CHAPTER - VI

GOVERNMENT POLICY OF BASIC INDUSTRIES IN INDIA
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IN INDIA

The industrial policy would reflect the direction and pattern of industrial development, the country desires to have to help realise the economic, social and political objectives of national development by means of industrialization. It incorporates fiscal and monetary policies, the labour policy, tariff policy, etc., in respect of the industrial sector. The industrial policy would indicate the respective participation of the public, private, joint and cooperative sectors and would underline the national priorities. Thus the industrial policy covers all those procedures, principles, policies, rules and regulations which control the industrial undertakings of a country and shape the pattern of industrialization. For nearly four and a half decades since Independence, the broad nature and direction of India's industrial policy remained the same without any substantial change. However, a radical change in the industrial policy took place in 1991 when a new economic policies and strategies ushered in.

The public sector, both central as well as state, depended indiscriminately and it was extended to non-priority sectors and sectors where the private sector would perform better. Populist political appeal and rested interests of

politicians and bureaucrats contributed to this. State Governments set up public corporations after corporations to expand the empire of the political parties and to give berths to political leaders. The accumulated losses of many public sectors including some state transport corporations, are larger than the capital invested in them. These public sectors deficits compel governments to increase taxation and curtail government expenditures. There is no justification for imposing such burden on the public by the state carrying out activities which the private sector can do more efficiently. Privatization of certain sectors and enterprises are, therefore necessary to reduce the budgetary burden on the public, to make available more resources for the development activities, to enable the government to concentrate more on the essential government functions and priority areas and to relieve the consumers from the indifferent attitude of the public sector.

Government of India announced major changes in the industrial policy on July 24, 1991 which has abolished the public sector monopoly in several industries (on eight

4. Ibid., pp.76-80.
Industries are now exclusively reserved for the public sector as against 17 industries in Schedule A previously) is significant step towards privatization. Industries which are thus opened for the private sector include iron and steel, power, ship-building; telephone and telephone cables; telegraph and wireless apparatus; cement; aircraft; air transport, and heavy plant and machinery. The scrapping of the Schedule B which contained a list of 12 industries where public sector was to play a dominant role is also an important policy change. Hence, the policy is to abolish the monopoly of any sector in the field of manufacture, except on strategic or military considerations, and open all manufacturing activity to competition. The central Government is also reported to be reviewing the existing portfolio of public investment with a view to offloading public investment from areas where the following conditions prevail: 6

1) industries based on low technology;
2) small-scale and non-strategic areas;
3) inefficient and unproductive areas;
4) areas where private sector had developed sufficient expertise and resources; and
5) areas with low or zero social responsibility or public purposes.

The salient features of the new industrial policy have already been discussed in the second chapter. However, all industries where small, medium or large, belonging to either public, private or co-operative sectors will be encouraged to grow and improve their past performance.

The present chapter deals with the various policy matters pertaining to power (Electricity), fertilizer and cement industries. Though the approach of government to these three basic industries has been almost the same for their expansive and steady growth but the policy decisions have been taken according to the specific industry and its own problems and future programme for respective industries.

I- POWER POLICY

Although India has multiplied electricity generation since Independence several times, taking from a meagre 1362 MW in 1947 to over 66,000 MW in 1990-91. Pressures of a developing economy necessitate a considerable stepping up in generation effort to fill up the yawing gap between demand and availability of power. The development of the electricity sector has been primarily the responsibility of the government. However, it is now imperative that given the various
constraints, mainly the resource crunch, faced by the Government, the private sector should come out in a major way to participate in generation and distribution of power. The idea for attracting private capital for investment in the power sector was first mooted about three years ago. The move failed to generate enthusiasm among the potential investors as they continued to be haunted by growing doubts about the viability of possible ventures.  

The recent liberalization of the industrial and economic policy coupled with amendment to the Indian Electricity Act, 1910, and Electricity (Supply) Act, 1948, have apparently created the requisite climate and environment for investment by private companies in power sector. It has ensured an impressive response to the Government's package to attract private capital. The Government has so far received application from the private companies for creating about 25,000 MW capacity. A realistic assessment in the Department of power is that about 5000 MW additional capacity may be created in the Eighth Plan.


1) **State Electricity Board Restructuring Policy:**

The National Development Council set up a committee on power to examine, inter alia, measures to make the SEBs viable by recasting tariff, improving efficiency and considering delinking of distribution from generation. The committee recommended sweeping changes in the structure and functioning of the SEBs and recommended that the SEBs should be restructured into corporate entities under the Companies Act. This would enable the reference of ailing SEBs to BIFR as and when they attracted the provisions of the sick (Industrial Companies) Act. Hiter Bhaya Committee Report also suggested setting up of wholly owned subsidiaries - one each for generation, transmission and distribution.

2) **Outstanding Dues:**

The outstanding dues payable to the Central Government Power Corporation by the State Electricity Board stood at Rs. 5,679 crores as of 28 February 1995. The SEBs of Uttar Pradesh, Bihar and Haryana are the major defaulters. Together they owe Rs. 3,047 crores or 54 percent of the total outstanding dues of Rs. 5,679 crore. Besides these, the SEBs had to pay

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10. Ibid., p.20
Rs. 2,969 crore to Coal India Limited as of 28 February 1995. The non-payment of dues by the SEBs has affected the internal resources of the central power corporation adversely. NTPC has already adopted a tough posture with Boards to collect its dues of Rs. 3,093 crore from them. The steps taken to reduce NTPC's huge arrears from the SEBs are:

1) Signing of Bulk Power Supply Agreement/Power Purchase Agreements with SEBs and pursuing for opening of letters of credit.

II) The NTPC has been permitted to regulate power supply from its power stations, wherever feasible

III) The SEBs would also be charged penal rates for drawal of power exceeding the letter of credit coverage.

IV) Recovery of NTPC's dues through Central Appropriation from the Central Plan Assistance of the concerned defaulting states.

V) Follow-up with defaulting SEBs to clear their outstanding dues and to regularly pay their current bills.

11. Economic Intelligence Service: India's Energy Sector, July 1995, Bombay, p.20
3) **Modernization Programme:**

Renovation and modernization programmes should aim at restoration of power plant performance and enhancement of power plant performance with new technology. For extending the life of the ageing thermal units, a suitable maintenance strategy has taken by the Central Government include:$^1_2$

1) Adoption of continuous condition monitoring of the vital components of the equipments;

2) Detailed inspection of the critical components of the units such as high pressure parts etc. Specifically for those units which have been in operation for more than 10 years and replacement of defective parts if found in the process; and

3) Whenever the plants are undergoing renovation, efforts should be made to introduce modern sub-system which were not available earlier at the time of installation of the units to enhance their performance.

4) **National Power Tariff Board:**

The Government has decided to set up a National Power

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Tariff Board at the centre and Regional Power Tariff Boards in Delhi, Bombay, Calcutta and Shillong. The main functions of the National Power Tariff Board will be to evolve broad principles and guidelines to ensure uniform approach by all regional boards in the matter of fixation of Tariffs, and to work out tariff for inter-state and inter-regional exchange of power. The Regional Power Tariff Boards will evolve the specific principles based on financial and economic factors, and make recommendations to the state governments concerned for fixation of tariffs for the power supplied by SEBs and power utilities to different sectors.

5) Government Policy for Independent Power Projects:

Government of India decided to extend counter guarantee to eight of nine initial projects cleared. This step was taken to instil confidence among the prospective investors on the Indian private power policy. Out of these eight Projects, six projects involve investment by US-based companies including NRIs and joint venture proposals. The Government has explored alternatives to counter guarantee. These are:

i) Counter-guarantees are to be proceeded by an in-depth appraisal of the project proposal by Government of India.

ii) The Ministry of Power would accord techno-economic clearance and certify that the project is essential and consistent with grid management, the cost per MW of generating capacity is reasonable and the tariff and other parameters comply with notified Government of India guidelines.

iii) The SSB signs a power purchase Agreement (PPA) with the developer. The cost per unit is fixed, and clearly indicated in the PPA, with adjustments being allowed only to the extent of known and agreed variations.

iv) The SSB agrees to open an irrevocable revolving letter of credit for its payment liabilities of one month to the private power company and to maintain an Escrow account to which revenues equivalent to one month’s billing of the private company will be credited.

v) The SSB signs and successfully implements the operational and Financial Action Plan (OFAP) with
vi) The management of SEB and state finances is prudent in the opinion of Government of India, Ministry of Finance and the SEB achieves a minimum rate of return of 3 percent in the preceding year.

Terms and Conditions:

1) The government of India would be a secondary guarantor, with the respective State Governments being the primary guarantors.

2) The Government of India's guarantee would cover capacity and energy payment obligations of the SEBs up to a predetermined annual limit.

3) In the event of termination of the power purchase Agreement (PPA), the Independent Power Project (IPP) would be covered against foreign debt obligations up to an amount not exceeding the foreign equity.

4) Counter guarantee shall be accompanied by agreements with the respective State Governments to achieve the agreed performance parameters that would be backed by financial penalties in the event of default.

5) The guarantee limits would be constrained by the annual central transfers of plan assistance and fixes to the respective states and such transfer would be pledged against payment defaults by the SEB or the State Government.

6) The duration of the guarantee shall be normally limited to a period of 10 years from the date of entry into Commercial Service, after which the IPP must rely on alternative security arrangements.
6) **Policy Amendments to Encourage Private Sector Participation in Power:**

The following are the main salient features of the scheme to encourage greater private sector participation in electricity generation, supply and distribution.

i) The Indian Electricity Act, 1910 and the Electricity Supply Act, 1948 have been amended to bring about a new legal, administrative and financial environment for the private enterprises in the electricity sector.

ii) Private sector can set up coal or gas based thermal projects, hydel projects and wind/solar energy project of any size.

iii) Electricity projects with total outlay less than Rs. 25 crore need not be submitted to the Central Electricity Authority for concurrence.

iv) Licences of longer duration of 30 years in the first instance and subsequent renewals of 20 years instead of 20 and 10 years respectively as it was before.

v) A minimum of 20 percent of the total outlay should be equity component and debt-equity ratio upto 4:1 permitted.

15. Economic Intelligence Service: Op.cit., p.27
vi) Customs duty for import of power equipment including machinery for modernization and renovation has been reduced to 20 percent.

vii) Excise duty on a large number of capital goods and instruments in the power sector has been reduced to a uniform rate of 5 percent.

viii) Upto 16 percent return on the foreign equity included in the tariff can be provided in the respective foreign currency.

ix) A five year tax holiday has been allowed in respect of profits and gains of new industrial undertakings set up anywhere in India for either generation or generation and distribution of power. The Five Year tax holiday will begin from the year of generation of power.

x) The Foreign Investment Promotion Board constituted under the Chairmanship of Principal Secretary to the Prime Minister considers all cases of foreign investment in the country, including those in the power sector.

xi) A High Power Board has been constituted under the chairmanship of Cabinet Secretary to monitor and provide for faster clearance of private sector power projects and resolve outstanding issues thereof.
xii) Lastly, an Investment Promotion cell has been set up in the Ministry of Power to provide information and assistance to prospective entrepreneurs in the electricity sector and take timely action for time bound clearances of the proposals.

7) Hydro Power Policy:

The government of India announced a liberalized tariff norm for hydro projects on 12 January 1995. The governments also clarified on certain issues such as earning of rate of return by the premium raised by the company and internal resources invested by the existing company for setting up of the projects. Hydro power plants were so far using norms fixed for thermal plants for calculating return on equity. According to the latest guidelines announced on 12 January 1995, return on equity for hydro plants will be 16 percent at 90 percent availability. An incentive for better performance at 0.7 percent higher return on equity for every additional percentage increase in availability over the optimum level of 90 percent has also been included. Further, premium charged by the hydro companies on issue of equity shares as well as

free reserves used for funding the project will be treated as paid up capital for determining the 16 percent return on equity.

8) **Private Distribution Policy:**

The policy to invite private sector in power includes the areas of distribution and transmission as well. Power distribution has already been started by a private company at Noida in Uttar Pradesh. A couple of proposals in which MOUs have been signed to hand over distribution of two cities in Orissa to private companies are under consideration. The Bombay-based BSES is reportedly negotiating with Andhra Pradesh State Electricity Boards for operating and managing the distribution system in Hyderabad, Secunderabad and mine adjoining municipalities for one year.17

9) **Policy for the Plant Load Factor (PLF):**

The plant load factor is an important indicator of operational efficiency if thermal power plants and every one percent improvement in national average PLF makes available an additional 450 MW of installed generating capacity. The average PLF low capacity utilization of thermal power plants

of the SEBs is largely due to deficiencies in management and operation, lack of proper maintenance and non-availability of coal of appropriate quality. There are wide inter state variations in the average PLF of thermal plants. The average PLF in the case of Eastern and North Eastern regions continued to be much lower than the all India average. An action plan has been drawn up to improve the performance of the power sector in a phased manner, involving short-term, medium-term and long-term measures, covering both physical transmission and distribution of power. Short-term measures include overhauls and maintenance (O & M) of boilers and optimal operation of the regional grids, which will result in substantial improvement in the availability of stations and consequent increases in the plant Load Factor (PLF). Significant improvements in the PLF of thermal power stations can be effected through medium term measures like proper maintenance planning. In the long-term, the availability factor of the older thermal power plants can be improved by appropriate renovation and Modernization (R & M) programmes.

10) **Rural Electrification Programme:**

With nearly 85 percent of India's population living in 5.79 lakh villages in the country, electrification is one

of the main infrastructural needs of the rural people. A village is officially declared as "electrified" even if a single connection is provided there. For giving even a single connection in a village, it is necessary to set up at least one 11/22 KV line and one transformer. Upto 31 March 1994, about 4.94 lakh or 85.3 percent of villages had been electrified. In 1968-69, when the Rural Electrification Corporation was set up, only 12.8 percent of the villages were electrified. The target for electrification during 1994-95 was set at 3,708 villages. During April to December 1994, 1,317 villages were electrified. The cumulative achievement till 31 December were 4.96 lakh villages bringing electrification to 85.6 percent of the villages in the country. The Eighth Five Year Plan envisaged electrification of 50,000 villages including 10,000 villages through non-conventional sources.

FERTILIZER POLICY

The various policy measures regarding fertilizer both for farmers who are the users of the product and producers who produce fertilizers. Fertilizer policies comprise with fertilizer pricing policy, subsidy policy on fertilizers.

distribution policy and financial policy regarding the fertilizers. All such policies regarding fertilizers are equally important for increasing agricultural production in general and foodgrains in particular. Hence, there are three dimensions of fertilizer policies - first it regards to the production, secondly, it regards with pricing and distribution (including packaging, handling, transportation and warehousing), and thirdly, it regards to the consumption/ utilization.

1) **Pricing Policy of Chemical Fertilizers:**

Fertilizer Pricing Policy is a complicated issue involving affordability of the farmers, general stability of the industry, foodgrain production and foreign exchange outflow etc. The per hectare consumption of fertilizer nutrients in the country has grown from 34.27 kg in 1981-82 to 72.4 kg in 1991-92. This is much below the world standard including standards in some of the developed countries of Asia.\(^{21}\) The consumption ratio of nitrogen in relation to phosphorus was 2.5 and in relation to phosphatic it was 6.8 per hectare consumption in 1989-90, in Korea was 408 kgs, in Egypt 404 kgs and of the European countries it was well above 200 kg.\(^{22}\)

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22. Ibid., p.6
Hence, pricing policy of fertilizer plays an important role in ensuring its availability to the farmers in the desired qualities.

The pricing policy in relation to fertilizer is mainly focussed on the following objectives:

i) To provide fertilizers to the farmers at reasonable and affordable prices and consequently, ensure an attractive input-output price ratio;

ii) To keep foodgrains prices low and within reach of weaker sections of the society;

iii) To build self-sufficiency in foodgrains production consistent with food security;

iv) To ensure growth of an efficient and healthy indigenous fertilizer industry by allowing fair return on investment;

v) To increase and help maintain employment levels in the farm sectors; and

vi) A uniform and low consumer price for fertilizers throughout the country.
The government has been attempting to maintain balance among diverse and contesting issues from the earlier days for fertilizer consumption by controlling its price. The consumer prices of fertilizers are fixed by the Government (Department of Agriculture & Cooperation) under the provisions of the Essential Commodities Act, 1955, in order to make fertilizers available to the farmers at uniform prices throughout the country. A major shift in pricing arrangements took place due to Middle East oil crisis of 1970 and 1973-74. The cost of import urea, rock-phosphate and sulphur increased.

On the basis of Marathe Committee recommendation in 1977, Retention Price Scheme (RPS) was introduced. An agency in the name of Fertilizer Industry Co-ordination Committee (FICC) was created to administer the retention price scheme. However, the dilemma of pricing has been resolved by the Government at two levels, such as:

1) The consumer price are fixed based on the affordable capacity of the farmers under the provisions of FCO and the retention prices are fixed for the individual plants based on the prescribed norms of efficiency.

ii) The other elements having relevance with pricing is the subsidy payment by the Government on imported as well as indigenous production.

The Director of National Council of Applied Economic Research (NCAER) informed the committee that only 48 percent of the fertilizer subsidy can be ascribed as going to the farmers. The rest of the subsidy according to him was shared by the Fertilizer Industry, feed-stock supplying agencies and consumers of foodgrains. The basis for arriving at the figure of 48 percent of the subsidy as going to farmers, was a comparison of domestic the witness said that it was on the basis of fertilizers over a period of nine years. If one considered the outprice of foodgrains the farmer is not being net-subsidized. The farmer is being net taxed in respect of output front; despite the subsidy on input price, his output prices are suppressed. He is paying hidden tax.

Upto 1966, under the provision of FCO the retail-price of different types of fertilizers were fixed varying from area to area depending upon local conditions. From mid-sixties all straight nitrogenous fertilizers were subject to price control but the phosphatic fertilizers were brought under price control
in 1979 and SSP in 1982. The statutorily fixed price retained almost unchanged during 1969 and 1974. The oil crisis led to hike in input costs and Government increased the price of fertilizers. But it is an unique commodity in India whose price reduced over the years. The urea price which was fixed at Rs. 2,000/- tonne in 1974 was reduced to Rs. 1,750/- tonne in 1976. In 1977 it was Rs. 1,550/ tonne and further came down to as lower as Rs. 1,450/tonne by 1979. Similar phenomenon is also evident during 1982 and 1986 when the price of the same material was reduced from 2350 to Rs. 2,150 per tonne. After 1986 up to 25th July 1991, the consumer price of fertilizers remained unchanged though the cost of feedstock and other inputs for production and imported fertilizers increased.

The year 1993 began with comfortable supply situation. Although supplies from CIS was delayed due to congestion in Yuzhny port yet there was adequate availability from Middle East, Indonesia and other suppliers. While India remained an active buyer, the import demand of China was extremely low. FOB prices of Urea went down from US $ 81 - 145 in January/March 93 to US $ 78 - 135 in April/June 93 and US $ 72 - 125

25. Fertilizer Statistics 1990-91 : FAI, New Delhi, Table II - 1.02
during July/Sept. 93. Similar trend continued in Oct/Dec 93 and prices remained at US $ 77 - 120. There was no change in the policy during 1993-94 and fertilizer prices under statutory control remained unchanged during the year. However, with effect from 10th June 94 Urea price was raised by 20 percent. 26

2) **Fertilizer Subsidy:**

Fertilizer subsidy is not unique for Indian farmers and producers. It is a pivotal part of the pricing system in almost all developing countries like as Bangladesh, Brazil, Egypt, Korea, Pakistan and Sri Lanka. The formula of fertilizer subsidy varies from country to country, depending on the local conditions, but there are certain common objectives. The significant common feature is that fertilizer subsidy is an instrument of state policy to provide foodgrains at reasonable prices to the weaker sections of the society and that fertilizer prices are pegged down to levels below the cost of production to encourage use of fertilizers and bring the product within reach of the small and marginal farmers. 27 In other words, it is a means of reimbursing to the manufacturer the cost of production as per the pattern prescribed in the retention price

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Fertilizer subsidy is the most important for the farmers. If they are not provided with fertilizers at affordable prices then within their capacity to transfer on the cost of the fertilizers to the consumers. Generally, a large number of these consumers, they are below the poverty line, would not be able to afford the price. In other way, if the price of fertilizers shows the higher cost of production, specially the marginal farmers would not be able to purchase at this price. Thus it would restrict the production of foodgrains not using the fertilizers in adequate. The fertilizers price needs to be forced, so, that such class of small and marginal farmers would encouraged to be the greater amount of these fertilizers. The farmers and fertilizer producers stand to gain by the system. Subsidy on fertilizer was given for the first time in India in 1973-74 on imported fertilizers on account of their steeply rising costs in the wake of world oil crisis and fertilizer subsidy on indigenously produced is worked out under the RPS introduced in 1977 on the recommendation of the Marathe Committee.

Fertilizer subsidy is the difference between the net realization from the customer and the retention price fixed

subsidies are paid firstly on imported fertilizers, secondly, on indigenous fertilizer and thirdly meant for inland freight commonly known as equated freight subsidy scheme. Some entrepreneurs perceive that profitability, unlike other industries is guaranteed by the Government in fertilizer industry. That is the real catch in fertilizer subsidy. Fertilizer subsidy increased on both imported and domestic fertilizer i.e. from ₹ 5,050 (m.) in 1980-81 to ₹ 50,000 (m.) in 1992-93.  

3) **Retention Price Scheme (RPS):**

Retention Price Scheme or fixed unit-wise in order to protect the interest of the manufacturers by assuring them a reasonable return (12 percent post-tax on net worth). The difference between the retention price, and the net realization by a manufacturing unit with reference to retail price by the Government, is paid as subsidy under the Retention price-cum-subsidy Scheme.

The RPS initially fixed on the basis of recommendation of the fertilizer Pricing Committee (Marathe Committee). In

subsequent pricing periods, the RP have been fixed after getting the data from the fertilizer units. If there is any escalation/de-escalation in price of any input during the currency of the pricing period, the RP are revised with the approval of the fertilizer coordination Committee (FICC). The norms of consumption and capacity utilization are effective for the duration of the pricing period i.e. three years.

Retention price for nitrogenous and phosphatic fertilizers is fixed product-wise and plant-wise. It takes into account the cost of variable inputs, conversion cost, selling expenses and capital related charges. Variable cost includes the cost of feedstock, utilities, such as, water, electricity and steam and packing material. Conversion cost consists of salary and wages, contract labour, chemicals and consumables, repairs and maintenance, catalysts and overheads. Capital related charges consists of return on networth (networth = equity + free reserves), interest on borrowed funds and depreciation on fixed assets.

In addition to retention price subsidy, freight subsidy is paid to indigenous fertilizers units to cover the cost of movement of fertilizers from production points to consumption points (except in case of SSP) under the equated freight scheme.
As regards SSP, since it is possible to fix industry-wise consumption norms for the basic raw-materials viz. rock phosphate and sulphur, there are uniform for the entire industry (with the sole exception of PPCL which uses pyrites instead of sulphur to obtain sulphuric acid). In respect of SSP units the cost of production is divided into variable cost and fixed charges. Fixed charges are reviewed once in two years on the basis of the units data certified by a chartered Accountant. The variable cost reviewed on a quarterly basis, for which the units are send certified data.

The farmer's price of fertilizer is generally lower than the cost of production. Obviously, the Government has to compensate the industry in the form of subsidy. So, on the basis of Marathe Committee recommendations the Government fixes the product-wise and plant-wise retention price since October, 1977 for nitrogenous and from February 1979 for phosphatic fertilizers. Retention price is in recognition that the selling price of fertilizers cannot be related to the cost of production nor it can be left to be determined by the supply and demand forces. 32

The retention price for different plants were based on 12 percent post-tax return on networth at 80 percent capacity

utilization and consumption norms of raw-material, inputs utilize and other maintenance etc. The RPS is a double edged weapon as it gives incentive to the units to improve their profitability by seeking to work better than the norms whereas the units which are inefficient and consequently unable to come upto the prescribed norms are not only denied the allowed return but may also incur losses depending on the shortfall in the actual operating performance and the norms. The retention price norms was revised in April 1988 taking into account the capacity utilization and depreciation. The norms set were as follows:

1) The life of fertilizer plants which have gone on stream in 1982 and thereafter would be 15 years for the purpose of calculation of retention price;

2) The capacity utilization norms were changed from flat 80 percent to varying degrees based on the operation period of the plants and feedstock used. The capacity utilization of ammonia and urea would be worked out on the basis of 330 stream days with the exception of Gorakhpur unit whose working days would be 300 to to increased upto 330 days after rehabilitation.


iii) The depreciation charge to be 4.75 percent based on 20 years estimate of plants' life. Later the Government appreciated the depreciation rate up to 6.5 percent spread over 15 years in place of 20 years.  

The ex-factory retention prices are administered by PICC on three years cyclical basis. An evaluation clarifies that pricing mechanism in the last half decade has ensured growth in investment, installed capacity, capacity utilization, production and consumption of fertilizers and profitability of the units.

4) Distribution Policy of Fertilizer:

Chemical fertilizer is a bulk commodity. It is produced throughout the year in industries at different places in the country where the consumption take place on seasonal basis on a much wider in rural areas covering 5.57 lakh villages. To secure that fertilizers are available to the farmers in desire quantity at the right time. Channels are designed and physical distribution is managed. These are as follows:

A. Distribution channel of Fertilizers:

The industry is using the established channel for fertilizer distribution and the imported non-potassic fertilizers are handled by pool handling agencies which are distributing them through institutional agencies, mainly cooperative societies and private dealers. As per the policy of the Government that 50 percent of the allocations to the companies are to be distributed through institutional agencies and the balance through trade. The imported potassic fertilizers are handled by IPL which also uses the cooperative societies and the private distribution. Multi-tire, multi-channels are adopted by the companies in making product available to the farmers. Similarly, the fertilizer dealers also adopt multi-brand approach to dealership. A dealership survey in 1981-82 indicated that 72 percent of the dealers were handling fertilizers of 6 to 10 companies where 23 percent were operating the business of 11-15 companies.

Dealers are in constant touch with the farmers and it is they who actually sell the product so the companies take due care and attention in selection training, and motivation of the retail dealers. While selecting dealers, financial

soundness, experience, knowledge of the product and PCD, ability to communicate, local standing location of the sales point etc. are assessed. They are assigned the responsibility of selling, sales promotion, stockholding and secondary transportation.

The companies take special care in their training, on sales skill, communication skill and technical skill. Apart from that the company sales persons usually visit the outlets to solve their business problems and motivate them for greater selling effort. The number of dealers in 1990 more than 2.3 lakh dealers were operating in the market which has increased by 98 percent during the last ten years.

The increase in dealers in recent period has been due to elimination of licensing of fertilizer outlets by simple registration, 66 percent of the total retail outlets are with the private dealers which were 56 percent in 1980. During the period co-operative societies role has weakened in fertilizer distribution. The dealers margin were also fixed by the Government from time to time. Presently it is Rs. 150 per tonne for the apex body and Rs. 130 for co-operative societies and private traders. From time to time the margin have been

41. Fertilizer Association of India: Fertilizer Statistics 1990-91, New Delhi, Table No.5-10.
42. Joshi, L.: Fertilizer Marketing and Promotion, Article presented in Executive Development Programme, FCI, Institute of Management Development, New Delhi, 1989, p.3
studied by committees like Sivaraman Committee, Quraishi Committee and PDIL/FICC. 43

B) The Physical Distribution of Fertilizer

Comprises four important aspects:

The physical distribution of fertilizer comprises four important aspects, packaging, handling, transportation and warehousing.

i) Packaging: To handle 270 lakh tonnes of fertilizer materials and 540 million bags of 50 kg each is required as fertilizer packing is mostly done in 50 kg net weight but some companies have tried to supply smaller bags of 40 and 25 kg in dryland and hilly areas where the fertilizer consumption is very low. To cater the requirements of small farmers the small bags of 10, 20, 30 kgs can also be used. But this will increase the packing and handling cost. Jute bags have been common in the past but being a natural fibre it sensitive to fungs and micro-organism, atmospheric degradation resulting in yellowing of the fabric and ultimate strength of the material particularly when exposed to moisture and light.

Due to these disadvantages HDPE bags were introduced in 1974 which was resisted by the workers as the bags were

From 1980, the industry started to use HDPE bags at a large scale and for its better protection of content against hugros capacity, high value and varied after use services, acceptability among customers increased. But its use has been restricted under the jute packaging order in 1988 by the Ministry of Textiles, Government of India to protect the decaying jute industry and the manufacturers are directed to use jute bags for packing Urea. As per the FCO manufacturers have to comply with the requirements of packing, marketing, bag size etc. The name of product, percentage of nutrient content, date of manufacturer, name and address of manufacturer are to be printed on the bags.

ii) Handling: The mode of transport adopted differentiate the handling requirements of fertilizers. It has been estimated that under normal conditions a bag has to face the hardship of at least 15 handling in transporting fertilizers by rail from industry to the farmers. The bags are made study to bear the shocks. Mechanized and semi-mechanized handling, loose movement, flexible nylon bags, big containers, bulk handling and pelletization are some alternative measures suggested for handling fertilizers.

iii) **Transportation**: Transportation is an integral part of any product output and distribution system to provide means of serving the consumers in the market. It is one of the critical areas which is directly related to the fertilizer use. The main three common modes of transportation available in the country, are, road, rail and water. The SCA allocation have their impact on transportation as considerations are made to reduce criss-cross movement of similar fertilizer, movement through difficult rail sections and breakage of gauge should be avoided and lead time should be reduced. More than 99 percent of the fertilizers are transported by railways and roadways and a very nominal amount by water. Fertilizer can be off-loaded at more than 7,000 railway stations but after a decision of full rake load on centre to centre basis, the number of stations declared suitable has come down up to 400. Out of 372 broad guage rake points, 35 locations of high fertilizer consumption area of six northern states have been identified as "nodal points" to equip them with the covered railway sidings, mechanized, handling, buffer stocking, circulation track loading etc.

But there is acute shortage of covered wagon and 30,000 wagons per year for 5 years are required to transport fertilizers.


But there is acute shortage of covered wagon and 30,000 wagons per year for 5 years are required to transport fertilizers. A train load carries 2200 tonnes of fertilizer materials. Furthermore, the average load has reduced from 1100 km in 1980-81 to 972 km in 1990-91 for fertilizers other than urea. The urea lead has reduced up to 246 km in 1989-90 from 800 km in 1980-81.

The roadways are gaining more share due to secondary movement from rail points to block headquarters. Over and above than they are cheaper for shorter distance, take minimum transit time, minimum handling loss and minimized problems of claims though they carry low volume of fertilizers.

The Government subsidies the industries under equated freight subsidy scheme for the transportation cost from industry upto block headquarters in respect of urea, DAP and complex fertilizers and upto rail head/field godowns for others.

iv) Warehousing: Since production is a flow variable and it takes place throughout the year. In the other hand the consumption is reasonably made by farmers who by them just a

53. Department of Fertilizers: Ministry of Chemicals & Fertilizers Govt.of India, New Delhi, Annual Report, 1990-91, p.32
few days earlier their application to the consumption. It has definitely enhanced the necessity to build warehouse for the fertilizers. In addition to that some of the chemical fertilizers are hygroscopic. Some acidic and few explosive in nature and their texture and composition are to be maintained requiring additional protection under ideal storage conditions. The storage capacity at the plant silos. Being only to the extent of 4-6 weeks of production, it is essential to move throughout the year and store them at some other places. 55

The public sector organization - central warehousing corporation (CWC) and State Warehousing Corporation (SWC) in addition to the co-operative societies are providing warehousing and handling facilities of fertilizers. Private godowns are also available but at a limited scale. The warehousing capacity available is of 280 lakh tonnes. They are located at different centres are hired by the fertilizer industries. It has been estimated that to store one tonne of fertilizers in a bag of 50 kg. requires a carpet area of 0.51 sq.metre x 4.8 metre storage height. 30 percent of the space is consumed in providing free passage for handling purposes.

5) **Financial Policy of the Fertilizer and Inducement to the Farmers:**

Financial policy play a greater role in needs to achieve maximum quantity of fertilizers consumption to the small and marginal farmers. They are having of 75 percent of the total holdings have limited investment ability to adoption of modern technology specially use of fertilizers. It has also importance to increase in inventory holding with manufacturers. There are three most important way to facilitate to the manufacturers and peasant farmers. These are as following, like credit by the banks, crop insurance and Lead Fertilizer supplier.

1) **Cash Credit:** The problem of cash credit management did not pose any serious threat to production during 1983-84 due to significant decline in the inventory with manufacturers. This does not, however, refuse the need for revision in the Tondon Committee norms for inventories and receivables. Along range review of fertilizer marketing scene would reveal that both inventory commitments as also the funds locked up on account of receivable have gone up substantially in recent years. As a result, norms which were fixed about a decade ago are no longer valid today. The R.B.I. has set up a special sub-committee to review the norms for
the fertilizer industry.\textsuperscript{57} Even as the level of inventories continued to mount in the overall situation to overload, the incipient, liquidity problems got compounded because of nonavailability of insufficient cash credit accommodation from the banking system. In the first instance, the intrinsically delay in notification of the revised norms for working capital finance for the fertilizer industry which were enforced w.e.f. 26th Nov. 1986, denied the industry the much needed relief for more than one year, the revised norms having been approved by the R.B.I. way back in August 1985. Secondly, even ad hoc cash credit accommodation necessitate by the unprecedented increase in the inventories was not forthcoming in requisite measures despite appreciation by the R.B.I. of need for the same in the developing extra-ordinary situation. In fact, a high level meeting taken by the Deputy Governor, R.B.I. on 8th June 1987 has failed to produce anything concrete in terms of additional ad hoc cash credit to fertilizer units which are even struggling to sustain production for want of adequate cash generation.\textsuperscript{58}

\textbf{ii) Crop Insurance:} The crop insurance scheme was introduced in Kharif 1985 with a view to provide financial support to the farmers in the event of crop failure due to

\footnotesize{57. Fertilizer Association of India: Annual Review of Fertilizer Consumption and Production, 1993-94, New Delhi, p.96}
\footnotesize{58. Fertilizer Association of India: Annual Review of Fertilizer Consumption and Production, 1986-87, New Delhi, p.99}
unforeseen circumstances, like flood and drought. It is also provided the credit eligibility to the farmers in the event of crop failure for the next crop season. The scheme cover wheat, pulses, rice, oilseeds, millets, fruit crops and cotton were covered under the scheme. However, the introduction of the scheme the weather has been erratic. Consequently, the claims are stated to have far exceeded the premium collected. In Kharif 1987, which witnessed the worst drought, the claims were reported to have been nearly 30 times the premium collected. The Government is reported to have temporarily suspended the scheme for Kharif 1988 pending review of the scheme. 59

As against the initial coverage of 2.33 million farmers and 4.18 million hectares during Kharif 1985, the coverage increased to 3.77 million farmers and 7.4 million hectares during Kharif 1986 registering a growth rate of 62 percent in terms of number of farmers and 77 percent in terms of coverage of additional land. The sum insured for various crops during Kharif 1986 increased to Rs. 828 crore from Rs.540 crores during 1985. Likewise, premium income increased from Rs. 9.3 crore during 1985 to Rs. 14.5 crore in Kharif 1986 has

59. Fertilizer Association of India: Annual Review of Fertilizer Consumption and Production, 1987-88, New Delhi, pp.100-104
increased in all respects and there is better acceptability of the scheme. According to estimates available at present the claim in respect of Kharif 1986 crops may amount of nearly Rs. 120 crore because of the crops having been affected both by floods as in Andhra Pradesh and West Bengal and by drought in state like Gujarat, Karnataka, Maharashtra and Rajasthan with Andhra Pradesh being the top claimants followed by the states like U.P., Karnataka, M.P., Orissa and Kerala. After this, Government again had recommended some changes in the scheme which affected from 1987. It had been decided 3 indemnifiable limits viz. 80 percent, 85 percent and 90 percent depending on the norming average of the last three years yield. Another recommendations accepted by the Government provides that the state Government will have the freedom to opt for the scheme with reference to the districts as a unit which would, however, not be allowed to change for a period of three years from Kharif 1987. Based on the suggestions received from some of the states, it is likely to that sugarcane and potato crops may also be included under the scheme in due course.

62. Ibid., p.106
iii) Lead Fertilizer Supplier (LFS): The lead fertilizer supplier was introduced in the zonal conference for Rabi 1986-87 when the states were requested to finalize names of various LFS in consultation with the fertilizer manufacturers for each district and state. According to this scheme the LFS are entrusted with the following functions:

a) Assessment of requirement for the district for each season;
b) Compilation of statistics particularly of consumption and stocks;
c) Training of dealers and farmers;
d) Fertilizer promotion activities especially in rainfed and other difficult areas;
e) Opening of additional outlets in rainfed areas.

But LFS scheme did not make much headway during 1986-87. Thus, more effective steps have now been taken to implement the scheme in the right earnest. The concept in itself is good and it is expected that ultimately this will help in bringing desired improvement in compiling data of fertilizer consumption and also in making more realistic demand assessment.

64. Ibid., p.106.
During 1987-88, the LFS at the state and the districts level were identified by the State Governments in consultation with the fertilizer manufacturers and associated them in implementing the objectives of the concepts. LFS have been requested to prepare detailed action plan and chalkout strategy for increased fertilizer consumption for each district for the next five years in collaboration with the State Government functionaries.

The fertilizer policy is multi-dimensional and having mainly three objectives, namely, raising production of indigenous fertilizers, improving the supply conditions and encouraging the farmers to use the larger amount for raising the productivity and the production of agricultural commodity specially of the foodgrains in the country.

POLICY FOR CEMENT INDUSTRY:

To put the cement industry on the rapid growth path, action have taken at different levels of the government, financial institutions, etc. Government of India has introduced policy for the development of cement industry as from control to decontrol or free market, relaxation in excise duty, modernization of technology and also provide some other incentives.
1) **Policy of control to Decontrol of Cement:**

After independence cement was control by the government of India. It was a scarce commodity and to get a small quantity one had to run about a lot, go through a various hassles and often pay through one's nose. The shortage of cement was due to the sluggish growth of the industry, and the rigid price and distribution controls. Then government was announced relief package for the cement industry in the form of reduction in excise duty on cement produced by using captive power which was invariably more expensive than the grid power. The introduction of the policy of partial decontrol in 1982 transformed the scene. In the eagerness to take advantage of the rising demand for cement arising out of the rapid industrialization, large addition to capacity were made and by 1988-89, the scenario underwent seachange. It was in March 1989 that the government decontrolled cement which marked its entry into the free market. The crux of the industry's argument against control all along was that controls covered only the prices and distribution of only cement and not of those of the inputs. The industry was quick to respond to the government's move of partial decontrol in 1982 and doubled its capacity from 29

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million tonnes to 61 million tonnes in just 8 years. In fact the capacity was created with such zeal that a large surplus emerged in the market, leading to cut-throat competition and negative return to industry from 3 years in a row from 1987-88 to 1989-90. The market demand during 1987-88 was 36 million tonnes, whereas production reached 38 million tonnes, leaving a surplus of 2 million tonnes of cement. The government fixed target of 46.5 million tonnes production for the large cement sector and an overall target of 49 million tonnes for the industry as a whole for 1990-91. Now currently cement industry utilized its capacity on the level of 82 percent. It is only due to free market policy for cement industry and it was delicensed in 1991.

2) Price and Excise Duty:

The cement industry which performed so well in the past few years also seems to have fared badly in the current year so far. In fact after a record production of 4.35 million tonnes in March 1990 there has been almost steady decline in monthly production in the recent two years. Complete decontrol of the cement industry came at a time when there was considerable supply overhang in the market and the country was facing

a glut in cement. Exports at this juncture were not possible mainly because the price differential between domestic and foreign markets was substantial.

Notwithstanding these factors cement prices played a volatile trend during 1987-90. The price of FOR levy cement which was Rs. 847.6 per tonne in 1987 soared to Rs. 916.6 per tonne in 1989. At the retail level prices rose from Rs. 62-65 per 50 kg/bag in July 1989 to Rs. 92-95 per bag in September 1990. In the current year (1995-96) the price of cement is Rs. 135-145 per bag. The price of cement is different in the different part of the country due to transportation cost. Excise duty is a specific duty, it works out to 20 percent on the cost of naked cement. In addition there are state levies such as sales tax, octroi etc. Therefore incidence of indirect tax itself is a whopping 34-35 percent, depending on location (state) and the individual units. In the last 8 years, excise on cement has gone up by 200 percent from Rs. 71 to Rs. 225 per tonne. The total excise collection has gone up from Rs. 169 crore to Rs. 938 crore in the same period. The excise collection for 1990-91 is estimated at Rs. 1050 crore. Government

has given relaxation a 50 percent excise relief to new cement units coming up in the Eighth Plan are also proposed to be covered under the proposal. This is being done to attract fresh investments in the cement sectors which the government feels will otherwise not come due to prevailing low prices and high capitalization costs. The proposed envisages reduction of excise duty to Rs. 145 per tonne, from the Rs. 290 per tonne at present, for all units which create fresh capacities in the Eighth Plan either by setting up the new units or by way of expansions.

3) **Government Policy for Modernization:**

Modernization provides the key to the problem of technology obsolescence in the industry that productivity increases, quality improves and the cost of inputs is reduced to the maximum extent possible. The Government's policy lays much emphasis on modernization and upgradation of technology. The modernization programme of cement industry conversion from wet to dry process; introduction of advance technology in the areas of quarry operations, material handling crushing and grinding etc., installation of pollution control, equipment control, equipments increasing productivity by modern process control and instrumentation. The industry has drawn up comprehensive
modernization and expansion programmes, involving a massive capital investment of about Rs. 2,500 crore. The cement industry has already spent Rs. 963 crore in the last four years on modernization and expansion. With aid provided by World Bank and DANIDA, a human resource project with four regional training centres for meeting the trained manpower requirements of the industry is being implemented and is in an advanced stage of implementation. Nine training programmes have already been conducted. A pilot project for bulk transportation of cement is also being set up in Kalamboli near Bombay. 70

4) Policy For Mini Cement Plants:

Mini cement plants play a vital role in socio-economic development in India, sizeable deposits of lime stone, which is the main raw-material required for the production of cement are spread over the country. In those places where there are limited quantities of lime stone available, and it is not possible to set up large plants, the Government has decided to start mini plants due to following reasons: 71

i) They help utilization of lime-stone reserves.

ii) The gestation period in commissioning these units


is just about half of that of large units.

iii) The infrastructural requirements of the mini cement plants are much less.

iv) The cement produced may be locally distributed thus easing the complicated distribution problem and transport bottleneck.

v) There is an inherent rural development and employment potential in these plants.

vi) The mini plants are having advantage of lower cost per installed tonne capacity. It is less than 75 percent of the capital costs of the large units.

vii) Fifty percent relief in excise duty was offered to offset the higher cost of production due to lack of rail head and rail linkage facilities for coal also to offset the high cost of labour which is about 5 to 7 times more when compared to major cement plants, keeping in mind all these advantages. The government is providing all help to the mini plants and their expansion all over the country.