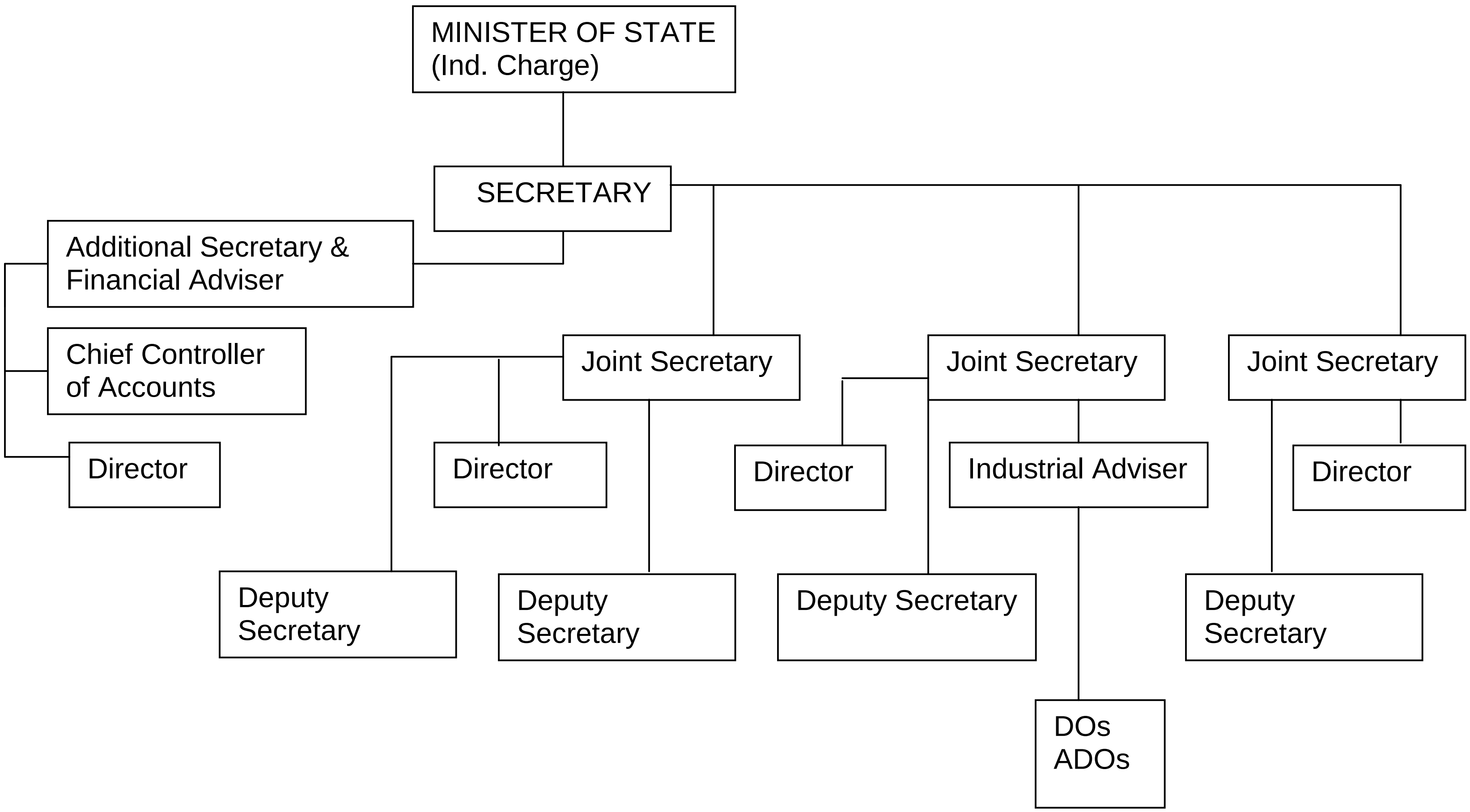
1. Steel Authority of India Ltd. (SAIL).
2. Kudremukh Iron Ore Company Ltd. (KIOCL).
3. National Mineral Development Corporation Ltd. (NMDC).
4. Hindustan Steelworks Construction Ltd. (HSCL).
5. MECON Limited.
6. Manganese Ore (India) Ltd. (MOIL).
7. Sponge Iron India Ltd. (SIIL).
8. Bharat Refractories Ltd. (BRL).
9. Rashtriya Ispat Nigam Ltd. (RINL).
10. MSTC Ltd.
11. Ferro Scrap Nigam Ltd. (FSNL).
12. Kudremukh Iron and Steel Company Ltd. (KISCO).

Government Managed Undertakings

Bird Group of Companies.

Appendix II

ORGANISATIONAL CHART OF MINISTRY OF STEEL



Appendix III

Statement showing the number of employees in position in the Ministry of Steel

Classification of Post	Number of employees in position
A	46
B	75
C	96
D	73
Total	**290**

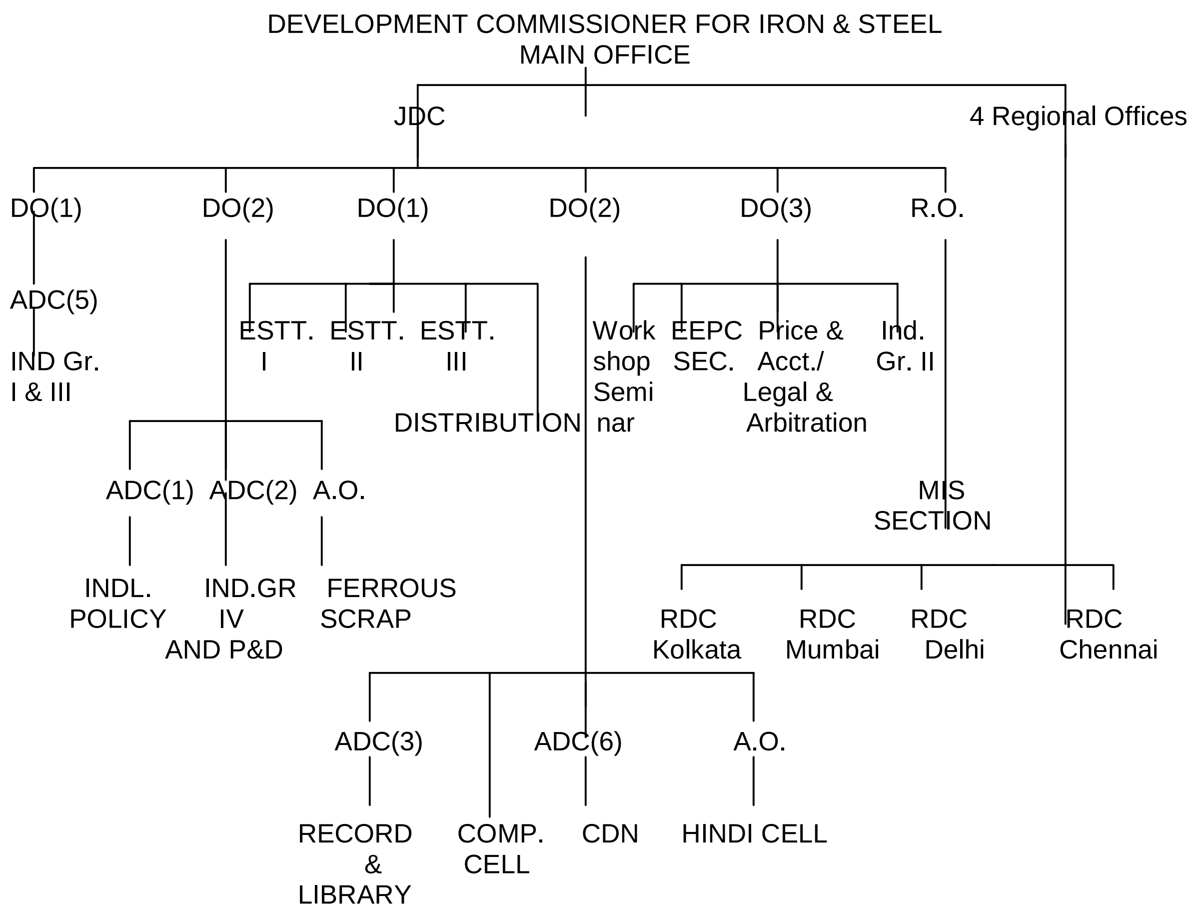
Statement showing the number of employees in DCI&S and its regional offices

Classification of Post	Sanctioned strength	Employees in Position
Group A	16	12
Group B	27	27
Group C	154	146
Group D	71	66
Total	**268**	**251**

Appendix IV

Office of the Development Commissioner for Iron and Steel

ORGANISATIONAL CHART



Appendix V

Ministry Of Steel & Attached Office

Staff Strength (Sanctioned)

According to Pay Research Unit (Ministry of Finance)		According to Expenditure Budget 2000-2001 (Vol.I) Annexure 7
		========
Group A (Gazetted)	50	602
		========
Group B (Gazetted)	71	
Group B (Non Gazetted)	59	
Group C	298	
Group D	164	
Unclassified	-	
	=========	
Total :	642	
	=========	

Appendix VI

PROFIT/LOSS AFTER TAX

(Rs. in Crore)

	1996-97 (Actual)	1997-98 (Actual)	1998-99 (Actual)	1999-2000 (RE)	2000-01 (BE)
	(1)	(2)	(3)	(4)	(5)
1.SAIL (Excluding Subsidiaries)	515.17	132.99	(-)1573.66	(-)2199.00	(-)1450.00
2. RINL/VSP	(-)245.94	(-)176.73	(-)457.18	(-)470.24	(-)530.69
3. SIIL	(-)1.30	(-)3.36	(-)9.64	(-)10.39	(-)7.85
4. HSCL	(-)132.57	(-)224.65	(-)281.58	(-)172.06	(-)123.72
5. BRL	(-)12.19	(-)20.75	(-)41.61	(-)20.98	(-)7.20
6. MECON	8.40	1.67	(-)11.17	(-)13.70	5.40
7. MSTC	2.30	1.83	2.15	2.45	2.60
8. FSNL	9.59	11.18	10.41	9.61	8.50
9. NMDC	129.99	175.01	140.40	114.60	114.30
10. KIOCL	72.38	81.82	18.53	64.22	66.28
11. MOIL	13.30	14.22	13.72	7.58	7.54
12**. BIRD GROUP OF COMPANIES**					
(a) OMDC	0.43	(-)4.74	(-)3.68	(-)5.35	(-)6.70
(b) BSLC	(-)14.77	(-)22.24	(-)26.71	(-)24.52	(-)25.54
(c) KDCL	(-) 0.56	(-)0.29	(-)0.33	(-)0.35	(-) 0.31
(d) SSL	(-) 1.36	(-)1.39	(-)1.35	(-) 1.82	(-) 1.92

Appendix VII

DIVIDEND PAID BY PSUs OF THE STEEL MINISTRY

(Rs in Crore)

PSU	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**
SAIL	233.95	88.62	45.43	0.00	0.00
IISCO	0.00	0.00	0.00	0.00	0.00
RINL	0.00	0.00	0.00	0.00	0.00
MECON	80.60	72.60	0.59	0.00	0.00
HSCL	0.00	0.00	0.00	0.00	0.00
BRL	0.00	0.00	0.00	0.00	0.00
BIRD GROUP	0.00	0.00	0.00	0.00	0.00
MOIL	2.50	2.50	3.07	3.07	3.07
NMDC	26.43	26.43	33.04	33.04	33.04
KIOCL	20.41	20.41	22.21	15.87	22.21
MSTC	0.00	0.00	0.44	0.55	0.73
TOTAL	364.28	210.95	104.78	52.53	59.05

Appendix VIII

Budget for 2000-2001 and 2001-02
of the Ministry of Steel, IISC, HSCL, SAIL etc.

Non-Plan

(Rs. in Crore)

	Description	BE 2000-01	RE 2000-01	BE 2001-02
1	Secretariat of the Ministry	6.69*	6.47*	6.70*
2	Development Commissioner for Iron & Steel Orgn. for Tariff and Price Regulations	3.63	3.51	3.49
3	Subsidy to Hindustan Steelworks Constn. Ltd. for payment of interest on loans raised from Banks for implementation of VRS	33.45	27.00	35.00
4	Subsidy to Hindustan Steelworks Constn. Ltd. for waiver of Guarantee Fee for the Guarantee given by GOI for Cash credit and bank guarantee	0.92	0.92	0.92
5	Subsidy to Steel Authority of India Ltd. for its subsidiary, India Iron & Steel Authority Ltd. for waiver of GOI loans and interest thereon	0.00	381.00	0.00
6	Subsidy to Steel Authority of India Ltd. for payment of interest on loans raised from Banks for implementation of VRS	0.00	0.00	16.25
7	Awards to Distinguished Metallurgists	0.05	0.05	0.05
8	Lump Sum Provision for North Eastern Region & Sikkim	1.50	0.00	0.00
	TOTAL	**46.24**	**418.25**	**62.41**

* This includes budgetary provision for Information & Technology as detailed below:

2000-2001 (BE)	2000-2001 (RE)	2001-2002 (BE)
0.15	13.50	11.00

Non Plan Loan to PSUs under Capital Section

The details of Non-Plan loans extended to some of the loss making companies to enable them to meet the expenditure for payment of salary, wages, wages and statutory dues are indicated below:

Rs. Crore

	2000-01 B.E	2000-01 R.E	2001-02 B.E.
Bird Group of companies	4.00	2.00	2.00

Plan Loan to PSUs under Capital Section

The details of Plan assistance to the PSUs under the administrative control of Ministry of Steel are given below:

Rs. Crore

S.No. PSUs	2000-01 B.E	2000-01 R.E.	2001-02 B.E.
1. Bharat Refractories Ltd.	*4.00	3.50	*4.00
2. Bird Group of Cos.	4.00	3.00	1.00
3. Sponge Iron India Ltd.	3.00	1.00	3.00
4. Hindustan Steelworks Constructions Ltd.	2.50	2.50	4.00
5. MECON Ltd.	0.00	0.00	2.00
Total	**13.50**	**10.00**	**14.00**

*Includes Equity of Rs.0.50 crore.

Rationalisation of the functions, activities and structure of the Ministry of Petroleum and Natural Gas

Contents

Page No.

Rationalisation of the functions, activities and structure of the Ministry of Petroleum & Natural Gas

Executive Summary

1. The Ministry of Petroleum and Natural Gas is responsible for exploration and exploitation of petroleum resources, including natural gas. Production, supply, distribution, marketing and pricing of petroleum including natural gas and petroleum products also fall within the purview of the ministry. It is responsible for planning, development and regulation of oil field services and administers several acts relating to the petroleum sector.

2. MOPNG currently has a Secretary, one Additional Secretary and four Joint Secretaries – one for exploration, one for refining, one for conservation and administration and a JS&FA. The Additional Secretary now handles the marketing functions, his post having been upgraded from that of Joint Secretary (Marketing). MOPNG has 296 persons in position as against its total sanctioned strength of 314 posts. (Details can be seen in Annex-A).

3. There are 14 public sector undertakings, 3 subsidiaries and seven other organizations under the administrative control of the ministry.

    Oil Industry Development Board (OIDB) is one of the seven organisations and it funds four of the seven organisations namely, Petroleum Conservation Research Association (PCRA), Oil Industry Safety Directorate (OISD), Centre for High Technology (CHT) and Directorate General of Hydrocarbons (DGH). As the functions performed by PCRA, OISD, CHT are very essential for the petroleum industry to be competitive, the industry itself should fund these organisations through such mechanisms as it may devise.

    As for DGH, the need for it arises for the fact that the government under the Constitution continues to be owner of the petroleum resources, with various operators only being lease holders. Therefore, DGH may continue to be funded as at present by OIDB until it is converted into a statutory authority.

Petroleum India International is at present funded by industry. This arrangement may continue if the industry feels the services offered by this organisation are needed.

As for the Oil Coordination Committee the industry funds it and it will cease to exist after dismantling of APM.

4. There are a large number of private players in the country operating in exploration and production. The Directorate General of Hydrocarbons is responsible for ensuring that the reservoirs are managed according to the best practices in the industry. With the charter given to DGH there appears to be no need for the post of Advisor (Exploration) in the ministry, which could be straightaway dispensed with. The exploration and production functions relating to national oil companies to the extent they were earlier handled in the division of JS (Exploration) will be taken over by DGH, thus leading to relief in the workload of JS (Exploration).

5. The functions of natural gas within the exploration division and Director (Natural Gas) may be brought under JS (Exploration), both for better coordination and cohesiveness. JS (Exploration) can now handle this work too in view of the reduced workload on exploration and production.

6. The work of petroleum conservation relates to practices followed by a number of consuming industries and creation of awareness amongst consumers. The government has a very good structure in the PCRA, which is a fully staffed and autonomous body with field and technical staff. There is no need, therefore, to have any division or branch dealing with conservation. The division may therefore be abolished with the residual items of work, like those relating to natural gas, transferred and added to those of JS (Exploration).

7. At present JS (Refineries) deals with functions relating to refineries, pricing of petroleum products and matters relating to the Oil Coordination Committee

(OCC). Now that the refinery sector is totally de-licensed and 100% foreign direct investment (FDI) is allowed, and many private refineries are being set up, there is very little left to be done in the ministry. Also, except for administered price for transportation fuels, others have been taken out of price control and the few remaining subsidies are proposed to be transferred from the industrial account to the government budget. The task of ensuring a level playing field in marketing and distribution of petroleum products will also eventually go to an independent regulator. Thus, a large number of functions relating to licensing, administration of prices and subsidies will go out of the purview of the ministry as well as the OCC. To the extent that there are some administered prices or subsidies to be operated through the budget, these functions could easily be handled by JS&FA, who in any case is even now associated with this work.

8. With the administered price mechanism to be discontinued from 31.3.2002 and with regulatory functions being handed over to a regulator outside the ministry, the only work that will remain in the ministry would be on matters concerning the public sector undertakings. The residuary workload in the ministry will not justify two separate divisions for marketing and refining. It would, therefore, be sufficient for the ministry to have a single division headed by an AS or JS for dealing with the residuary matters in refining and marketing, and with any price stabilization mechanism that may be put in place when OCC is abolished. As such, either the post of AS (Marketing) or JS (Refineries) could be dispensed with.

9. In sum, therefore what is proposed above is:

(i) The post of Joint Secretary (Conservation) as also the division dealing with conservation be done away with, and the functions relating to natural gas at present being handled by him be added to those of JS (Exploration);

(ii) Matters relating to any subsidies that may still subsist be transferred to the government budget and be handled by JS&FA;

(iii) The post of Additional Secretary be abolished and a single division with one Joint Secretary be entrusted with the residuary matters both in regard to refining and marketing, and any price stabilization mechanism that may be introduced after OCC is abolished

Thus, as against one Additional Secretary and four Joint Secretaries (including FA) at present, the revised structure would have only 3 Joint Secretaries (including FA). In other words, this in effect would mean a reduction of one post of JS from the 3 JS + 1 FA that the Ministry was having, just prior to initiation of reforms. If, however, for administrative reasons, it is found necessary to have the post of an Additional Secretary, then one of the two remaining posts of Joint Secretaries (excluding FA) may be operated at the level of Additional Secretary, who would be entrusted with a separate division (with no Joint Secretary reporting to him or her). In that case, under the revised staffing structure there would be one Additional Secretary, and only one Joint Secretary, excluding the FA.

10. The reduced staffing pattern would take effect once the petroleum sector is fully deregulated, including abolition of the administered price mechanism (APM) to take effect from 1.4.2002. However, during the period of transition between the abolition of APM and total deregulation of the petroleum sector thereafter, one of posts of Joint Secretary proposed to be abolished may be operated if need be, but for a period not exceeding one year.

11. At the lower levels, one DS/Director looking after marketing functions and one DS/Director looking after pricing and refinery matters with the support staff of Section/Desk and one desk of Under Secretary supported by a conventional section for PSU work, should be more than adequate. The subordinate level posts in the ministry may also be reduced correspondingly after an intensive review of the revised workload. The other functions of the ministry relating to administration, vigilance, coordination may be retained and distributed among the three Joint Secretaries, along with the work relating to the public sector organisations to the extent that they are not divested. Based on the above discussion, a statement

showing the reduction in the number of posts of the level of S.O. and above, is appended at Annex ‘B’

12. The Commission understands that a large number of persons drawn from PSUs and other organisations work in the ministry in informal or other capacities. Perhaps the practice also extends to use of equipment and other facilities, and is not confined to personnel alone. These are pernicious practices that need to be stopped forthwith. All requirements of additional staff and equipment should be justified in their own right; resort to such camouflaged use of resources is deprecated.

Ministry of Petroleum & Natural Gas

1. Evolution Of The Ministry Of Petroleum & Natural Gas:

1.1. Prior to 1942, there was no organisation in the Government of India dealing exclusively with oil. Arrangements for meeting the requirements of the country, except that of the defence department, were more or less left to the private oil companies.

1.2. In February 1947, two organisations dealing with oil were amalgamated to form a Petroleum Division under the Department of Works, Mines and Power. In 1952 certain subjects relating to oil were transferred from the Petroleum Division to other ministries. Refineries and synthetic oil plants were entrusted to the Ministry of Production and those relating to oil prospecting, exploration concession etc. became the concern of the Ministry of Natural Resources and Scientific Research for undertaking exploration, exploitation and refining of oil in the country. With the formation of the new central cabinet after the general elections in April 1957, the ministries were reorganised. Ministry of Natural Resources and Scientific Research and the Ministry of Production were abolished and a new Ministry of Steel, Mines and Fuel was set up with two departments viz. Department of Iron and Steel and Department of Mines and Fuel.

1.3. In 1962, the Department of Mines and Fuel was made into a separate Ministry. In 1963, a new Ministry of Petroleum and Chemicals was formed with two departments viz. Department of Petroleum and the Department of Chemicals.

1.4. Again in February 1969 the Departments of Petroleum and Chemicals were placed along with the Department of Mines and Metals under the newly created Ministry of Petroleum, Chemicals, Mines and Metals.

1.5. In the late eighties, the Petrochemicals Division was taken out of the Ministry of Petroleum and transferred to the Department of Chemicals, and the Ministry was renamed as the Ministry of Petroleum & Natural Gas.

2. Allocation Of Work:

2.1. The subjects allocated to the Ministry of Petroleum and Natural Gas under the Allocation of Business Rules, are indicated below:

1. Exploration for, and exploitation of petroleum resources, including natural gas.
2. Production, supply, distribution, marketing and pricing of petroleum, including natural gas and petroleum products.
3. Oil refineries including lube plants.
4. Additives for petroleum and petroleum products.
5. Lube blending and greases.
6. Planning, development and control, of and assistance to all industries dealt with by the ministry.
7. All attached or subordinate offices or other organisations concerned with any of the subjects specified in the list.
8. Planning development and regulation of oil field services.
9. Public sector projects falling under the subject included in this list. Engineers India Limited and IBP Company, together with its subsidiaries except such projects as are specifically allotted to any other ministry/department.
10. The Oil fields (Regulation and Development) Act, 1948 (53 of 1948).
11. The Oil and Natural Gas Commission Act, 1959 (43 of 1959)
12. The Petroleum Pipelines (Acquisition of Right of User in Land) Act, 1962 (50 of 1962)
13. The Esso (Acquisition of Undertakings in India) Act, 1974 (4 of 1974)
14. The Oil Industry (Development) Act, 1974 (47 of 1974).
15. The Burmah-Shell (Acquisition of Undertakings in India) Act, 1976 (2 of 1976).

16. The Caltex (Acquisition of Shares of Caltex Oil Refining (India) Limited and of the Undertakings in India of Caltex India Limited Act, 1977.

17. Administration of the Petroleum Act, 1934 (80 of 1984) and the rules made there under.

3. Functions:

3.0. The areas of work can be grouped into three broad categories, exploration, refining and marketing & distribution as detailed below:

3.1. **Exploration:**

3.1.1. ONGC and OIL are engaged in the exploration and production of oil and natural gas in the country. Crude oil production during 1998-99 was 32.722 million tonnes against the target of 34.01 million tonnes. ONGC and OIL had achieved their MOU targets of crude oil production. The crude oil production target for the year 1999-2000 was set at 33.04 million tonnes. As part of the liberalisation of the petroleum sector, foreign and Indian companies are encouraged to participate in the exploration and development activities to supplement the efforts of national oil companies, with a view to narrowing the gap between supply and demand. Thus, a number of contracts have been awarded to both foreign and Indian companies to undertake exploration activities and development of fields on production sharing basis. Most acreages in future will be explored/produced on contracts awarded through open bidding.

3.2. **Refining:**

3.2.1. The refining capacity of 69.14 million tonnes per annum as on 1.4.1999 has increased to 109.04 million tonnes per annum as on 1.1.2000. There are 17 refineries in the country. 7 are owned by Indian Oil Corporation Limited, 2 each by Hindustan Petroleum Corporation Limited and Madras Refineries Limited; and one each by Bharat Petroleum Limited, Cochin Refineries Limited, Bongaigaon Refinery and Petrochemicals Limited, Numaligarh Refineries Limited, Mangalore Refinery and Petrochemicals Limited and Reliance Petroleum Limited. To meet the growing demand for petroleum products, a number of grass root refineries, as well as expansion of existing refineries have been commissioned, some of which are under various stages of implementation. The refining capacity is expected to go up to 129 million tonnes per annum by the end of IX Plan as against the estimated demand of 110 million tonnes. The administered pricing mechanism (APM), which has been in force in the petroleum sector since the mid 70's, provides returns to the oil companies based on a predetermined percentage. While the APM ensures price stability, it does not encourage cost minimization, efficient use of capital, customer friendly competitive environment etc. The refinery sector has been de-licensed and 100% FDI allowed.

3.3. **Marketing and Distribution:**

3.3.1. Four public sector oil companies namely Indian Oil Corporation, Bharat Petroleum Corporation, Hindustan Petroleum Corporation and IBP Company Limited are engaged in marketing of LPG in the country. With the increased availability of LPG, the number of LPG customers enrolled by them has also increased. As on 1.1.2000, they serve around 436 lakh customers. The government has approved 70 lakh new LPG connections. The government has been according priority for release of LPG connections to the ecologically fragile hilly areas and Taj Trapezium to reduce deforestation in the hilly areas. The government has also taken a decision to clear the entire waiting list of LPG in the metro cities of Calcutta, Chennai, Mumbai and the National Capital Region. Most of the products stand decontrolled and the rest also are to be decontrolled by the end of 2001-2002, unless advanced further.

3.4. **Conservation of Petroleum Products:**

3.4.1. High priority is given to the conservation of petroleum products. Consumption of petroleum products in India has been growing steadily at a rate of 8 to 10% per annum. The Ministry of Petroleum and Natural Gas, in association with PCRA and all public sector oil companies under its ambit, observed the oil conservation fortnight from January 17 to 30, 2000 throughout the country, during which over 2,68,000 activities were organised. The work at the consumer end in the field is being done by PCRA, which has full-fledged staff for this purpose.

4. Existing Structure:

4.1. MOPNG currently has a Secretary, one Additional Secretary and four Joint Secretaries - one for exploration, one for refining, one for conservation and administration and a JS&FA. The Additional Secretary now handles the marketing functions, his post having been upgraded from that of Joint Secretary (Marketing). MOPNG has 296 persons in position as against its total sanctioned strength of 314 posts. (***Annexe 'A'*** gives the details)

4.2. There are 14 PSUs, three subsidiaries and seven other organisations under the administrative control of the Ministry. These are listed below:

Public Sector Undertakings

1. Oil & Natural Gas Corporation Ltd.
2. Oil India Limited
3. Indian Oil Corporation Limited
4. Bharat Petroleum Corporation Limited
5. Hindustan Petroleum Corporation Limited
6. Kochi Refineries Limited
7. Chennai Petroleum Corporation Limited
8. IBP Company Limited
9. Engineers India Limited
10. Bongaigaon Refinery and Petrochemicals Limited
11. Biecco Lawrie & Company Limited
12. Gas Authority of India Limited
13. Numaligarh Refinery Limited
14. Balmer Lawrie & Company Ltd.

Chennai Petroleum Corporation and BRPL have been taken over by IOC, and Kochi Refineries by BPCL. IBP, Biecco Lawrie and Balmer Lawrie are already on the block for disinvestment. BPCL and HPCL are also slated for disinvestment in the current financial year.

Subsidiaries

1. O.N.G.C. Videsh Limited
2. Indian Additives Ltd. (Joint Venture of CPCL)
3. Indian Oil Blending Ltd. (Joint Venture of IOC)

Other Organisations

1. Oil Industry Development Board (OIDB)
2. Oil Coordination Committee (OCC)
3. Petroleum Conservation Research Association (PCRA)
4. Oil Industry Safety Directorate
5. Centre for High Technology
6. Petroleum India International
7. Directorate General of Hydrocarbons.

4.3 Out of the above seven organizations, Oil Industry Development Board (OIDB) is a statutory body which receives grants from the government out of the cess collected on crude oil production in the country. The Oil Coordination Committee (OCC) is an industry-funded body and does not receive any grants from the government directly. So is the case with the Petroleum India International. The other four organizations viz., PCRA, Oil Industry Safety Directorate, Centre for High Technology and Directorate General of Hydrocarbons are funded by grants given by OIDB. In a sense, grants given by OIDB should be considered as part of government funding in as much as OIDB itself receives moneys sanctioned out of the Consolidated Fund of India.

4.4 The functioning of the 4 organizations so funded by OIDB suggests that they are basically meant to promote the interests of the industry. In addition to compliance of statutory norms, the industry all over the world has attained excellence through self-regulatory mechanisms and by setting high standards for themselves. For example, the Safety Directorate endeavours to lay down norms for the industry, based on requirements to be complied with under various applicable statutes. Similarly, the Centre for High Technology provides a central place for data on technology etc. to prevent repetitive acquisition of technology by the industry, and for sharing of industry experience in various technological matters. The PCRA promotes awareness of energy conservation and good practices in the use and application of energy. As these functions are considered essential for the petroleum industry to be competitive, the industry itself should fund these organizations through such mechanisms as it may devise; consequently, there should be no need for OIDB .to finance them.

4.5 As for the Directorate General of Hydrocarbons (DGH), the need for it arises from the fact that the government under the Constitution continues to be the owner of the petroleum resources, with the various operators only being leaseholders. It is, therefore, necessary in public interest to ensure compliance with sound reservoir engineering and management practices; this is not a matter that may be left to industry for self-regulation. It is also understood that the government is proposing to create a statutory authority for regulation of reservoir matters. The other functions of the Directorate General like central storage of essential data etc., which have a commercial value and are also matters of public interest, need to be under government control. Therefore, DGH may continue to be funded as at present, by OIDB until it is converted into a statutory authority.

4.6 Petroleum India International is again an industry body to pool the expertise available with the various petroleum companies and to commercially exploit it overseas through offer of various petroleum-related services. As such, even now the industry meets the expenditure, if any, which arrangement may continue if the industry feels the need for that organization and those services.

4.7 As for the Oil Coordination Committee, the industry funds it and it will cease to exist after the dismantling of the APM; and this is covered by separate decisions of the government.

5. Changing Scenario, Analysis & Comments:

5.1. As early as 1986, government started offering exploration blocks to private investors. The process of opening up the entire petroleum sector began in 1991. Apart from exploration blocks, government has been offering discovered fields too for joint development. Government has since decided that national oil companies (NOCs) too like private operators will in future get exploration blocks only on a competitive bidding basis. Prices, both for crude oil and natural gas, will be at international market rates. The Directorate General of Hydrocarbons has been set up as an independent regulator for reservoir management. Government has further decided that by April 2002, all P.O.L. products will be deregulated. (Currently, except for transportation fuels and ATF, others are on OGL). While prices of all products will be decontrolled, subsidies on selected products will be transferred to the budget. Refineries have been de-licensed and 100% FDI is allowed. Private players are allowed to invest in marketing of P.O.L. with some entry criteria only for transportation fuels. Pool account will be discontinued and a market regulator appointed to ensure a level playing field to all players. All PSUs except the flagship companies – ONGC, IOC and GAIL will have government equity below 51%. That the government is adhering to the scheduled deregulation by April 2002 has been reaffirmed in the last budget speech of the Finance Minister and subsequently reiterated by the Minister for Petroleum & Natural Gas. Thus, except for policy formulation and managing the three flagship PSUs, the rest of the work in the ministry will either cease to exist or be transferred to a regulator.

5.2. The impact of the above on the existing structure of the ministry is discussed below.

5.3. As far as exploration and production (E&P) activities are concerned there are a large number of private players today operating in the country in addition to the two national oil companies (NOCs). Government has constituted the Directorate General of Hydrocarbons, who among other things is responsible for ensuring that the reservoirs are managed according to the best practices in the industry. By virtue of the data base and the expertise built up in DGH, he is best qualified to act as a technical adviser also to the government in E&P matters, which is one of his functions. Prior to the constitution of DGH, Adviser (Exploration) was performing the function of technical advice to government in E&P matters. With the charter given to DGH ***there appears to be no need for the post of Adviser (Exploration) in the ministry and this could straightaway be dispensed with.*** Further, the entire contract management in respect of several E&P companies is also being handled by the DGH. Hereafter, NOCs too will get the fields against open bidding and will enter into contract with the government, which will be again managed by the DGH. ***In view of this, the E&P functions relating to NOCs to the extent they were earlier handled in the division of JS (Exploration) will be taken over by DGH, thus leading to relief in the workload of JS (Exploration).***

5.4. At present the work of natural gas has been taken away from the exploration division and is separately handled by another Joint Secretary and a Director exclusively in charge of natural gas. Under the reforms initiated by the government, natural gas produced by NOCs along with a large number of other petroleum products will eventually be market priced; and in respect of the contracts given to the private investors they are actually selling gas at market determined prices. The administered price of gas will cease. The reservoir regulatory functions in respect of natural gas as in the case of crude oil will be handled by the DGH and/or its successor organisation while the issues relating to marketing of natural gas through pipelines etc. will be within the province of an independent regulator. It will therefore be in the fitness of things that all matters pertaining to natural gas are also handled in one division along with crude oil as was being done before. No doubt the work relating to laying of the HBJ pipeline and the formation of an exclusive gas marketing company like GAIL demanded attention and management time at the initial stages of their formation. But they do not require such exclusive focus in the ministry any more as these functions will increasingly be taken care of by the market and the regulator. ***It would, therefore, be proper to bring the functions of natural gas within the exploration division and Director (Natural Gas) may report to JS (Exploration) both for better coordination and cohesiveness; and JS (E) can now handle this work too in view of the reduced work load on E&P discussed earlier***.

5.5. A Joint Secretary is charged with the work of petroleum conservation in the ministry. The work of petroleum conservation relates to practices to be followed by a number of consuming industries and creation of awareness amongst consumers. The government has a very good structure in the PCRA, which is a fully staffed and autonomous body with field and technical staff. Apart from a CEO, there is a governing board advising PCRA headed by the Secretary (Petroleum) and consisting of CEOs of oil companies. This governing board is competent to give directions and to guide the PCRA in its field of work. There is very little to be done in the secretariat of the government department, and in fact such items of work should strictly not be handled in a department/ministry of the government. ***There is therefore no need to have any division or even a branch dealing with this item of work. The division may therefore be done away with and the function of natural gas handled in this division be added to Exploration Division. As stated in para 5.4 above, Director (Natural Gas) may report to JS (Exploration).***

5.6. JS (Refineries) deals with the functions relating to refineries, pricing of petroleum products and matters relating to the OCC. Here too, it should be noted that under the reforms so far announced, the refinery sector is totally de-licensed and 100% FDI is also allowed. Stand-alone PSU refineries are being taken over by PSU refining / marketing companies and the stand-alone PSU marketing company (IBP) is being divested. Several private refineries have been set up or are being set up. Except for administered price for transportation fuels, others have been taken out of price control. Expert committees have recommended that the few remaining subsidies be transferred from the industry account to the government budget. The task of ensuring a level playing field in marketing and distribution of petroleum products will also eventually go to an independent regulator. Thus, a large number of functions relating to licensing, administration of prices and subsidies will go out of the purview of the ministry as well as the OCC. To the extent that there are some administered prices or subsidies to be operated through the budget, ***these functions could easily be handled by JS & FA who in any case is even now associated with this work.***

5.7. It would be pertinent to discuss here the functions of the marketing division also. As pointed out earlier, with the decision completely to do away with the administrative price mechanism (APM) by 31.3.2002, and with regulatory functions being handed over to a regulator outside the ministry, the only work that will remain in the ministry will be on matters concerning the public sector undertakings. Thus, taking refinery and marketing divisions together, it is evident that a substantial part of the present workload will not be there by 31.3.2002. The ministry will be left with only the residuary functions relating to the public sector undertakings (PSUs) and policy formulation in respect of refinery and marketing, if any. This residuary workload in the ministry will not justify two separate divisions for marketing and refining. A single division within the ministry for refining and marketing or by whatever name it is called should be able to carry out these functions better. ***It would, therefore, be sufficient for the ministry to have a single division for dealing with the residuary matters in refining and marketing, and with any price stabilisation mechanism that may be put in place when OCC is abolished. Only the post of one JS need be retained and that of Additional Secretary can be dispensed with.***

5.8. In sum, therefore what is proposed above is:

(i) The post of Joint Secretary (Conservation) as also the division dealing with conservation be done away with, and the functions relating to natural gas at present being handled by him be added to those of JS (Exploration); (Para 5.5 supra)

(ii) Matters relating to any subsidies that may still subsist be transferred to the government budget and be handled by JS&FA (Para 5.6 supra);

(iii) The post of Additional Secretary be abolished and a single division with one Joint Secretary be entrusted with the residuary matters both in regard to refining and marketing, and any price stabilization mechanism that may be introduced after OCC is abolished (Para 5.7 supra)

Thus, as against one Additional Secretary and four Joint Secretaries (including FA) at present, the revised structure would have only 3 Joint Secretaries (including FA). In other words, this in effect would mean a reduction of one post of JS from the 3 JS + 1 FA that the ministry was having, just prior to initiation of reforms. If, however, for administrative reasons, it is found necessary to have the post of an Additional Secretary, then one of the two remaining posts of Joint Secretaries (excluding FA) may be operated at the level of Additional Secretary, who would be entrusted with a separate division (with no Joint Secretary reporting to him or her). In that case, under the revised staffing structure there would be one Additional Secretary, and only one Joint Secretary, excluding the FA

5.9. The reduced staffing pattern would take effect once the petroleum sector is fully deregulated, including abolition of the administered price mechanism (APM) to take effect from 1.4.2002. However, during the period of transition between the abolition of APM and total deregulation of the petroleum sector thereafter, one of posts of Joint Secretary proposed to be abolished may be operated if need be, but for a period not exceeding one year

5.10. ***At the lower levels, one DS/Director looking after marketing functions and one DS/Director looking after pricing and refinery matters with the support staff of Section/Desk and one desk of Under Secretary supported by a conventional section for PSU work, should be more than adequate. The subordinate level posts in the ministry may also be reduced correspondingly after an intensive review of the revised workload.*** The other functions of the ministry relating to administration, vigilance, coordination may be retained and distributed among the three Joint Secretaries, along with the work relating to the public sector organisations to the extent that they are not divested. Based on the above discussion, a statement showing the reduction in the number of posts of the level of S.O. and above, is appended at ***Annexe 'B'***

5.11. The Commission understands that a large number of persons drawn from PSUs and other organisations work in the ministry in informal or other capacities. Perhaps this practice also extends to use of equipment and other facilities, and is not confined to personnel alone. These are pernicious practices that need to be stopped forthwith. All requirements of additional staff and equipment should be justified in their own right; resort to such camouflaged use of resources is deprecated.

5.12. Separately, in the report on the Department of Chemicals and Petrochemicals, it has been recommended that the Petrochemicals Division, which was shifted from the Petroleum Ministry to the Department of Chemicals in 1980 be brought back and merged with the Ministry of Petroleum and Natural Gas. Except for residuary work of PSUs relating to disinvestments of IPCL and winding up of Petrofils Cooperatives Ltd., there is very little traditional industrial licensing work left with the Petrochemicals Division in the Department of Chemicals and Petrochemicals. A separate division for petrochemicals work is, therefore, not considered necessary anymore. Posts of Joint Secretary and some other officers/staff including subordinate staff are proposed to be abolished. The remaining posts of Director – 1; Under Secretary – 1; Desk Officer – 1; Deputy Director (Tech) –2; Assistant Director (Tech) – 1; and the corresponding subordinate level posts, which are proposed to be retained for handling the residuary work, would be placed with the Ministry of Petroleum and Natural Gas along with the incumbents of these posts. There should be no need to have a post of Joint Secretary exclusively to look after the petrochemicals work in the Ministry of P&NG as this work can be entrusted to either JS(Exploration) or JS(Marketing/Refineries).

Annexe 'A'

Sanctioned/Existing strength of Ministry of Petroleum & Natural Gas

Group A	Sanctioned	Existing	Vacant
Secretary – 1, Addl. Secretary – 1, Joint Secy. – 4, Advisor – 2, Director/Dy. Secy. – 8, Jt. Advisor – 2, Dy. Dir. – 2, U.S. – 9, Others – 5 (Sr. PPS, PS, SA. AD & RO)	34	32	2
Group 'B' PAO – 1, Int. Audit Officer – 1 SO/DO – 23, Asstt. Dir. (OL) – 1 Record Officer – 1, Asstt. Library Information Officer – 1 PS – 10, AAO – 2, Asstt. – 38, Pas –20, Research Asstt. – 1	99	94	5
Group 'C'	106	98	3
Group 'D'	75	72	3

Annexe 'B'

Proposed Staffing of Ministry Of Petroleum & Natural Gas

<table>
<tr><th></th><th>Sanctioned</th><th>Actual</th><th>To be retained</th><th>To be abolished</th></tr>
<tr><td>Secretary</td><td>1</td><td>1</td><td>1</td><td>-</td></tr>
<tr><td>Addl. Secretary</td><td>1</td><td>1</td><td rowspan="2">3</td><td rowspan="2">2[@]</td></tr>
<tr><td>Joint Secretary</td><td>4</td><td>4</td></tr>
<tr><td>Adviser</td><td>2</td><td>1</td><td>-</td><td>2</td></tr>
<tr><td>Director/DS</td><td>8</td><td>8</td><td>5</td><td>3</td></tr>
<tr><td>Jt. /Dy. Adviser</td><td>2</td><td>2</td><td>2</td><td>-</td></tr>
<tr><td>Deputy Director</td><td>2</td><td>2</td><td>1</td><td>1[*]</td></tr>
<tr><td>Sr. PPS</td><td>1</td><td>-</td><td>1</td><td>-</td></tr>
<tr><td>U.S.</td><td>9</td><td>9</td><td>6</td><td>3</td></tr>
<tr><td>Sr. Analyst</td><td>1</td><td>1</td><td>1</td><td>-</td></tr>
<tr><td>P.P.S.</td><td>1</td><td>1</td><td>-</td><td>1</td></tr>
<tr><td>Asst. Dir. (Cost)</td><td>1</td><td>1</td><td>-</td><td>1</td></tr>
<tr><td>R.O.</td><td>1</td><td>1</td><td>1</td><td>-</td></tr>
<tr><td>D.O./S.O.</td><td>23</td><td>23</td><td>16</td><td>7</td></tr>
<tr><td>Asst. Dir. (OL)</td><td>1</td><td>1</td><td>1</td><td>-</td></tr>
<tr><td>Total</td><td>58</td><td>56</td><td>38</td><td>20</td></tr>
</table>

[@] **One of these posts may be continued during the transitional period, but for not more than one year.**

[*] **The post may continue during the transitional period but for not more than one year.**

Rationalisation of functions, activities and structure of the Department of Chemicals & Petrochemicals

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Rationalisation of functions, activities and structure of the Department of Chemicals & Petrochemicals

1 Introduction

1.1 The term “chemicals” usually refers to organic and inorganic chemicals, pesticides, dyestuffs, speciality chemicals etc. However, the phrase ‘chemical industry’ is used in a broader sense to include petrochemicals and drugs & pharmaceuticals as well. This sector occupies an important position in the country’s economy and has contributed significantly towards its industrial and economic growth, the annual growth being 12%. The production in 1999-2000 was of the order of Rs. 57,000 crore. The exports from this sector in that year were over Rs. 16,500 crore, accounting for 14% of the exports from manufacturing sector and about 10% of the total exports from the country. A substantial proportion of these exports go to the USA, Europe and other developed countries, an indication that high quality Indian products can compete with the best in the world.

1.2 The breakdown of production and exports by sub-sector during the year 1999-2000 was as follows:

(Rs. in crore)

	Production	Exports[@]
Petrochemicals	21,200	3745[*]
Chemicals	20,000	6133[**]
Drugs & Pharmaceuticals	15,860	6,631
Total	57,060	16,509

[@] The contribution of PSUs in the matter of exports is insignificant.
[*] includes systhetic fibres and other petrochemical products excluding plastics and plastic products.
[**] comprises export of organic and inorganic chemicals, pesticides, dyes and castor oil.

2 Historical Evolution Of Ministry Of Chemicals & Fertilisers

2.1 The evolution of a separate ministry in the government for dealing with this sector can be traced back to 1958 when chemicals existed in the Ministry of Commerce and Industry as a section. At that stage, a section in the Ministry of Production dealt with fertiliser.

2.2 In 1963, these two sections became the Chemicals Division and the Fertiliser Division under a newly constituted Ministry of Petroleum & Chemicals. The two divisions were upgraded in January 1974 and a Department of C&F was created under the Ministry of Petroleum & Chemicals. In March 1976 it was bifurcated into two independent ministries namely Ministry of C&F and Ministry of Petroleum. The two ministries were again united in February 1978 into Ministry of Petroleum, Chemicals & Fertilisers; and thereafter again bifurcated in Sept.1982, with the Department of Chemicals and the Department of Fertilisers being placed under an independent Ministry of C&F.

2.3 Consequent on another reorganisation effected in Sept.1985, the Department of Fertilisers was placed under the Ministry of Agriculture and the Department of Chemicals under the Ministry of Industry. In 1988, the Petrochemicals Division in the Ministry of Petroleum was shifted to the Department of Chemicals and the new Department of Chemicals & Petrochemicals (C&PC) later formed a part of the Ministry of P&C from December 1989 to July 1991.

2.4 It was only in July 1991 that the present Ministry of Chemicals & Fertilisers came into existence with its two departments, namely Department of Chemicals & Petrochemicals and Department of Fertilisers.

3 Functions

3.1 The Department of Chemicals & Petrochemicals is entrusted with the responsibility of policy planning, development and regulation of chemicals, petrochemicals and drugs & pharmaceuticals industries. Administrative and managerial control of the PSUs in petrochemicals, chemicals and pharmaceuticals sectors of industry is also one of the major functions of the Department.

3.2 The list of items allocated to the Department of Chemicals & Petrochemicals under the Allocation of Business Rules is given below:

1. Drugs and Pharmaceuticals
2. Insecticides (excluding the administration of the Insecticides Act, 1968 (48 of 1968)
3. Molasses distribution and pricing
4. Alcohol-industrial and potable (excluding alcoholic drinks from non-molasses base) including the Indian Power Alcohol Act, 1948 (22 of 1948)
5. Dye-stuffs and dye intermediates
6. All organic and inorganic chemicals not specifically allotted to any other Ministry or Department
7. Planning, development and control of and assistance to all industries dealt with by the department
8. All attached and subordinate offices or other organisations with any of the subjects specified under this department
9. Public sector projects concerned with the subjects included under this department except such projects as are specifically allotted to any other ministry or department
10. Bhopal Gas Leak Disaster – Special laws relating thereto
11. Petrochemicals
12. Industries relating to production of non-cellulosic synthetic fibres (Nylon, Polyester, Acrylic etc.)
13. Synthetic rubber
14. Plastics including fabrications of plastic and moulded goods
15. All public sector units relating to the above matters

16. All attached and subordinate offices or other organisations concerned with any of the subjects specified in this list.

4 Existing Structure

4.1 The work of the Department of Chemicals and Petrochemicals, which is headed by a Secretary, is organized under three divisions – Petrochemicals, Chemicals and Drugs & Pharmaceuticals, each headed by a Joint Secretary. In all, the total staff strength of the department is 253, not including the staff posted with the Minister of Chemicals and Fertilisers and the Minister of State (C&F). Details of the sanctioned and existing manpower strength of the department is given in ***Annex 'A'.***

4.2 There are 8 public sector undertakings (PSUs) and 4 other organisations under the administrative control of the department, besides an attached office, namely National Pharmaceutical Pricing Authority and the Office of the Welfare Commissioner for the Bhopal Gas Victims. These are: -

Public Sector Undertakings

i) Indian Petrochemicals Corporation Ltd., Vadodra

ii) Hindustan Organic Chemicals Ltd., Rasayani (Mah.)

iii) Hindustan Insecticides Ltd., New Delhi

iv) Indian Drugs and Pharmaceuticals Ltd., Gurgaon

v) Hindustan Antibiotics Limited, Pune

vi) Smith Stanistreet Pharmaceuticals Ltd., Calcutta

vii) Bengal Chemicals and Pharmaceuticals Ltd., Calcutta

viii) Bengal Immunity Ltd., Calcutta

Out of these eight companies, IPCL is already under disinvestments whereas HOCL and HIL have been short listed for disinvestments. The other five companies, which belong to pharma industry sector, had been referred to BIFR and formally declared sick.

Other Organisations

i) Petrofils Cooperative Limited (PCL), Vadodra (Gujarat)

ii) Central Institute on Plastic Engineering and Technology (CIPET), Guindy, Chennai (Tamil Nadu)

iii) Institute of Pesticides Formulations Technology (IPFT), Gurgaon (Haryana)

iv) National Institute of Pharmaceutical Education & Research (NIPER), Mohali (Punjab)

PCL is in an advanced stage of liquidation. A write up on the other three organisations namely CIPET, IPFT and NIPER indicating the nature of these organisations, their activities and sources of funding can be seen at ***Annex 'B'***. Based on ERC's recommendations in its report on autonomous institutions, the Department of Expenditure has initiated action to collect basic information about these organisations in order to review their role and activities.

5 Analysis By Division

An analysis by division of the changes in the policy framework, the present staff strength and suggestions for restructuring are set out in the next three sections:

A. Petrochemicals Division

5.1 Naphtha and natural gas are the basic feedstocks for petrochemicals. Major building blocks for the manufacture of petrochemical products are olefins (ethylene, propylene, butadiene) and aromatics (benzene, toluene, xylenes), which are derived from naphtha/natural gas and are used for the production of a whole range of synthetic fibres (acrylic, polyester, nylon), polymers (poly-ethylenes, poly propylenes, PVC, poly styrenes), elastomers (PBR/SBR used in the manufacture of tyres, tubes and rubber products), and surfactants (detergents) etc.

5.2 This industry has been considerably deregulated. Under the liberalised industrial licensing policy which came into effect from 1.12.1991, industrial undertakings are exempted from obtaining industrial licences to manufacture, except for (i) the industries reserved for the public sector; (ii) certain items (including hazardous chemicals) retained under compulsory licensing; (iii) items of manufacture reserved for the small scale sector; and (iv) proposals attracting locational restrictions. In the petrochemicals sector, the items retained for compulsory licensing include hydocyanic acid, phosgene and its derivatives and naphtha/gas cracker complexes producing ethylene, propylene, aromatic complexes manufacturing benzene, toluene, xylenes, ethylene glycol/ethylene oxide, LDPE etc. Foreign direct investment (FDI) is now freely allowed except where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI can be brought in through the automatic route under powers delegated to the RBI, and for the remaining items/activities through the FIPB for government's approval. For FDI up to 51% foreign equity, automatic approval has been made available. This is a sector where even 100% FDI is now allowed.

5.3. Today, the larger players except for IPCL under the department are all in the private sector or in the public sector under the Petroleum Ministry. A decision has already been taken to reduce government's stake in IPCL from 59.95% to 34.95%. Petrofils Cooperative Ltd. (a joint venture of Government of India, weavers' cooperatives and NCDC), which was set up in 1974 to provide the benefits of modern technology of polyester filament yarn to the weavers, has shut down all its plants from the last week of November 1998. The process of winding up of this venture is in an advanced stage of implementation and is expected to be completed this year. CIPET, which comes under the administrative control of this department, is an autonomous body. Write up on CIPET is at ***Annex 'B'.***

5.4. There is now practically very little traditional work relating to processing of industrial licensing cases and/or investment proposals in the department. The residuary work of PSUs relating to disinvestment of IPCL, winding up of Petrofils Cooperative Ltd, the two public sector undertakings in the petrochemicals sector, is also not likely to continue beyond this year. All these developments clearly point to the need for restructuring of staff strength in this division. The present staff strength of the petrochemicals division is as follows:

Joint Secretary – 1	Dy. Director (T) –5
Director – 1	Asst. Dir (T) – 3
Deputy Secretary-1	S.O./ D.O./US(in situ) – 3
Under Secretary -- 1	RO-1

The posts of Deputy Director (Tech) and Assistant Director (Tech) are the ones that were transferred to the department consequent on winding up of the office of the DGTD. In addition, a PSU officer is working in the department on informal basis and functioning as Joint Industrial Adviser (PC).

5.5. In view of the sharp reduction in the volume of petrochemicals work in the department, the need for continuance of a separate division for petrochemicals is not justified anymore. ***The division may therefore be abolished***. ***However, for handling the residuary work, it should be sufficient if the post of director is retained with two supporting desks – one Under Secretary and one Desk Officer. Two out of five posts of DD (Tech) and one out of three posts of AD (Tech) would be adequate to provide the requisite technical support. As such five posts – 3 DDs and 2 Ads – can be surrendered. The post of RO may also be discontinued. The official taken from a PSU and working informally in the department as Joint Industrial Adviser, should also be repatriated to the concerned PSU.***

The work of petrochemicals should appropriately go back to the Ministry of Petroleum and Natural Gas and handled in that ministry. The posts that are proposed to be retained for the residual work of petrochemicals in the Department of Chemicals and Petrochemicals, may also be transferred to the Ministry of Petroleum and Natural Gas along with the incumbents of these posts and the subordinate staff.

B. Chemicals Division

5.6. With the liberalisation of industrial licensing policy in December 1991, industrial licensing has been done away with, except for a small list of hazardous chemicals including some pesticides. Automatic approval for direct foreign investment up to 51% foreign equity is also available for high priority industries. Government has substantially expanded the list of various industries. For products in key sectors FDI up to 74% is permissible. Safety, health and environmental aspects are taken care of by separate statutory bodies that are common to all industries attracting those provisions.

5.7. The work relating to molasses distribution and pricing, as also alcohol – industrial and potable (excluding alcoholic drinks from non-molasses base), including the Indian Power Alcohol Act, 1948, has almost ceased to exist in the department. It has been left to the state governments of surplus states to distribute their surplus molasses and alcohol to the deficit states at prices to be determined by them.

5.8. While regulation and development of insecticides industry is with the Department of C&F, the administration of the Insecticides Act, 1968 is, however, vested in the Ministry of Agriculture.

5.9. India is a signatory to the Chemical Weapons Convention a universal, non-discriminatory, multilateral, disarmament treaty, which bans the development, production, acquisition, transfer, use and stockpiling of all chemical weapons. For discharging the obligations under the Convention and in order to make filing of correct information about various activities in scheduled chemicals mandatory, the Indian Chemical Weapons Conventions Act, 2000 has been notified on 26.8.2000. This is a new item of work in this division.

5.10. Another important area of work handled in this division relates to the **Bhopal Gas tragedy.**

5.11. For purposes of adjudicating claims and disbursing compensation to the Bhopal Gas tragedy victims an elaborate machinery consisting of a Welfare

Commissioner, 56 Courts of Deputy Commissioners and 11 Appellate Courts was set up. Of the 10.30 lakh cases (about 6.2 lakh registered between 1985 and 1989, and over 4 lakh registered / received in response to a notification issued in 1996 inviting fresh applications) over 10.25 lakh cases have been decided up to 31.1.2001 and Rs.1490 crore awarded to 5.54 lakh victims. Inclusive of restored cases, review appeals and revision petitions about 39,000 cases are still pending. However, pursuant to a recent decision of the Supreme Court, all those whose claims had earlier been rejected on grounds of non-appearance are to be given an opportunity for fresh consideration of their cases. Of the compensation amount received from Union Carbide Corporation and Union Carbide India Ltd., together with interest accruals, the balance amount still available is around Rs.1300 crore. These statistics show that a substantial amount of work still needs to be attended to and completed. Out of the 1547 posts sanctioned for the office of the Welfare Commissioner, 545 posts are currently vacant (reflecting the substantial reduction in work in the last few years); it will, however, be necessary to continue the 1000 filled up posts in order to secure early disposal of the pending cases as well as the applications that may be received now.

5.12. The position would need to be monitored periodically – say on a monthly basis – and as the volume of pending cases comes down, the staff requirement has to be correspondingly scaled down.

5.13. There are two PSUs, namely Hindustan Organic Chemicals Ltd. (HOCL) and Hindustan Insecticides Limited (HIL) in the chemicals sector. **Both PSUs have been short-listed for disinvestment.** HOCL has a subsidiary, viz. Hindustan Fluorocarbons Limited with a unit in Andhra Pradesh for manufacture of PTFE. HIL also has a subsidiary company viz. The Southern Pesticides Corporation Ltd., with a factory at Kovvur in A.P. With the passage of time when the process of disinvestment of HOCL and HIL is completed, the officers and staff in the department deployed for the work relating to these PSUs, will be rendered surplus. The department has a research institute namely Institute of

Pesticides Formulation Technology (IPFT) at Gurgaon (Haryana). Write up on IPFT is at ***Annexe 'B'***.

5.14. To project the strength of the petrochemicals, chemicals and pharmaceuticals industry in India, and to provide a forum for interaction with foreign companies, the department for the first time organized an international exhibition cum conference – India Chem-2000, in October 2000 in New Delhi. It is a biennial feature and the next such event is proposed in the year 2002. ***Work of this nature, which basically involves event management, is best left to be organized by industry organisations like CII or FICCI, or ICMA.***

The present staff strength of the Chemicals Division is as follows:

Joint Secretary – 1	Addl. Dir (T) –1
Director – 1	Jt. Dir (M&E) – 1
DS- 2	SO/DO/US(in situ) – 3
US – 1	Dy. Dir (T) – 1; Asst. Dir (T) – 1;
JIA- 1	R.O. – 1

5.15. Barring policy issues and functioning as a nodal department for the industry, work in the department relating to examination of licensing cases and distribution and pricing of molasses and alcohol etc. is practically nil. A large number of erstwhile functions of the department have thus come down. ***While the post of Joint Secretary (Chem) may continue for supervising the work of Chemicals Division, an officer at the level of Under Secretary can easily look after the functions relating to licensing matters and residual work relating to distribution/pricing of molasses and alcohol. Technical support may be drawn from the technical staff attached to Chemical Weapons Convention Division.***

5.16. As the Government of India is a signatory to the international Chemical Weapons Convention, it may be necessary to have an officer of Director's level to monitor the developments in these areas, particularly in view of the sensitivity of the subject. ***The post of the director level officer may, therefore, continue, with a Joint Industrial Adviser, a Desk Officer and a Deputy Director (Tech) to support him.***

5.17. The subject relating to relief to Bhopal victims is at present handled by DS (Estt. & Bhopal) with lower-level support provided by the Bhopal Section. ***Once the work of the Welfare Commissioner's Office at Bhopal is over, the Bhopal Section in the ministry can be wound up. However, for the present, these posts may continue, as the department would need to monitor the progress of disposal of claims regularly on monthly basis.***

5.18. ***A Section Officer, who also looks after coordination and other routine matters pertaining to chemicals, is handling the work relating to public sector undertakings in the Chemicals Division. Once the work relating to disinvestment of HOCL and HIL and the subsidiary companies of these PSUs is completed, the post of Section Officer and the supporting staff may be surrendered. Until then, these posts may continue.***

5.19. ***Leaving aside the posts that have been suggested for continuance in the above paragraphs, the remaining posts - one post each of Deputy Secretary, Additional Director (Tech.), Joint Director and Assistant Director (Tech.) along with the corresponding staff at lower levels may be discontinued.***

C. Pharmaceutical Industry Division

5.20. Nearly 550 bulk drugs are used in the country. More than 70% of these and almost the entire requirement of formulations are met from indigenous production. In 1998-99, the estimated value of production of bulk drugs and formulations was Rs.15, 750 crore i.e. around US $ 3.5 billion. Exports during the same period were of the order of Rs. 6,256 crore, which increased to Rs. 6,631 crore in 1999-2000.

5.21. There are about 250 units in the organised sector, of which five are in the public sector (IDPL, HAL, SSPL, BCPL, BIL) and seven in the joint sector. There are also about 5000 units in the small-scale sector, engaged in the production of drugs. Of these, more than 100 units are producers of bulk drugs.

5.22. The liberalised provisions of industrial licensing were brought into effect in the pharmaceutical sector from October 1994. The Drug Policy governs the licensing for drugs and pharmaceuticals under the new industrial licensing policy of 1991. After the announcement of the new drug policy in 1994, all bulk drugs and their formulations except those that are reserved for manufacture by public sector, or those which involve use of re-combinant DNA technology, and bulk drugs requiring in-vivo use of nucleic acids as the active principals, are exempt from licensing. Formulations based on use of specific cells/tissue targeted formulations, however, continue in the list of compulsory licensing. Bulk drugs that were reserved for production by PSUs, have also since been de-licensed in 1999. For the manufacture of virtually all the bulk drugs/drug intermediates/formulations investors are now required only to file an industrial entrepreneurial memorandum (IEM). The work earlier requiring examination of each proposal of investment from the demand-supply angle or recommending them for issue of licenses, etc. is thus obviated. Similarly, in the case of imports, as most of the items have been put on OGL except for a few restricted items the traditional work earlier required to be done in the department has ceased. With the abolition of industrial licensing for most of the drugs and formulations, manufacturers are now free to produce any drug duly approved by the Drug Control Authority.

5.23. Pricing in the pharmaceutical sector is regulated through the Drugs (Prices Control) Order, 1995. At present, 74 bulk drugs and their formulations are under price control. An independent body of experts called National Pharmaceutical Pricing Authority (NPPA) has been entrusted with the task of price fixation and revision of the scheduled bulk drugs and formulations. NPPA headed by the chairman, a secretary level officer, has a total sanctioned strength of 60 officers and other staff. 13 of these posts are lying vacant (details given in ***Annexe 'A'***).

5.24. NPPA has been empowered to take final decisions, which are subject to review by the central government as and when considered necessary. A Drug Price Control Review Committee (DPCRC) has been constituted to review the current drug price control mechanism and to suggest alternative models, if any, with a view to reducing the rigours of price control wherever they are perceived to be counter productive. Since the NPPA has been constituted only recently***, it may be premature to review its staff strength vis-à-vis the workload right now. However, recruitment against the vacant posts may be frozen and as the work stabilises, staff strength may be reviewed strictly in accordance with IWSU norms relating to work load.***

5.25. With the constitution of the National Pharmaceutical Pricing Authority for enforcing the provisions of the Drugs (Price Control) Order, the items of work relating to the price control stand withdrawn from the department, which will now be responsible only for revision/appeals against the orders of the NPPA. It appears that not more 10 to 15 % cases result in such appeals/revisions. The NPPA also renders technical advice to the central government on changes/revisions in the drug policy. As statutory orders relating to revisions/appeals for price fixation require application of mind at a sufficiently high level, ***they may be dealt with at the JS level assisted by either a Director or a Deputy Secretary as the department may find expedient.***

5.26. A committee known as Pharmaceutical Research & Development Committee (PRDC) was constituted under the chairmanship of Dr. R. A. Mashelkar to recommend measures to strengthen the research and development (R&D) capacity of pharmaceutical industry and to identify the support required by the Indian pharmaceutical companies to undertake R&D. The Committee has submitted its report and its recommendations are under inter-ministerial consultations. Action is also being taken to set up the Pharmaceutical Research and Development Fund with an outlay of Rs.150 crore. Administration of this fund will be an added responsibility to the department's work***, but can be administered by constituting a management committee at an appropriate level, with a small cell to assist JS&FA, who would be in charge of accounts. The cell may be financed outside the budget, with the interest income of the Fund. Alternatively, the R&D Fund can be placed with DSIR, who would be in a better position to administer it for R&D activities.***

5.27. There are five PSUs (IDPL, HAL, BCPL, BIL and SSPL) and six joint sector undertakings in the pharmaceutical sector under the administrative control of the department. They also have two wholly owned subsidiaries. All the five PSUs had been referred to BIFR and were formally declared as sick. Efforts to revive and rehabilitate these companies have failed. In the case of some sick enterprises of the Department of Heavy Industry that had been referred to BIFR, the Expenditure Reforms Commission had made the following observation –

> "The lengthy procedure and almost open-ended time frame for dealing with sick enterprises referred to BIFR, whose recommendations thereafter have to be processed through equally lengthy winding up procedure are inimical to finding expeditious solutions to ailing companies. An alternate approach would be to seek permission for closure of the undertakings, which are found to be totally unviable, under the Industrial Disputes Act. The closure of an undertaking, even when the winding up operations are in progress, is feasible under the provisions of the ID Act. In accordance with the notification issued in July 1998, permission for closure of such central public sector undertakings can be granted by the Central Ministry of Labour and does not require the approval of the State Government. The workers can be given the facility of the generous Voluntary Separation Scheme; those who do not avail of this facility are still entitled to compensation under the ID Act. In

adopting this approach, the continuing expenditure on wages, salaries and overheads until the long drawn winding up operations are completed can be avoided. This was the procedure adopted in the case of Mandya National Paper Mills and will merit consideration for adoption in other similar cases involving inevitable winding up of unviable companies. As a start, it can be adopted in all cases already identified for winding up by the BIFR/Disinvestment Commission."

The department may adopt the above procedure outlined by ERC to expedite the winding up of the five sick public enterprises in the pharmaceutical sector.

5.28. The department has an institution to set standards of excellence for pharmaceutical colleges and for R&D in the field of pharmaceuticals. Detailed write up on this institution namely NIPER is at ***Annexe 'B'***.

5.29. Under the provisions of the Drugs (Prices Control) Order, the government may require manufacturers, importers or distributors, as the case may be, to deposit the amounts accrued as a result of charging prices higher than those fixed by the government under DPCO, into the Drugs Prices Equalisation Account (DPEA). This account is maintained by the Department of Chemicals & Petrochemicals and the amounts deposited in the DPEA are to be utilised for:

"

i. paying manufacturer, importer or distributor, as the case may be, the shortfall between his retention price and the common selling price or, as the case may be, the pooled price for the purpose of increasing the production, or securing the equitable distribution and availability at fair prices, of drugs;

ii. meeting the expenses, incurred by the Government in discharging the functions [under this paragraph]

iii. promoting higher education and research in and for the purposes incidental thereto."

[Extract from the Drugs (Prices Control) Order]

5.30. The department also has a few outstanding assessment cases in respect of drug price equalisation account. These cases, as well as fresh cases, to determine the liabilities of the drug companies under the provisions of the DPCO have been referred to Drug Prices Liabilities Review Committee (DPLRC), a three-member committee headed by a retired judge of Delhi High Court, which submits its recommendations to the department.

5.31. The Indian pharmaceutical industry is gearing up for the product patent regime to be ushered in from January 2005 under our obligations of the WTO Agreements. This lends growing importance to research and development in the pharmaceutical sector**. The new pharmaceutical policy is also under preparation.**

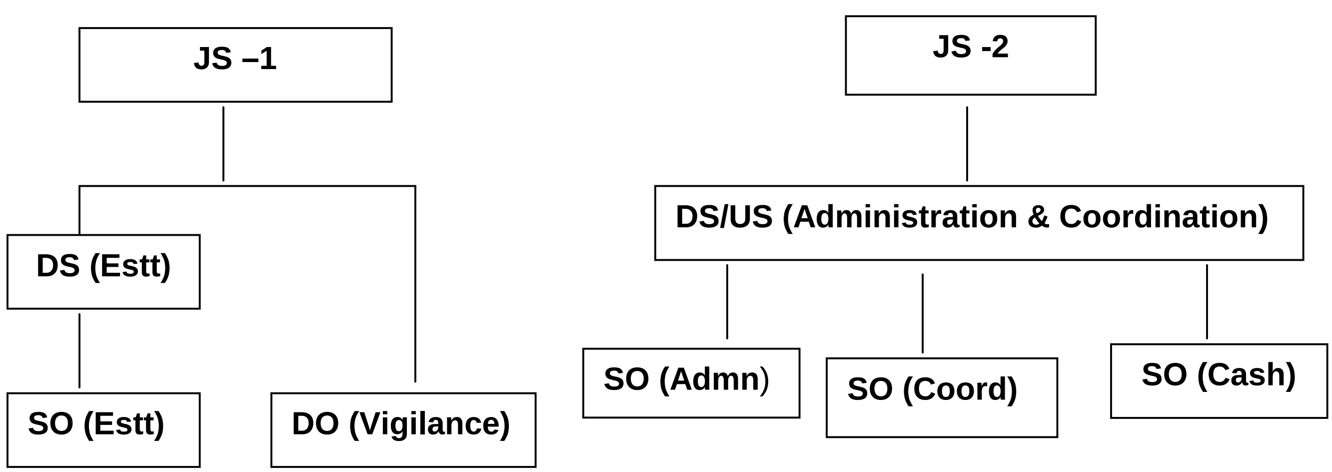
5.32. In the light of these developments it would appear that there is clearly a case for a reduction in the number of posts at the level of Director/Deputy Secretary, US/AD and SO/DO. The present staff strength of this Division is as follows:

Joint Secretary – 1	Addl. Dir. (T)-1
Director – 1	JIA – 1
DS-1	Dy. Dir(T)- 1
US-2	Asst. Dir (T) – 2
SO/DO/US(in situ) – 5	Asst. Dir (Cost) – 1

It is recommended that one post each of Deputy Secretary, Addl. Director (Tech), Under Secretary, and Assistant Director (Tech) as also at least two posts of SO/DO could be surrendered.

D. Establishment, Administration Wing

5.33. At present, the work relating to Establishment, Vigilance and Parliament, is overseen by JS (Chemicals) and the work relating to Administration, Coordination and Hindi is overseen by JS (Petrochemicals). With the suggested abolition of the post of JS (Petrochemicals), the department will be left with two Joint Secretaries, presently designated as JS (Chemicals) and JS (Pharma Industry). As such, the work relating to Establishment, Vigilance and Parliament may be entrusted to one of two Joint Secretaries and that relating to Administration, Coordination and Hindi to the other Joint Secretary, who would oversee these items of work in addition to the work of their respective divisions. The channel for submission of work of Establishment, Administration, Coordination etc. to the two JSs may be as below:



5.34 DS (Bhopal) and US (Molasses) are at present looking after establishment work at that level, in addition to their work of Bhopal and Molasses desks respectively. However, the following posts are deployed exclusively for establishment, administration, vigilance, coordination and cash work.

US (Admn)	1	;	SO (Admn.)	1
SO (Estt)	1	;	SO(Coord)	1
DO (Vigilance)	1	;	SO (Cash)	1

5.35 Notwithstanding the reduction suggested in the total staff strength, no reduction is being recommended in the staff strength of these support functions. ***As such, the one post of US (Admn) and five posts of SO/DO may be continued.*** For, in the proposals relating to the Department of Fertilisers, it is being recommended that the two departments could be merged into one and the support facilities, namely Administration, Vigilance, Parliament, Hindi And Accounts work, for the integrated department, be provided by those now in the Department of C&PC. ***The post of AD (OL) in the department, may be abolished, as AD (OL) in the Department of Fertilsers is being retained and can assist DD (OL) here.*** At JS level, the work relating to Hindi can be entrusted to one of the Joint Secretaries from the Fertiliser Department.

6 Summary Of Recommendations

6.1 Some of the major factors resulting in drastic reduction in the workload of the department are: liberalisation of industrial licensing, made effective from December 1991 (from October 1994 in the case of drugs and pharmaceuticals); expansion of the list of industries eligible for automatic approvals up to 51%; and foreign direct investment being made permissible up to 74% in some key sectors. Steps taken to disinvest government's stakes in the public sector companies will result in further reduction in the workload.

6.2 Keeping in view the sharp reduction in the volume of petrochemicals work, continuance of a separate division for petrochemicals is not justified. One post of director with two desks manned by an under secretary and a desk officer, are considered adequate to handle the residuary work of PSUs and FIPB cases etc. For technical support, 2 posts of DD (T) and one post of AD (T) may be retained, The rest of the division (namely, JS, DS, two posts of SO/DO, three out of five posts of Deputy Director (Tech), two out of three posts of Assistant Director (Tech) and the one post of Research Officer, along with their supporting sections/staff) may be surrendered. Furthermore, all the residuary work of petrochemicals may be transferred back to the Ministry of Petroleum and Natural Gas, along with the posts which are proposed to be retained. The incumbents of these posts as also the other subordinate level posts that are retained, may also be transferred to the Ministry of Petroleum and Natural Gas.

6.3 An officer of director level may monitor the developments in the area of Chemical Weapons Convention. In addition to the Joint Industrial Adviser, who looks after the technical aspects of the work, the Director may have an Under Secretary's desk to assist him.

6.4 The work relating to holding the biennial exhibition India-Chem may be discontinued and may be left to be organised by an industry organisation like CII or FICCI or any agency specialising in management of such events.

6.5 The Department may undertake a more focussed review of the residual work in the Welfare Commissioner's office for Bhopal victims and set targets both for expeditious disposal of the pending cases as well as reduction in the staff in due course of time.

6.6 Keeping in view the significant work reduction in Pharmaceutical Industry Division because of reforms and removal of licensing restrictions and also on account of transfer of price fixation work to NPPA, there is little justification for continuance of the posts of Addl. Director (Tech), one DS and officer(s)/staff engaged on price fixation work.

6.7 The posts lying vacant in the department and in NPPA should not be filled and recruitment to these posts may be frozen.

6.8 The practice of taking persons from the PSUs for working in the department on informal basis should be discontinued and all such persons should be repatriated to their respective PSUs forthwith.

6.9 The suggested division-wise reduction in the posts of the level of section officer and above would result in the total strength of the department being reduced from 71 to 38 (***Annexe 'C'***).

6.10 In respect of subordinate staff, the department may conduct an intensive review of the workload and set targets to reduce the staff strength within a short time frame.

6.11 Further reduction in staff strength will result following merger of the Department of C&PC and the Department of Fertilisers, being proposed separately.

Annexe 'A'

Existing Strength Of Department Of Chemicals And Petrochemicals And Its Attached Office

Department of Chemicals & Petrochemicals

Group A	Sanctioned - 53	Vacant -10
	Secretary -1 Joint Secretary -3 Director/DS -8 Sr. Dir (T) -2 Adviser (PC) -1 DD (Tech) -8 DD (OL) -1 RO -3 Director (T) -3 Addl.Dir.(T) -3 Jt. Ind. Adviser -2 Jt. Director -1 US -6 AD (Tech) -7 PPS -2 Asst.Dir (Cost) -2	Sr. Dir (T) -2 Adv. (PC) -1 Dir. (T) -3 Addl.Dir (T) -1 Dy.Dir (T) -1 RO -1 Asst. Dir (C) -1
Group B	Sanctioned -69	Vacant -2
	S.O./D.O. -17 AD (OL) -1 PS -10 PAs -19 Assistant -21 Sr.Investigator -1	PA - 1 Sr. Investigator - 1
Group C	Sanctioned –73	Vacant -11
Group D	Sanctioned –62	Vacant -1
Total	Sanctioned – 257	Vacant – 25

NPPA

	Sanctioned	Vacant
Group A	21	3
Group B	10	1
Group C	21	7
Group D	8	2
Total	**60**	**13**

Welfare Commissioner’s Office at Bhopal

	Sanctioned	Vacant
Group A	87	30
Group B	116	101
Group C	968	325
Group D	376	89
Total	**1547**	**545**

Annexe 'B'

Write Up On Autonomous And Other Organizations Of The Department Of Chemicals & Petrochemicals

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CIPET

Central Institute of Plastics Engineering and Technology (CIPET) was established in 1968 as an autonomous organisation under the Department of Chemicals & Petrochemicals. The basic objective of CIPET is to train people in various disciplines of plastics such as mould making, mould design, testing and characterisation of plastics, plastic processing etc. for the plastic industry. The institute also organizes short-term courses, tailor-made courses, awareness programme and entrepreneurs development programmes etc.

Modernization of CIPET facilities through World Bank assistance has been implemented. Oil Industries Development Board (OIDB) has sanctioned an amount of Rs.11.46 crore as grant-in-aid to CIPET for strengthening of training facilities at CIPET centre. The budgetary grant-in-aid to CIPET has been of the following order: -

(In lakhs of rupees)

1999-2000	Plan	400
(Actuals)	Non-Plan	400
	Total	800
2000-2001	Plan	400
(RE)	Non-Plan	395
	Total	795
2001-2002	Plan	600
(BE)	Non-Plan	338
	Total	938

Internal revenue generation during 1999-2000 was Rs.1286 lakh. CIPET propose to have a corpus fund of Rs.18 crore and an OPEC loan of

US$16.5 million. The matter is under process in the Department of C&PC/M/o Finance.

IPFT

Institute of Pesticide Formulation Technology (IPFT), a non-profit making organization was registered under the Societies' Registration Act on 31.5.1991. The main objectives of the institute include development and production of the state-of-the-art user and environment friendly pesticide formulations, development and promotion of efficient application technologies suiting the exacting requirements of newer formulations, analytical and consultancy services.

The institute also functions as technical coordinator unit of the Regional Network on Safe Pesticide Production and Information for Asia and the Pacific (RENPAP) of UNDP/UNIDO on user and environment friendly pesticide formulation technology and quality assurance.

The budgetary grant-in-aid to IPFT has been as follows:-

(In lakhs of rupees)

		IPFT	RENPAP
1999-2000 (Actuals)	Plan	124.88	13.65
	Non-Plan	-	-
	Total	124.88	13.65
2000-2001 (RE)	Plan	261.00	14.00
	Non-Plan	-	-
	Total	261.00	14.00
2001-2002 (BE)	Plan	106.00	20.00
	Non-Plan	-	-
	Total	106.00	20.00

NIPER

As a part of the economic package for the state of Punjab, the National Institute of Pharmaceutical Education & Research (NIPER) was set up as a registered society on 27.2.1991. It was conceived as a mother institution to set standards of excellence for pharmaceutical colleges and for research and development in the field of pharmaceuticals. NIPER has been declared as an institute of national importance by the NIPER Act 1998 on 26.6.98. The institute is concentrating on masters, doctoral and post-doctoral programmes in the field of pharmacy.

The budgetary grant-in-aid to NIPER has been as follows:-

(In lakhs of rupees)

1999-2000	Plan	1178
(Actuals)	Non-Plan	-
	Total	1178
2000-2001	Plan	1154
(RE)	Non-Plan	-
	Total	1154
2001-2002	Plan	1480
(BE)	Non-Plan	-
	Total	1480

Annexe 'C'

Proposed Staff Revision

Posts to be retained		Posts to be abolished	
Secretary	1		
Jt. Secretary	2	Jt. Secretary	1
Director/Dy. Secy	5	Dir./Dy. Secy	3
Sr.Director (T)	Nil	Sr.Director (T)	2
Adv. (PC)	Nil	Adv.(PC)	1
Dir. (Tech)	Nil	Dir. (Tech)	3
Addl. Director (T)	Nil	Addl.Dir. (T)	3
Jt. Ind. Adviser	2	Jt. Ind. Adviser	Nil
Jt. Director	Nil	Jt. Director (M&E)	1
Sr. PPS	1	PPS	1
Under Secy.	5	Under Secy.	1
Dy. Director (OL)	1	Dy.Director (OL)	Nil
Dy.Director (Tech)	4	Dy.Director (Tech)	4
Asst.Director (T)	2	Asst.Director (T)	5
Research Officer	1	Research Officer	2
Asstt. Dir (Cost)	1	Asstt.Dir (Cost)	1
S.O./D.O.	13	S.O./D.O.	4
Asst. Director (OL)	Nil	Asst. Director (OL)	1
Total	**38**	**Total**	**33**

Rationalisation of the functions, activities and structure of the Department of Fertilizers

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Rationalisation of the functions, activities and structure of the Department of Fertilisers

1. Introduction:

1.1. Fertiliser is an important component in the strategy for increasing the production of food grains in the country. The fertiliser sector has, therefore, assumed a critical role in the economy, particularly in creating a prosperous rural base. The Green Revolution in the late sixties gave an impetus to the increased use of fertilisers. The eighties witnessed a significant addition to the production capacity of fertilisers in the country.

1.2. A substantial portion of the growing demand for fertilisers is met from indigenous production. There are 65 large sized fertiliser plants in the country, manufacturing a wide range of nitrogenous, phosphatic and complex fertilisers. Nine of the units produce ammonium sulphate as a by-product. There are about 79 medium and small-scale single superphosphate units. The nutrient-wise installed capacity of fertiliser (as on 1.12.2000) was 116.88 lakh MT of nitrogen (inclusive of an installed capacity of 205.45 lakh MT of urea) and 46.35 lakh MT of phosphate. The breakdown by sector is as under:

(in lakh tonnes)

	N	**P**
Public sector	37.54	8.27
Cooperative sector	26.48	5.19
Private sector	52.86	32.89
Total	**116.88**	**46.35**

1.3. The country is self-sufficient to the extent of 94% in the case of nitrogen (N). As for phosphatic fertilisers, owing to inadequate availability of domestic raw material, a policy-mix of three options has been adopted: (i) domestic production based on indigenous / imported rock phosphate and imported sulphur; (ii) domestic production based on imported intermediates, viz. ammonia and phosphoric acid; and (iii) import of finished fertiliser, viz. di-ammonium phosphate (DAP) and rarely, mono-ammonium phosphate (MAP) and nitrogen phosphate potash (NPK). Domestic production accounts for about 66% of the requirement for phosphatic fertilisers. Since the indigenous rock phosphate supplies are sufficient only for 5–10% of the total requirement of phosphatic fertilisers, the indigenous production of these fertilisers is based essentially on imported raw materials and intermediates. The requirement of potassium fertilisers is entirely met through imports as there are no known commercially exploitable reserves of potash in the country.

1.4. With technological advancements and developments in the area of design engineering and execution of fertiliser projects, Indian consultancy organisations in the field of fertilisers have grown steadily and are now in a position to undertake execution of fertiliser projects from conceptualising to commissioning of fertiliser plants. They have now fully absorbed and assimilated the latest in fertiliser technology and are competent to operate and maintain the plants at their optimum levels without any foreign assistance. The performance of gas based plants in the country is amongst the best in the world. More than 70% of the equipment required for a major fertiliser plant is manufactured indigenously.

1.5. The sale prices of controlled fertilisers are fixed by the Department of Agriculture & Cooperation under the Fertiliser (Control) Order, 1985 issued under the Essential Commodities Act. The farm gate price of urea, the main nitrogenous fertiliser constituting about 56% of the total fertiliser consumption in the country, is amongst the lowest in the world and is highly subsidised. Under the Retention Price-cum-Subsidy Scheme (RPS), individual manufacturing units are paid subsidy to the extent of difference between the sale price and retention price (the cost of production as assessed by the government plus reasonable return on net worth). In addition to the retention price subsidy, equated freight subsidy is paid to manufacturers of controlled fertilisers to cover the cost of transportation from production points to consumption centres. Subsidy is also paid on imported fertilisers to the extent of difference between the cost of imports and the statutorily fixed consumer price.

1.6. Government has also been giving a special concession on decontrolled fertilisers (including ‘K’ and ‘P”) in order to promote the balanced use of plant nutrients. Earlier, the scheme was being implemented by the Department of Agriculture and Cooperation. Now, with effect from 1.10.2000, the scheme has been transferred to the Department of Fertilisers.

2. Historical Evolution Of Ministry Of C & F.

2.1. The evolution of the Ministry of C & F dates back to 1958 when fertiliser as a section existed in the then Ministry of Production, and chemicals as a section in the then Ministry of Commerce & Industry.

2.2. The Ministry of C & F with its two departments namely (i) Department of Chemicals and (ii) Department of Fertilisers, was constituted for the first time in 1976 when the then Ministry of Petroleum and Chemicals was bifurcated into two independent ministries viz. Ministry of Petroleum and the Ministry of Chemicals & Fertilisers. However, it underwent further changes - bifurcations and mergers, and finally emerged in its present form in July 1991, when the Department of Chemicals & Petrochemicals from the Ministry of Petroleum & Chemicals, and the Department of Fertilisers from the Ministry of Agriculture, were brought together to reconstitute the Ministry of C & F.

3. Functions

3.1. The main activities of the Department of Fertilisers include promotion and development of the fertiliser industry, planning and monitoring of production, import and distribution of fertilisers and management of subsidy for indigenous and imported fertilisers. A list of subjects allocated to the Department of Fertilisers under the Allocation of Business Rules is given below:

1. Planning for fertiliser production including import of fertiliser through a designated canalising agency.

2. Allocation and supply linkages for movement and distribution of urea in terms of assessment made by the Department of Agriculture & Cooperation.

3. Administration of Concession Scheme and management of subsidy for controlled as well as decontrolled fertilisers including determination of retention price for urea, quantum of concessions for decontrolled fertilisers and costing of such fertilisers.

4. Administration of the Fertilisers (Movement Control) Order, 1973.

5. Administrative responsibility for public enterprises under the control of the department.

6. Public sector projects concerned with the subjects included under this department except such projects as are specifically allotted to any other ministry or department.

7. Administrative responsibility for fertiliser production units in the cooperative sector namely, Indian Farmers Fertiliser Cooperative Limited (IFFCO) and Krishak Bharati Cooperative Limited (KRIBHCO).

8. Administrative responsibility for the Indian Potash Limited (IPL).

9. All attached and subordinate offices or other organisations concerned with any of the subjects specified under this department.

4. Existing Structure

4.1. The Department of Fertilisers has a Secretary and three Joint Secretaries – JS (Fertilisers), JS (Admn. & Movement) and JS&FA. Against the total sanctioned strength of 272, it has 269 officers and staff in position. This excludes the officers and staff posted with the Minister of Chemicals and Fertilisers and the Minister of State (C&F). Detailed information about the manpower strength of the department is given in ***Annexe – 'A'***.

4.2. The department has an attached office – Fertiliser Industry Coordination Committee (FICC), headed by the Executive Director who is of the rank of Joint Secretary. FICC deals with the fixation/revision of retention price, equated freights and subsidy calculation to enable determination and distribution of the quantum of subsidies in respect of indigenously produced fertilisers. The staff strength of FICC is shown in ***Annexe 'B'.***

4.3. There are nine public sector undertakings (PSUs) and two multi-state cooperative societies under the administrative control of the Department of Fertilisers. These are listed below:

Public Sector Undertakings

1. Fertilisers and Chemicals Travancore Limited (FACT)
2. Fertiliser Corporation of India Limited (FCI)
3. Hindustan Fertiliser Corporation Limited (HFCL)
4. Madras Fertilisers Limited (MFL)
5. National Fertilisers Limited (NFL)
6. Projects & Development India Limited (PDIL)
7. Pyrites, Phosphates & Chemicals Limited (PPCL)
8. Paradeep Phosphates Limited (PPL), and
9. Rashtriya Chemicals & Fertilisers Limited (RCF)

Multi-state Cooperative Societies

1. Indian Farmers Fertiliser Cooperative Limited (IFFCO)
2. Krishak Bharati Cooperative Limited (KRIBHCO)

While four PSUs namely RCF, FACT, MFL and NFL and the two multi-state cooperative societies (IFFCO and KRIBHCO) have generally been making profits, two PSUs — HFCL and FCI— have been incurring losses right from their inception, mainly due to design and equipment deficiencies and excess manpower. PPL has also shown profits in 1999-2000. The Board for Industrial and Financial Reconstruction (BIFR) declared HFCL, FCI, PPCL and PDIL as sick companies.

5. Changing Scenario, Analysis And Comments:

5.1. In examining the scope for restructuring the functions and activities of this department, the following three developments, all of recent origin, merit serious attention. The first is the extent of deregulation that has taken place in the last ten years. Under the liberalised Industrial Policy of 1991, the fertiliser industry was de-licensed. Import of capital goods for fertiliser plants was also liberalised and put on OGL.

5.2. The second is the quest for rationalising fertiliser subsidies. The ERC has already recommended a phased programme (relevant extracts are given in ***Annexe-I***), which over four stages would lead to total abolition of subsidies on nitrogen (N). As the price of nitrogenous fertilisers is progressively increased, those of phosphates (P) and potassic (K) fertilisers are to be increased in tandem, so as to maintain the desired N: P: K ratio. The movement away from unit wise to group retention price and doing away with distribution control in the first phase will itself result in considerable reduction of work load in fertiliser subsidy management, while at stage four, this work will get eliminated altogether.

5.3. The third development is the decision to bring down government equity in the public sector fertilisers companies to below 51%. Out of the nine PSUs under this department, NFL, MFL and PPL are already under disinvestment. RCF and FACT are also slated for disinvestment and the Cabinet Committee has deferred to next year a decision in the matter. FCI, HFCL, PPCL and PDIL are sick units and are to be processed for closure.

5.4. These three developments not only point to a drastic reduction in the range and scope of this department and consequently in its staff strength, but also put a question mark on the need for a separate department to discharge the evolving role in this sector. ***The Department of Fertilisers may be merged with the Department of Chemicals and Petrochemicals to have an integrated Department of Chemicals and Fertilisers. This would result in the post of Secretary (Fertilisers) becoming redundant. The post of Secretary (Fertilisers) can, therefore, be abolished.***

5.5. ***The processing of all matters relating to fertiliser subsidy, including administration of subsidy on imported fertilisers could be vested in the FICC. The second scrutiny in these matters in the ministry should be avoided by introducing a single file system, with the ED, FICC, to be made an ex officio Joint Secretary in the department, submitting files directly to the Secretary, through the FA wherever necessary.*** The Joint Advisor (Technical) as also the Section Officer heading FPP II Section along with the staff in the section could be transferred to FICC, in view of the additional work-load that will devolve on FICC under the proposed arrangement. ***All other posts, including that of Joint Secretary (Fertiliser) in the department, for dealing exclusively with matters relating to fertiliser subsidy needs to be abolished***. Items of work other than fertiliser subsidy, now handled by JS (Fertilisers) could be transferred to JS (A&M), to be re-designated as Joint Secretary (Planning & Administration). JS (A&M) can be assisted by two officers at the level of Director/Deputy Secretary, one for dealing with matters relating to the existing public sector undertakings and corporations, and the other for dealing with general issues like planning, production, etc. relating to the industry as a whole. Considering the reduction in the staff strength as now recommended in both departments (Chemicals and Petrochemicals and Fertilisers) all aspects of general administration, like house keeping functions, establishment matters, Hindi work, parliamentary matters etc. could be handled in the integrated Department of Chemicals, Petrochemicals and Fertilisers by the officials sanctioned for such purpose in the Department of Chemicals and Petrochemicals. It is with this arrangement in view that no reduction had been recommended in the staff strength, of the Administrative Division of the Department of Chemicals and Petrochemicals notwithstanding reduction suggested in other wings of the department. Thus, in the integrated department there will be only one administration division, headed by a Director/DS, even as the present practice of having only one JS&FA for rendering financial advice for both wings will be continued.

5.6. ***The posts of AIA, Dir (M&E), Dy. Adviser (Ferts), Sr.PPS, DD (OL) and RO could also be surrendered. Both posts of Asst. Commissioner (dealing with Shipping & Movement), two out of three posts of Director/Deputy***

Directors of Accounts and two out of five posts of AD (Shipping)/AD(Movement)/AD(Fert. Movement) can also be abolished. The subordinate level posts in the department may also be reduced correspondingly after an intensive review of the revised workload.

6. Summary of Recommendations

6.1. The Department of Fertilisers may be merged with the Department of Chemicals & Petrochemicals to have an integrated Department of Chemicals and Fertilisers. The post of Secretary (Fertilisers) would thus get abolished.

6.2. The processing of all matters relating to fertiliser subsidy including administration of subsidy on imported fertilisers, grant of concessions on decontrolled fertilisers, may be vested in the FICC.

6.3. ED, FICC may be conferred ex officio status of Joint Secretary in the department for submitting files directly to the Secretary through the FA, wherever necessary.

6.4. Joint Adviser (Tech) and Section Officer along with the staff in FPP II Section dealing with subsidy matters be transferred to FICC. The post of JS (Fertilisers) and all other posts dealing exclusively with matters relating to fertiliser subsidy need to be abolished.

6.5. The posts of AIA, Director (M&E), Dy. Adviser (Fertilizer), Sr. PPS, DD (OL) and RO are recommended for abolition. Both posts of Asst. Commissioner (dealing with shipping and movement), two out of three posts of Director/Deputy Directors of Accounts and two out of five posts of AD(Shipping)/AD(Movement)/AD(Fert. Movement) may also be abolished.

6.6. The practice of taking persons from the PSUs for working in the Department on informal basis should be discontinued and all such persons should be repatriated to their respective PSUs forthwith.

6.7. Following the merger of the Department of Fertilisers with the Department of Chemicals & Petrochemicals, the integrated Department will have common support facilities for Administration, Establishment, Vigilance, Parliament and Hindi work, house-keeping functions etc., resulting in reduction in the staff strength deployed for these functions.

6.8. A statement showing posts to be retained/abolished is appended at ***Annexe-'C'***. The subordinate level posts in the department may also be reduced correspondingly after an intensive review of the revised workload.

Annexe 'A'

Sanctioned/Existing strength of Department of Fertilisers

	Sanctioned	Existing	Vacant
Group A	**38**	**39**	-1
Secretary - 1 **Jt. Advisor - 1** **Jt. Commissioner – 1** **Joint Secy. - 3** **AIA - 1** **Dir. (M) – 1** **Dir. (M&E) – 1** **Director – 3** **DC (POP) – 1** **DS – 1** **DS (*in situ*) – 2** **Dy. Advisor – 1** **PPS – 1** **AC(M) – 1** **AC (Shipping) – 1** **Dy. MEO – 1** **DD(Accts) – 2** **DD(OL) – 1** **Dev. Officer – 1** **Dir. of Acctts. – 1** **US – 6 (including 4 *in situ*)** **PPS – 2** **RO – 1** **Sr. AD of Acctts – 1** **AD(M) – 1** **AD(Shipping) -1**			
Group 'B' **(including PS-9; ADs (Fert. Movement)-3; AD (Accounts) – 4, AD(OL) –1, SOs/DOs-13; PAs-14; Asstt./Desk Attaches-31; Accountants –12, Sr.Invr.-1 STA(Procurement)-1, Research Asstt. (O&M) – 1**	**90**	**83**	**7**
Group 'C'	**93**	**85**	**8**
Group 'D'	**51**	**48**	**3**
Total	**272**	**255**	**17**

Annexe ‘B’

Sanctioned/Existing strength of FICC

	Sanctioned	Existing	Vacant
Group ‘A’ **ED – 1** **Jt. Dir.-5** **Dy. Dir.-2**	**8**	**8**	
Group ‘B’ **AD (Admn.)-1** **PS – 1** **AOs – 3** **Asstts. – 1** **PAs (Gr.C) – 4**	**10**	**10**	
Group ‘C’	**16**	**14**	**2**
Group ‘D’	**9**	**8**	**1**

Annexe-I

Extracts of ERC Report on Rationalising Fertiliser Subsidies

x x x x x x x x x

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 fertiliser 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 feedstock 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.

x x x x x x x x x

15. The farm-gate prices of Nitrogenous, Phosphatic and Potassic Fertilisers should be set to promote a desired balance of fertiliser 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 Fertilisers 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 Fertilisers with reference to a given urea price."

xxx xxx xxx

Annexe 'C'

Proposed Staffing of Department Of Fertilisers

	Sanctioned	Actual	To be retained	To be abolished	Remark
Secretary	1	1	-	1	
Jt. Secretary	3	3	2	1	
Director/DS	3+1+2	2+2+2	2	4	
Jt. Adviser (F)	1	1	-	-	To be trfd.to FICC
Jt. Commr. (FSD)	1	1	1	-	
Addl. I.A.	1	1	-	1	
Dir. (Mov.)	1	1	1	-	
Director (M&E)	1	1	-	1	
Dy.Comnr. (POP)	1	1	1	-	
Dy. Adviser (F)	1	-	-	1	
Sr. PPS	1	1	-	1	
A.C. (Mov.)	1	1	-	1	
A.C. (Shipping)	1	1	-	1	
Dy. M&EO	1	1	1	-	
Dy. Dir. of A/c	2	2	1	2	
Dir. Acs.	1	1			
Dev. Officer (Fert)	1	1	1	-	
D.D.(OL)	1	1	-	1	
U.S.	6	8	4	2	
PPS	2	2	1	1	
RO	1	1	-	1	
Sr. AD (A/cs)	1	1	-	1	
AD (Mov)	1	1	3	2	
AD (Shipping)	1	1			
AD (F. Mov.)	3	3			
AD (OL)	1	1	1	-	
AD (A/cs)	4	2	2	2	
SO/DO	13	9	7	5	One SO(FPP-II) to be trfd. to FICC
Total	59	56	28	29	