26

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2007-08)

FOURTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS

(DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS (2008-2009)

TWENTY-SIXTH REPORT

LOK SABHA SECRETARIAT

NEW DELHI

April, 2008/Chaitra, 1930 (Saka)

TWENTY-SIXTH REPORT

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2007-08)

(FOURTEENTH LOK SABHA)

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS

(2008-2009)

Presented to Lok Sabha on ***16.04.2008***

Laid in Rajya Sabha on ***23.04.2008***

LOK SABHA SECRETARIAT
NEW DELHI

April, 2008/Chaitra, 1930 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2007-08)

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Ajit Singh
3. Shri Afzal Ansari
4. Shri Jaiprakash (Mohanlal Ganj)
5. Shri Sunil Khan
6. Shri Shrichand Kripalani
7. Shri Subhash Maharia
8. Shri Punnu Lal Mohale
9. Shri A. Narendra
10. Shri Prasanta Pradhan
11. Shri Ramswaroop Prasad
12. Shri P. Chalapathi Rao
13. Shri Ashok Kumar Rawat
14. Shri Anantha Venkata Rami Reddy
15. Shri Devwrat Singh
16. Shri Narsingrao H. Suryawanshi
17. Shri Mansukhbhai Dhanjibhai Vasava
18. Shri D. Venugopal
19. Shri Bhanu Pratap Singh Verma

* 20. Vacant

$21. Vacant

Rajya Sabha

22. Shri B.S. Gnanadesikan
23. Shri Gireesh Kumar Sanghi
24. Shri V. Hanumantha Rao
25. Shri Mahendra Sahni
26. Shri Dilip Singh Judev
27. Shri Raj Mohinder Singh Majitha

**28. Vacant

**29. Vacant

**30. Vacant

$$31. Vacant

Secretariat

1.	Shri A.K. Singh	-	*Joint Secretary*
2.	Shri A.S. Chera	-	*Director*
3.	Shri A.K. Srivastava	-	*Deputy Secretary-II*
4.	Smt. Balwant Kaur Saimbhi	-	*Under Secretary*
5.	Smt. Madhu Bhutani	-	*Senior Committee Assistant*

** Consequent upon nomination to the Committee on Food, Consumer Affairs and Public Distribution, Shri Suresh Angadi, MP (LS) ceased to be Member of the Committee w.e.f. 30.08.2007.*

$ Consequent upon nomination to the Committee on Industry, Shri Subhash Sureshchandra Deshmukh, MP (LS) ceased to be Member of the Committee w.e.f. 23.01.2008.

*** Shri Debabrata Biswas, Shri Surendra Lath and Shri R. Shunmugasundaram ceased to be Member of this Committee w.e.f. 2nd April 2008 after their retirement from Rajya Sabha.*

$$ Shri T.R. Zeliang ceased to be Member of this Committee consequent upon his election to Nagaland Legislative Assembly w.e.f. 24.03.2008.

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2007-08) having been authorised by the Committee to submit the Report on their behalf present this Twenty-sixth Report on Demands for Grants of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) for the year 2008-09.

2. The Committee examined the Demands for Grants pertaining to the Ministry of Chemicals and Fertilizers (Department of Fertilizers) for the year 2008-09 which were laid in Lok Sabha on 13th March, 2008 and in Rajya Sabha on 14th March, 2008.

3. The Committee took evidence of the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) at their sitting held on 18th March, 2008.

4. The Committee considered and adopted the Report at their sitting held on 10th April, 2008.

5. The Committee express their thanks to the Officers of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) for furnishing the material and other information, which they desired in connection with the examination of Demands for Grants of the Department for the year 2008-09 and for giving evidence before the Committee.

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

New Delhi;

April 15, 2008
Chaitra 26, 1930 (Saka)

ANANT GANGARAM GEETE
Chairman,
Standing Committee on
Chemicals and Fertilizers.

REPORT

INTRODUCTORY

The main activities of Department of Fertilizers (DOF) include planning, promotion and development of the Fertilizer Industry; planning and monitoring of production; import and distribution of fertilizers; and management of financial assistance by way of subsidy/concession for indigenous and imported fertilizers. The Department is broadly divided into 4 Divisions dealing with (i) Fertilizers Projects and Planning (ii) Fertilizer Imports, Movement and Distribution (iii) Administration and Vigilance and (iv) Finance and Accounts. The work of these divisions is handled by two Joint Secretaries, one Economic Adviser & one Additional / Joint Secretary-cum-Financial Adviser.

2. The Joint Secretary (Fertilizers) is entrusted with the work pertaining to planning of fertilizer production and development of fertilizer industry, which includes pricing policy for urea units; and issues relating to availability of raw materials such as natural gas, fuel oil and naphtha. In respect of PSUs, the Joint Secretary (Fertilizers) is concerned with joint venture projects in respect of nitrogenous fertilizers, external assistance for new fertilizer projects; revival/rehabilitation of sick fertilizer units, matters pertaining to company affairs.

3. The Office of Fertilizer Industry Coordination Committee (FICC) is an attached office under the Department of Fertilizers headed by Executive Director. FICC, which was initially constituted w.e.f. 1.12.1977 to administer and operate the erstwhile retention Price Cum Subsidy Scheme (RPS), has been replaced vide Resolution dated 13.3.2003 to administer and operate the New Pricing Scheme (NPS), which has come into existence w.e.f. 1.4.2003. The policy for Stage-III (NPS-III) of the new pricing scheme for Urea has been amended on 8th March, 2007 effective from 01.10.2006.

4. The Department has under its administrative control the following ten Public Sector Undertakings (PSUs), one Multi-State Co-operative Society and one Joint Sector Company.

PUBLIC SECTOR :

Sl. No.	Name of the Company	Headquarters	Incorporation in
1.	Fertilizers And Chemicals Travancore Ltd. (FACT)	Udyogamandal	September, 1943
2.	Fertilizer Corporation of India Ltd. (FCI)	New Delhi	January, 1961
3.	National Fertilizers Limited (NFL)	Noida	August, 1974
4.	Rashtriya Chemicals & Fertilizers Ltd. (RCF)	Mumbai	March, 1978
5.	Pyrites, Phosphates & Chemicals Limited (PPCL)	Noida	March, 1960
6.	Madras Fertilizers Limited (MFL)	Chennai	December, 1966
7.	Projects & Development India Limited (PDIL)	Noida	March, 1978
8.	Hindustan Fertilizer Corporation Limited (HFC)	New Delhi	March, 1978
9.	Brhamaputra Valley Fertilizer Corporation Limited (BVFCL)	Guwahati	April, 2002
10.	FCI Aravali Gypsum And Minerals India Limited (FAGMIL)	Jodhpur	February, 2003

COOPERATIVE SECTOR :

11.	Krishak Bharti Cooperative Limited (KRIBHCO)	Noida	April, 1980

JOINT SECTOR :

12.	Indian Potash Limited (IPL)	Chennai	February, 1971

I. IMPLEMENTATION STATUS OF RECOMMENDATIONS CONTAINED IN THE SEVENTEENTH REPORT ON DEMANDS FOR GRANTS (2007-08)

5. The Standing Committee on Chemicals and Fertilizers presented in Parliament their Seventeenth Report on Demands for Grants (DFG) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) for the year 2007-08 on 26th April, 2007. The Committee presented their Twenty-Second Report on 'Action Taken by the Government on the recommendations contained in the Seventeenth Report of the Committee on Demands for Grants (2007-08) of the Department of Fertilizers' in Parliament on 20th November, 2007. Out of 20 recommendations, 11 recommendations (Sl. Nos. 1, 3, 4, 5, 9, 10, 12, 13, 14, 17 and 19) were accepted by the Government. In respect of one recommendation (Sl. No. 2), the Committee

did not desire to pursue in view of the Government's replies. In respect of eight recommendations (Sl. Nos. 6, 7, 8, 11, 15, 16, 18 and 20), the replies of the Government were still awaited. The Twenty-Second Action Taken Report was sent to the Department of Fertilizers on 21st November, 2007 for furnishing Action Taken Statement on the recommendations made by the Committee in the Report. The Statement with regard to this Report has fallen due on 25th October, 2007. The Department of Fertilizers was requested to take necessary action for making a statement by Hon'ble Minister with regard to Seventeenth Report of the Committee. Inspite of this, the Statement was not made by the Hon'ble Minister during the last Winter Session.

6. When asked about the reasons for delay in making the statement on the status of implementation of recommendations of the Committee made in Seventeenth Report, it has been submitted that the Department is in process of finalization of the Statement to be laid on the Table of the Lok Sabha during the ensuing Budget Session of Parliament. Accordingly, the Minister of Chemicals and Fertilizers has made Statement in Lok Sabha on 13.03.2008 and in Rajya Sabha on 14.03.2008. On the basis of the information made available by the Department of Fertilizers category-wise analysis of implementation of recommendations by the Government is given as under:-

Rec. Sl. No.	**Recommendation in Brief**	**Implementation by Government**
I. Gist of the recommendations which were accepted by the Government		
1	Implementation status of recommendations contained in the Seventeenth Report of the Committee on Demands for Grants (2007-08) of the Department of Fertilizers.	DOF stated that in regard to finalization of Stage-III of NPS, Government has approved this policy for urea units on 01.02.2007 and notified on 8th March, 2007. Under NPS-III now no fertilizer company would need approval from Government of India for de-bottlenecking/revamps etc. However, Department of Fertilizers is making all out efforts in respect of recommendations which were not accepted by the Committee and which were in interim nature.

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
3	Higher targets should be fixed to increase the demand and consumption of all major fertilizers, reduce the import of urea and DAP and also minimize the subsidy borne by the Government in the coming years.	Under the New Pricing Scheme Stage-III, Government has announced 'incentive for additional production of urea to meet the projected demand for urea during the 11th Five Year Plan period. Efforts are also being made to increase the domestic production of urea by revamping/modernization and adoption of alternative source like Natural Gas/LNG as feedstock.
4.	Government should take all corrective measures for maximum utilization of budgetary amount allocated during the 11th Five Year Plan and should also review all the on-going schemes of PSUs in each year of 11th Five Year Plan for obtaining the Project Review Reports.	DOF stated that expenditure of PSUs will be reviewed and corrective measures will be taken expeditiously.
5.	Continuous efforts should be done by the Department for getting adequate amount of funds from Ministry of Finance and Planning Commission for settlement of all subsidy bills/claims during the year 2007-08.	DOF stated that efforts are being made for getting adequate amount of funds from Ministry of Finance and Department is hopeful that adequate funds would be made available during the first and second supplementary demands for grants.
9	DOF should make all possible efforts for better coordination with the Ministry of Railways for proper evacuation of fertilizers from the ports and also coordinate all State Governments for ensuring timely availability of fertilizers throughout the country.	DOF stated that weekly meetings with the officials of Railways, joint visits and inspection of senior officers from Railways and DOF have been organized to the major ports. Meetings with the State Governments are being held regularly to review the availability of fertilizers in the current month and supply plan for next month.
10	The Committee desire that on-line monitoring system should be available to the public at large from block headquarters where kiosks may be set up in coordination with National Informatics Centre (NIC). Such an initiative would also bring the transparency in the demand and availability of fertilizers.	DOF stated that an online Fertilizer Monitoring System has been launched and has been operational. This system may be accessed by the Hon'ble Members of Parliament to know the requirement and availability of fertilizers in a particular district by simply login from internet kiosks available in any part of India.

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
12	Constant review of the progress in regard to implementation of Stage-III of New Pricing Scheme for taking corrective measures wherever necessary problem of fertilizer industry in regard to Stage-III of NPS should also be examined and corrective steps should be taken to solve their problems.	DOF stated that the Stage-III of New Pricing Scheme (NPS) has been notified by the Department on 8th March, 2007 and are being implemented. The problems/ representations submitted by the fertilizer company in this regard are also under examination of DOF.
13	Projects like Western India Rainfed Farming Project (WIRFP) and Eastern India Rainfed Farming Project (EIRFP) should be carried out across the country for the benefit of backward and tribal areas and providing them employment also.	DOF stated that they have noted this recommendation and PSUs under its administrative control will be pursued accordingly.
14	Funds allocated for the S&T Programme for the year 2007-08 should be enhanced suitably and utilized fully and judiciously with tangible results.	DOF stated that funds allocated for S&T Programmes of the Department has been enhanced to Rs. 5.5 crores during 2007-08. The scheme has been advertised widely through newspapers and S&T journals. Proposals received so far are under consideration of the screening Committee.
17	Fertilizer sector should be given top priority in the allocation of gas. In this matter, DOF should constantly coordinate with Ministry of Petroleum and Natural Gas so that Fertilizer Sector should be given higher share of gas than that of power sector.	DOF stated that they are in continuous touch with Ministry of Petroleum and Natural Gas for adequate allocation of natural gas to the fertilizer sector. Ministry of Petroleum and Natural Gas has assured that all fertilizer units in the country including non-gas based existing units and closed units will have gas pipeline connectivity by 2010-11.
19	Gas based pipeline should be provided at the earliest for the revival of closed fertilizer units, techno-economic assessment should also be made in this regard without any delay.	Ministry of Petroleum and Natural Gas has assured adequate availability of gas for revival of the closed fertilizer units and indicated that gas pipeline connectivity will also be provided to these units by the year 2009-10 and 2010-11. The process of preparing the Techno-Economic Feasibility report have also been initiated.

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
II. Gist of recommendations which was not pursued by the Committee in view of Government's reply		
2	DOF should analyze the reasons for continuous failures in achieving the targets during each year of 11th Five Year Plan and ensure that same shall not continue during the 11th Five Year Plan.	DOF stated that plan achievement in the 10th Five Year Plan was low due to non-achievement of gas. However, in compliance of the observations of the Committee the performance of each of PSU is being monitored by the Department regularly through the Quarterly Review Meetings.
III. Gist of recommendations on which replies of the Government were interim in nature		
6	Disbursal of direct subsidy to farmers and a policy of subsidy should be devised to the economic status of farmers so that maximum benefit of subsidy should go to peasants, poor and marginal farmers.	DOF stated that matter relating to alternative frame-work for reimbursement of subsidy directly to the farmers is under consideration of the Government. Final decision on the need and feasibility of an alternative framework for direct subsidy to farmers will be taken shortly.
7	Implementation of two subsidy schemes (i) Direct subsidy to farmers (ii) Nutrient/feedstock based subsidy to manufacturers on pilot basis. A mechanism should also be devised to find out the production capacity of all the fertilizer units.	DOF stated that the both issues are under consideration of the Government. A Group of Ministers (GoM) has been constituted to look into sustainable use of fertilizers and pertinent subsidy and pricing issues.
8	Finalization of the Report on concession policy relating to DAP and other complex fertilizers at the earliest.	DOF stated that CCEA has approved the concession policy for 2007-08 adopting the negotiated price of phos acid at US $ 566.25 per MT. Separately an Inter-Ministerial Group (IMG) was set up to examine the other recommendations of the Expert Group. The report of IMG is under examination.
11	Delay in declaration of the fertilizer policy due to this few investors come forward to invest in fertilizer sector resulting the increase of imports year after year.	The DOF has stated that the present policy for new and expansion projects was announced in January, 2004. The existing policy is under review. The revised policy for investment in this sector is expected to be finalized soon.

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
15	Requisite money should be provided to DOF for carrying out the feasibility studies for the projects/schemes for benefit of North Eastern Region.	DOF stated that the matter regarding sufficient allocation of funds for the benefit of North Eastern Region and Sikkim has already been taken up with the Planning Commission. In addition to that, the Techno Economic Feasibility Report for revamp/retrofitting of existing plants and establishing a brownfield plant at Namrup has been received and is under consideration.
16	Matter regarding examination of the proposals for de-bottlenecking and expansion of fertilizer units should be taken up at the highest level.	DOF has stated that under NPS-III companies are free to revamp their existing units as per their commercial decision. The Government is considering review of existing policy for new and expansion projects to ensure that revised policy is able to attract adequate investments in this sector and utilize opportunity being offered by projected increase in gas availability. The revised policy is at present under consideration of the Government.
18	All possible efforts should be made by DOF to canalize and implement the revival package for closed and loss making units.	DOF has stated that they have been taking expeditious steps for the revival of closed and loss making fertilizer units. The revival process of FCIL, HFCL, PPCL, FACT and MFL are under different stages of examination. The delay in implementation has been due to the factors which are beyond the control of the DOF.
20	Study should be started at the earliest to know the evaluation of the success of the scheme called 'Sankat Haran Bima Yojana Policy' for farmers.	The DOF has stated that they have decided t initiate a study to evaluate the success of the scheme for farmers. The DOF has awarded the evaluation study to 'Agricultural Finance Corporation Limited, New Delhi'.

7. The Seventeenth Report of the Committee on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) was presented to Parliament on 26th April, 2007. The Twenty-Second Report of the Committee on Action Taken by the Government on the recommendations contained in Seventeenth Report was presented to Lok Sabha on 20th November, 2007. Out of the total 20 recommendations, 11 Recommendations (Sl. Nos. 1, 3, 4, 5, 9, 10, 12, 13, 14, 17 and 19) were accepted by the Government. Recommendation at Sl. No. 2 was not pursued by the Committee in view of the Government's reply. In regard to Recommendations at Sl. Nos. 6, 7, 8, 11, 15, 16, 18 and 20, the replies of the Government were of interim nature. Subsequently, the Minister of Chemicals and Fertilizers was supposed to make a Statement in Lok Sabha regarding the status of implementation of the recommendations contained in Seventeenth Report of the Committee during the last winter session of Parliament under Direction 73A of the Directions by the Speaker, Lok Sabha. Despite repeated requests and reminders to Department of Fertilizers, the Statement could not be made in Lok Sabha during the last winter session. Now, the Minister of Chemicals and Fertilizers made the Statement regarding status of implementation of recommendations contained in the Seventeenth Report of the Committee in the Lok Sabha on 13th March, 2008 and in Rajya Sabha on 14th March, 2008.

The analysis of the Committee of implementation of recommendations by the Government has revealed that out of the total 20 Recommendations, the Department of Fertilizers have implemented only 6 Recommendations so far. The implementation process in regard to 9 recommendations is in progress. The Recommendations at Sl. Nos. 6, 11, 16, 17 and 18 relating to disbursal of subsidy, finalization of fertilizer policy, de-bottlenecking/revamp/modernization of existing urea units, availability of natural gas to fertilizer units and revival of sick and loss making and closed fertilizer PSUs have not been implemented so far. The Committee are anguished to note that even after repeated recommendations of the Committee, the Government have not come out with any specific planning to implement these recommendations. The Committee trust that the Department would take all corrective steps to implement these recommendations in future.

The Committee also recommend that in future the Department should ensure that the Statement made by the Minister on each of the original Reports is made invariably within the specific period i.e. six months after the presentation of Report to Parliament as per Direction 73A of the Direction by Speaker, Lok Sabha.

(Recommendation Sl. No. 1)

II. EVALUATION OF TENTH FIVE YEAR PLAN'S PERFORMANCE

8. For the Tenth Five Year Plan (2002-2007), there had been shortfall in utilization of plan funds and Department of Fertilizers had given various reasons for non-utilization of funds during this period. When the Committee asked whether any revised plan has been prepared by Department of Fertilizers for better utilization of plan funds during the each year of 11th Five Year Plan, Department of Fertilizers, in a written reply, stated as under:-

> "The Department has put in place a multi tier monitoring mechanism to ensure better utilisation of plan funds by the PSEs under the administrative control of the Department, during the Eleventh Five Year Plan.
>
> The Schemes / Programmes proposed by PSEs for implementation through plan outlays are discussed and finalized in the Board of respective PSEs. The Board of Directors of each of these PSEs include representation from the Department at appropriate levels. The Schemes / Programmes so discussed and approved by the Board of respective PSE are examined in depth by the Technical Division of the Department, which is headed by the Joint Advisor. The Technical Division examines the schemes along with its physical verification at Plant sites, The prioritization of the schemes corresponding to the budgetary provision is also done by the Technical division.
>
> In case of profit making PSUs, which implement their schemes/programmes through IEBR (Internal Generation of Resources), a general technical appraisal (to examine the viability of the proposed schemes) is also undertaken by the Technical Division. After technical evaluation of the schemes, these are deliberated upon in Planning Commission during annual plan discussions and approval of Planning Commission is taken on the Schemes. Apart from this, the physical output and outcomes of these schemes / programmes are also reviewed by the Planning Commission and Ministry of Finance in consultation with the Department.
>
> Further, in addition to the Quarterly Review Meetings which are held regularly in the Department, the Department has also decided to review Plan expenditure of all the companies every three months at the level of Addl. Secretary and Financial Advisor, so as to ensure that there is no shortfall in utilisation of plan funds vis-à-vis the plan targets.
>
> The above is expected to result in higher utilisation of funds during the Eleventh Five Year Plan as compared to the previous Five Year Plans."

9. On being enquired about the observations of the Planning Commission on the full term approval of the Tenth Five Year Plan in respect of fertilizer sector and the follow-up action taken thereon, the Department of Fertilizers, in their written reply, stated as under:-

> "As indicated by Planning Commission during discussions, no separate full term appraisal of the Tenth Plan has been brought out by the Commission. It was clarified that while formulating the Eleventh Plan, a Working Group on Fertilizers was set up which analysed the performance of fertilizer industry during the Tenth Five Year Plan and proposed strategy for the Eleventh Five Year Plan.
>
> The Eleventh Plan document circulated by the Planning Commission has observed that during the Tenth Plan period, the increase in consumption of fertilizers outstripped the slow growth in production, with the result that in the later years of the Plan period, imports registered strong increases. In the absence of fresh investments, the capacity of the fertilizer industry remained by and large stagnant during the Tenth Five Year Plan.
>
> As a part of strategy, the Eleventh Plan document suggests the following:
>
> (i) The most important element of future strategies relating to urea industry is to establish a single producer price.
> (ii) Although in the past, natural gas has been in short supply, even for gas based units, it is expected that new discoveries will make it possible to supply gas not only to them but also to the newly converted units.
> (iii) Regarding price of gas, Government may ensure gas supply to all urea producers at the same price.
>
> (iv) An appropriate long term policy should be announced so that more joint ventures are set up.
> (v) Efforts should be made to revive those units that are revivable including by setting up joint ventures with private sector participation.
> (vi) For achieving efficient use of fertilizer, subsidies for agriculture may be nutrient based.
> (vii) To ensure sufficient supplies of raw material for phosphatic fertilizers, exploration activities in India may be intensified.
> (viii) Indian companies may be encouraged to invest in mining and production of intermediates in resource rich countries.
> (ix) Ports facilities need to be enhanced to enable efficient handling of imported fertilizers and fertilizer material.

(x) Railway should also introduce specially designed wagons for handling of fertilizers.

The Department has noted the above suggestions and following steps have been taken to achieve the objectives as set out in the Eleventh Plan document:-

i) The economic feasibility of moving towards a single producer price for the existing urea industry is being actively examined by the Department.

ii) The issue of allocation of adequate gas for fertilizer sector is being regularly taken up with Ministry of Petroleum & Natural Gas so that the existing shortfall and future requirement is met on priority. It has been decided by the Government that the requirement of fertilizer sector will be met in its entirety from existing and future discoveries of gas in the country.

iii) The Government has decided to examine the feasibility of revival of closed units of HFCL and FCIL subject to assured availability of gas.

iv) A long-term policy proposal for new investments in urea sector based on international benchmarks is under active consideration of the Department.

v) The Indian companies are being encouraged to set up joint ventures abroad in resource rich countries in order to ensure supplies of raw material/intermediates in future. A Special Purpose Vehicle is being set up to coordinate investments abroad.

vi) A long-term urea offtake policy for encouraging setting up of urea joint ventures abroad in gas rich countries is also under consideration of the Government."

10. When the Committee asked about the reasons analyzed by Department of Fertilizers for continuous failure in achieving the targets fixed for Tenth Five Year Plan, the Department of Fertilizers, in their written reply, stated as follows:-

"The total outlay for the Xth Plan period was Rs 5,900 Crore. Against the above outlay, the actual expenditure was Rs 2,383.11 Crore. The major reasons for shortfall in achievement of targets during the Xth Plan were as below:-

a) The Plan allocation in respect of KRIBHCO included a provision for Hazira Expansion Project. However, the project could not be implemented due to lack of assured availability of gas for the same.

b) The plan allocation in respect of RCF included provision of Rs.1330 crores for Thal Expansion Project. However, the project could not be implemented due to lack of assured availability of gas for the same.

c) A plan outlay of Rs.810 crores was made for M/s. IFFCO, as part of the total outlay of Rs 5,900 Crore. Out of this, an amount of Rs.210.29 crores could be utilized during 2002-03. Thereafter, the Government of India's equity has been repatriated by IFFCO and it is no more a public sector undertaking/cooperative under the Department of Fertilizers. Thus expenditure beyond that do not form part of the expenditure indicated above.

d) The Plan allocation of Rs.380 crores had been made for M/s. FCI for the 10^{th} Five Year Plan. FCI has since been closed w.e.f. 5.9.02. Therefore, the plan allocation could not be utilized.

e) The 10^{th} Plan allocation of FACT is Rs.475 crores, out of which some of the major projects like new sulphuric acid plant at Cochin Division (Rs.103 Crore), railway siding at Udyogmandal (Rs.74 crore), improvement to Phase I plants in Cochin Division etc. could not be undertaken due to fund constraints as the company was running into losses. There was no internal generation of funds for investment as planned at the outset of the Xth Plan.

Out of Rs 5,900 crore outlay, Rs 1,050 Crore was under Gross Budgetary Support (GBS). The achievement under GBS suffered due to lack of sufficient allocation of funds under GBS during the course of the Xth Plan."

11. The Committee note that during the Tenth Five Year Plan (2002-2007), there has been a shortfall in utilization of plan funds and the Department of Fertilizers had given various reasons for non-utilization of funds during this period. The total plan outlay for the 10th Plan period was Rs. 5900 crore against the above outlay, the actual expenditure was only Rs. 2,383.11 crore, which is even less than 50% of the total plan outlay. The Committee are unhappy to note that during the Tenth Plan period, there was a shortfall in utilization of funds in almost all the major projects/schemes being undertaken by various PSUs under the administrative control of Department of Fertilizers resulting into continuous failure in achieving the target fixed for Tenth Plan period. The reasons given by Department for under-utilization of funds are (i) non-availability of gas for Hazira Expansion Project of KRIBHCO and Thal Expansion project of RCF; (ii) Repatriation of Government of India's equity by IFFCO as IFFCO is no more a Cooperative under Department of Fertilizers; and (iii) Closure of Fertilizer Corporation of India (FCI). As regards the FACT, there was no internal generation of funds for investment as planned at the outset of Tenth Plan as such there was constraints of funds. The Committee, therefore, recommend that re-appropriation of funds from one scheme to another should be carried out, so that the amount allocated to the Department is fully utilized in the particular financial year.

(Recommendation Sl. No. 2)

III. ELEVENTH FIVE YEAR PLAN

12. The Budget proposals and amount actually provided by the Planning Commission for different schemes in Annual Plan 2008-09 are given below:-

(Rs. in crores)

Name of PSU	Budget proposals submitted by Deptt. of Fertilizers (Annual Plan 2008-09)	
	GBS	IEBR
RCF	--	812.43
FAGMIL	--	22.40
PDIL	--	4.85
NFL	--	154.25
BVFCL	52.28	--
FACT	119.00	--
KRIBHCO	--	685.00
MFL	51.94	--
Miscellaneous Schemes	8.50	--
Revival of Sick CPSEs	--	--
Capital subsidy for (conversion of 4 existing FO/LSHS plants to NG/LNG) including energy efficiency improvement measures.	800.00	--
Investments for Joint Ventures (JVs) abroad	--	--
FCI	--	--
HFC	--	--
PPCL	--	--
Total	1031.72	1678.93

After discussions with Planning Commission, the amount provided by the Planning Commission for various Public Sector Undertakings and other Scheme in Annual Plan 2008-09 is given below:

(Rs. in crores)

Name of PSU	Budget proposals approved for Annual Plan 2008-09	
	GBS	IEBR
RCF	--	812.43
FAGMIL	--	22.40
PDIL	--	4.85
NFL	--	154.25

KRIBHCO	--	685.00
Revival of Sick CPSEs	* 46.00	--
MIS/IT and R&D	4.00	--
Capital subsidy for (conversion of 4 existing FO/LSHS plants to NG/LNG) including energy efficiency improvement measures.	150.00	--
Total	200.00	1878.93

* The funds have been earmarked as follows:

(Rs. in Crores)

Name of the PSUs	Funds allocated as GBS
FACT	13.00
MFL	12.97
BVFCL**	** 20.00
FCI	0.01
HFC	0.01
PPCL	0.01
Total	46.00

** *Rs. 20.00 crores allocated for BVFCL will be utilized for development of North-Eastern Region.*

13. The Plan Budget proposals of the Department of Fertilizers were discussed in the Planning Commission. While Planning Commission agreed with the proposal of the Department in respect of Internal and Extra Budgetary Resources generated by PSUs, they have provided a Gross Budgetary Support of Rs.200.00 crores as against the Department's proposal of Rs.1031.72 crores. An amount of Rs.4.00 crores has also been provided for MIS /IT and R&D which includes an amount of Rs.2.00 crores for S&T Programme and Rs.2.00 crores for Management of Information Technology Programme of the Department.

14. When the Committee asked whether amount recommended by the Planning Commission for various Public Sector Undertakings and other schemes in Annual Plan 2008-09 is sufficient to meet their needs, the Department of Fertilizers, in a written reply, stated as under:-

> "The allocation under the Gross Budgetary Support for 2008-09 is only Rs.200 crore against the projected requirement of Rs.1031.72 crore. Out of above projected requirement, Rs.231.72 crore was meant for PSUs and miscellaneous schemes (S&T Projects and MIT), against which Rs.50 crore only has been allocated.
>
> Further, against the projected requirement of Rs.800 Crore for payment of Capital subsidy towards conversion of FO/ LSHS Plants to Gas, in 2008-09, Rs.150 Crore only have been allocated, which is inadequate to initiate the conversion projects in the coming year. The total allocation towards capital subsidy for conversion projects is only Rs.885 crore for the Eleventh Plan against the projected requirement of Rs.2168 crore. The issue of inadequate allocation was discussed with the Planning Commission wherein it has been decided to explore alternative means of financing the conversion projects. Accordingly, an alternate scheme for provision of conversion subsidy in place of capital subsidy to incentivise and expedite conversion of FO/LSHS plants is under active consideration of the Department. Once the same is approved, the allocation of Rs.150 crore in 2008-09 is proposed to be utilised towards revival of closed units."

15. When asked about the necessary planning done by Department of Fertilizers to avoid any shortfall in utilization of Plan funds allocated for the first year of Eleventh Five Year Plan, the Department of Fertilizers, in a written reply, stated as follows:-

> "The Department has constantly monitored the utilisation of Plan allocation for 2007 – 08. It is expected that the total Gross Budgetary support of Rs 45 Crore will be utilised during the year except for Rs 5 Crore meant for Capital assistance towards conversion of FO/ LSHS plants to Gas.
>
> The above has not been spent as the total provision towards Capital assistance scheme for FO/LSHS conversion projects under XIth Plan at Rs 885 Crore is much lower than the required allocation of Rs 2168 Crore. The matter has been discussed with the Planning Commission and an alternative scheme for financing the conversion projects through provision

of conversion subsidy is under active consideration of the Department. Thus, the expenditure towards Capital assistance for conversion projects has not been initiated in 2007-08."

16. The information regarding Budget Estimates, Revised Estimates and Actual Expenditure for the last three years (year-wise) and Budget Estimates for the year 2008-09 for Plan and Non-plan expenditure is tabulated below:-

(Rs. in Crores)

	PLAN	NON-PLAN	TOTAL
2005-2006			
Budget Estimates	111.82	17055.25	17167.07
Revised Estimates	105.00	18055.25	18160.25
Actuals	103.87	19439.81	19543.68
2006-2007			
Budget Estimates	98.81	18055.25	18154.06
Revised Estimates	98.00	24555.25	24653.25
Actuals	86.90	28744.17	28831.07
2007-2008			
Budget Estimates	45.00	24555.25	24600.25
Revised Estimates	45.00	41218.55	41263.55
Actuals as on date	28.54	*31485.79	31514.33
2008-2009			
Budget Estimates	200.00	34181.55	34381.55

** This excludes an amount of Rs. 7500.00 crores allocated in the form of Special Securities (Bonds) and also released in two tranches.*

17. The above table shows that BE for plan expenditure has increased substantially as compared to preceding year and BE for non-plan expenditure has also increased as compared to last year.

18. When the Committee desired to know how Department propose to utilize the Budget Estimates (2008-09) for both plan and non-plan expenditure, the Department of Fertilizers stated as under:-

"A provision of Rs.31200 crores (Net) has been made in the Budget Estimates of 2008-09 for the Department of Fertilizers which includes an amount of Rs.200 crores under Plan and Rs.31000 crores under Non-Plan. Out of an amount of Rs.31000 crores (Net) under Non-plan, the Department proposes to utilise Rs.30986.36 crores towards payment of subsidy/concession. This amount will be utilised for payment of subsidy for import of urea, decontrolled imported P&K fertilizers and Indigenous Nitrogenous and P&K Fertilizers. The provision made in BE 2008-09 is inadequate to meet the total projected demand of fertilizers in the country. The Department had originally requested for an amount of Rs. 52614.51 crores (Gross) for payment of subsidy/concession and on reassessment of the requirement of funds it was requested to enhance the budget outlay to Rs. 64884.16 crores (Gross). Accordingly, the Ministry of Finance was requested to enhance the BE 2008-09 to at least Rs 50,000 crores.

The other main components of non-plan provision are Sectt. Economic Services for which a provision of Rs.12.17 crore has been made in BE 2008-09. This amount will be utilised for salaries and office related expenditure of the officers and staff of the Department of Fertilizers. In addition, an amount of Rs.1.40 crores has also been made for salaries and other office related expenditure of Office of Fertilizer Industry Coordination Committee (FICC), an attached office of the Department of Fertilizers."

19. Under the Annual Plan (2008-09), the Gross Budgetary Support (GBS) approved by Planning Commission is Rs. 200 crore respectively. The allocation of GBS is as under:-

(Rs. in crore)

S. No.	Scheme/Programmes	2007-08	2008-09
1.	Revival of Sick CPSEs	31.50	46.00
2.	Capital Subsidy for conversion of 4 existing FO/LSHS plants to NG/LNG	5.00	150.00
3.	Misc. Schemes	8.50	4.00
	Total	**45.00**	**200.00**

20. The Committee note that the plan Budget proposal of the Department of Fertilizers was discussed in the Planning Commission. The Planning Commission had agreed with the proposals of the Department in respect of Internal and Extra Budgetary Resources (IEBR) generated by PSUs, but they have provided a Gross Budgetary Support (GBS) of Rs. 200.00 crore against the projected requirement of Department of Rs. 1031.72 crore. Against the projected requirement of Rs. 800.00 crore for payment of capital subsidy towards conversion of FO/LSHS plants to Gas in 2008-09, only Rs. 150 crore has been allocated which is inadequate to initiate the conversion projects in the coming year. In view of the above, it has been decided to explore alternative means of financing the conversion projects. Accordingly, an alternate scheme for provision of conversion subsidy in place of capital subsidy to incentivise and expedite conversion of FO/LSHS plants is under active consideration of the Department.

The Committee also note that the fund provided under various heads under the Plan and Non-Plan expenditure has not been utilized. However, the Committee desired that the fund utilization and the expenditure under various heads should improve in 2008-09. The Budget estimates for the year 2008-09 may be made accordingly. The Committee feel and recommend the Department of Fertilizers to

strengthen the monitoring mechanism so that the PSU under the Department are able to implement their programme effectively by proper utilization of fund and time bound target should be fixed for utilization of fund by each PSU during each year of the Eleventh Plan so that real benefit should reach the people.

(Recommendation Sl. No. 3)

(a) Capacity Build-up and production

21. The installed capacity and production of Nitrogen and Phosphate has reached a level of 120.61 lakh MT and 56.59 lakh MT respectively as on 31st January, 2008. Presently, there are 56 large size fertilizer plants in the country manufacturing a wide range of nitrogenous, phosphatic and complex fertilizers. The sector wise nutrient-wise installed capacity of fertilizers manufacturing units as on 31.01.2008 is as follows:-

(In lakh MT)

Sl. No.	Sector	N		P	
		Capacity*	%Share	Capacity*	%Share
1	Public	34.98	29.00	4.33	07.65
2	Cooperative	31.69	26.27	17.13	30.27
3	Private	53.94	44.73	35.13	62.08
	Total	**120.61**	**100.00**	**56.59**	**100.00**

22. When the Committee asked about the targets fixed for the production of fertilizers at the first year of 11th Plan, details nutrient-wise and sector-wise and specific steps being taken to achieve the targets, the Department of Fertilizers, in a written reply, stated as under:-

> "The target for indigenous production of fertilizers is fixed on the basis of consultation with the fertilizer industry and the production plan for the year indicated by them. Accordingly, the nutrient-wise and sector-wise targets fixed for the production of fertilizers in the first year of the Eleventh Plan (i.e. 2007-08) are given below:-

(Lakh MTs)

Target 2007-08				
Quantity	**Public**	**Cooperative**	**Private**	**Total**
Nitrogen (N)	31.20	33.03	54.85	119.08
Phosphate (P)	2.34	14.96	31.84	49.14

> To achieve the targeted production of urea in the country, the Government has announced the New Pricing Scheme – Stage-III on 8th March, 2007, under which the production of urea beyond 100% of re-assessed capacity in the existing units has been incentivised. The requirement of prior permission of Government before Revamp of existing unit has been done away with. The companies are expected to take investment decisions in existing units as per their own commercial

considerations. Further, the Department has been regularly taking up the issue of adequate availability of gas/feedstock for the urea industry so that there is minimum loss of production due to non-availability of feedstock.

The P&K fertilizers are decontrolled fertilizers and there is no cap on its production. The target fixed in consultation with the industry is indicative in nature and the units are free to produce beyond the target to meet the growing indigenous requirement. The Government is encouraging increased indigenous production by providing a suitable policy framework."

23. On being enquired by the Committee regarding targets fixed for the year 2007-08, actual achievement in the production of indigenous fertilizer during the year and reasons for not achieving the targets, Department of Fertilizers, in a written reply, stated as under:-

"The details of target fixed and actual achievement in the production of indigenous fertilizer during 2007-08 are given below:-

(Lakh MTs)

Quantity	Target	Achievement (Estt)*	Difference
Nitrogen (N)	119.08	110.38	8.70
Phosphate (P)	49.14	39.85	9.29

**(Actual for April-07 to February 08 & Estimated for March 2008)*

The target production could not be achieved during 2007-08 due to following reasons:-

<u>Nitrogen (N)</u>

i) There was no production of urea by SPIC, Tuticorin during the course of the current year, due to non availability of working capital.
ii) The reduced gas supply in the months of January-February 2007 due to the closing down of ONGC's BPA platform for maintenance has also led to loss of production.
iii) Urea production suffered due to technical problems arising from time to time in various plants including collapse of cooling tower in four urea plants during 2007-08.

Phosphatic (P)

Production of DAP was low due to scarcity of raw material like Rock Phosphate and Phosphoric Acid in the international market & sharp increase in prices of the inputs. "

24. When the Committee asked about the targets fixed for the year 2008-09, the Department of Fertilizers, in a written reply, stated as follows:-

"The annual target for indigenous production is fixed based on the interaction with the industry and the production plan indicated by them. While the production plan indicated by the industry is only for 46.00 LMT for Phosphate (S), the target for 2008-09 is proposed as follows:

Target 2008-09	
Nitrogen (N)	Phosphate (P)
119.24	52.55*

** This corresponds to the installed capacity of the industry after excluding SPIC and MFL, which have currently stopped production of phosphate fertilizers due to various reasons."*

25. When the Committee enquired about the steps taken by the Department for revamping and modernizing the existing plants for improving capacity utilization, the Department of Fertilizers, in a written reply, stated as under:-

"In urea sector, under the New Pricing Scheme (NPS) Stage-III, the production of urea from existing units beyond 100% of their installed capacity has been incentivized. The requirement of prior permission of Government to revamp existing units has been done away with. Fertilizer companies are expected to revamp and modernize their units based on their own commercial decisions.

Further, under NPS-III, all non-gas based units are required to convert to gas by March, 2010. To incentivise conversion, the units will be allowed to keep the savings in energy norms for first five years of production after conversion. Further, FO/LSHS plants will be provided with capital assistance towards conversion, as the conversion costs in these cases are much higher as compared to Naphtha plants. However, since there is a shortfall in requisite allocation of funds for provision of capital assistance towards conversion, an alternative scheme for provision of conversion subsidy in place of capital subsidy to incentivise and expedite conversion of FO/LSHS plants is under active consideration of the Department. The conversion will lead to modernization of existing units leading to improvement in capacity utilization.

In phosphatic sector, the indigenous resources are limited and can meet at most 10% of the current requirement in the country. The remaining requirement has to be met through import of raw materials/intermediates and finished fertilizers. The lack of availability of raw materials/intermediates in sufficient quantities has been the major constraint leading to low capacity utilisation in the phosphatic sector. The industry is being regularly encouraged to invest abroad in resource rich countries in order to ensure adequate availability of raw materials/inputs for the indigenous industry.

Further, the Government intends to encourage production of Single Super Phosphate (SSP) to substantially meet the requirement of phosphate in the country, as the low grade rock phosphate reserves in the country can be effectively utilised for the production of SSP. A proposal to link the subsidy on SSP with that to prevailing input prices is under active consideration of the Government."

26. When the Committee asked whether any strategy has been chalked out by Department of Fertilizers to achieve full capacity utilization of all major fertilizers in the coming years, the Department of Fertilizers, in a written reply, stated as follows:-

"Department of Fertilizers deals with the following fertilizers:-

i) Urea
ii) DAP
iii) Complexes
iv) SSP
v) MOP

There is no indigenous production of MOP. The entire requirement is met through imports.

To encourage production of Single Super Phosphate (SSP), the Department of Fertilizers proposes to link the concession (subsidy) on SSP with input prices. This is expected to encourage SSP production in the country. The proposal in this regard is under finalization.

The phosphatic fertilizer plants are so designed that they can be used for the production of either DAP or Complexes. Companies decide on the respective quantum of DAP and complexes to be produced based on market considerations. The production in phosphatic sector is largely dependent (approximately 90%) upon imported raw materials/intermediates. The capacity utilisation in phosphatic plants suffers mainly due to lack of adequate availability of raw material/intermediates.

Following strategies have been adopted to ensure adequate availability of raw materials for manufacture of phosphatic fertilizers:

a) The policy for phosphatic fertilizers is being finalized with updation of costs of production as recommended by the Tariff Commission

b) Manufacturing companies are encouraged to enter into joint ventures with foreign entities to ensure regular supply of raw materials.

With regards to urea, the capacity utilization of urea manufacturing facilities has been more than 100% for the industry as a whole. The capacity utilization of the industry is expected to further improve through revamping/modernization of the existing plants and adoption of alternative sources like liquified natural gas.

In order to encourage additional production of urea, Government has under the New Pricing Scheme (NPS) Stage-III has incentivized the production of urea from existing units beyond 100% of their installed capacity. The requirement of prior permission of Government to revamp existing units has been done away with. Fertilizer companies are expected to revamp and modernize their units based on their own commercial decisions.

Further, under NPS-III, all non-gas based units are required to convert to gas by March, 2010. To incentivise conversion, the units will be allowed to keep the savings in energy norms for first five years of production after conversion. Further, FO/LSHS plants will be provided with capital assistance towards conversion, as the conversion costs in these cases are much higher as compared to Naphtha plants. However, since there is a shortfall in requisite allocation of funds for provision of capital assistance towards conversion, an alternative scheme for provision of conversion subsidy in place of capital subsidy to incentivise and expedite conversion of FO/LSHS plants is under active consideration of the Department. The conversion will lead to modernization of existing units leading to improvement in capacity utilization.

Further, the Department has been regularly taking up the issue of adequate availability of gas/feedstock for the urea industry so that there is minimum loss of production due to non-availability of feedstock."

27. The Committee note that the installed capacity and production of Nitrogen and Phosphate has reached a level of 120.61 lakh MT and 56.59 lakh MT respectively as on 31st January, 2008. The Committee also note that the target for indigenous production of fertilizers is fixed in consultation with the fertilizer industry and the production plan for the year indicated by them. To achieve the targeted production of urea in the country, the Government has announced the New Pricing Scheme (NPS) Stage-III on 8th March, 2007, under which the production of urea beyond 100% of reassessed capacity in the existing units has been incentivised. The Committee recommend that incentive should also be given to those companies who have achieved targets more than 90 per cent. The Committee further note that concerted efforts are being made by the Department to achieve full capacity utilization of all major fertilizers in the coming years. The Committee, therefore, recommend that process regarding revival of closed/sick fertilizer units should be completed at the earliest and the Government should finalize the various policy decisions pending with them without any delay to increase the indigenous production of urea and to achieve the production targets fixed for the 11th Plan period.

(Recommendation Sl. No. 4)

(b) Consumption of major fertilizers

28. There has been a substantial increase in the demand of fertilizers in last few years with urea consumption in the current year estimated to be approximately 240 lakh tonnes. This increase in consumption of fertilizers is expected to continue in the Eleventh Plan period with the demand for urea projected at 287.55 lakh tonnes in 2011-12.

29. When the Committee asked about the programmes planned by the Department of Fertilizers to meet the growing demand of consumption of fertilizers in Eleventh Five year Plan, the Department of Fertilizers, in a written note, stated as follows:-

"The Working Group on Fertilizers for the 11th Plan Period for projected demand for fertilizers during the 11th Plan as below:-

All India Demand Forecast of Fertilizer Products (lakh tonnes) 2006-07 to 2011-12					
Year	Urea	DAP	Complex fertilizers	SSP	MOP*
2006-07	243.05	75.00	73.60	28.75	28.50
2007-08	253.60	79.30	77.00	38.00	30.15
2008-09	262.75	83.20	81.00	39.90	31.80
2009-10	271.35	87.15	85.00	41.75	33.60
2010-11	279.45	91.05	89.00	43.60	35.45
2011-12	287.55	95.10	93.30	45.60	37.40
***For direct consumption. Excludes demand for manufacture of complex fertilizers**					

Urea

To meet the projected demand for urea during the 11th Plan Period, the Government has announced the New Pricing Scheme Stage-III on 8th March, 2007 to be implemented w.e.f. 1st October, 2006 to 31st March, 2010. Under NPS Stage-III:-

(a) Additional production from the existing urea units in the country has been incentivized and the requirement for prior Government approval for production beyond 100% has been done away with.

(b) The policy has emphasized conversion of all non-gas based urea units in the country to gas within a definite timeframe of next three years, which is expected not only to increase efficiencies of production but also lead to additional production of urea in the country.

It is expected that over and above the present installed capacity of 213.52 LMTPA of urea (197 LMT from 28 domestic units plus 16.52 LMT from OMIFCO), additional capacity will come in the XIth Plan period as follows:

a) 25.186 LMT from capacity addition in the existing units
b) 33.50 LMT from 3 brown field expansion projects and 11.55 LMT from one green field project (total 45.05 LMT).
c) About 50 LMT from revival of seven urea units of HFC and FCI in Eastern India based on natural gas/LNG/CBM/Coal Gas as feedstock.
d) About 20 LMT from JV projects abroad based on cheap gas/LNG, which may come up in the countries which have abundant reserves of gas with a buy back arrangement for urea produced by these projects.

DAP

The demand for phosphatic fertilizers in the country is being met through indigenous production based on imported raw material/intermediates and import of finished fertilizers. Due to lack of efficient exploitable reserves of phosphates in the country, the import dependence in this sector is expected to continue during the 11th Plan Period also. The Working Group on Fertilizers have estimated total demand supply gap by 2011-2012 would be 1.711 Million MT of P_2O_5 equivalent to around 3.9 million MT of DAP. It has suggested following strategy to meet the demand supply gap.
(i) Direct import of DAP : 1 million MT
(ii) The balance DAP gap may be met through JV abroad for manufacture of Phosphoric Acid with buy back arrangements to manufacture phosphates in India. This will require production facilities for 1.33 million MT of Phosphoric Acid per year in rock rich countries.

MOP

The complete demand for potash in the country is met through imports as there are no economically exploitable reserves of potash in the country."

30. During the course of evidence, the Secretary, Department of Fertilizers also informed the Committee that there has been significant increase in the consumption of fertilizers in our country over the last few years, particularly from 2003-04 onwards. Till about 2002-03 or even 2003-04, the consumption was such that indigenous production could really meet most of the demands. But thereafter, the rate of growth of consumption has increased. On an average of consumption is increasing by about 10 per cent.

31. When the Committee asked about the efforts made by the Government to increase the balanced per hectare consumption of fertilizers in India to achieve parity with agriculturally advanced countries of the world, the Department of Fertilizers, in a written reply, stated as under:-

"The per hectare consumption of fertilizers in India has grown sharply over last few years as can be seen from the table below:-

Year	Total
2000-01	89.94
2001-02	91.25
2002-03	91.07
2003-04	88.12
2004-05	96.37
2005-06	106.54
2006-07	113.42

The consumption of fertilizers is being further encouraged by keeping the farm gate prices of subsidized fertilizers constant, despite sharp increase in international price of fertilizer and fertilizer inputs in last few years. Steps are also being taken by the Government to ensure monitoring of fertilizer availability upto the block level in all parts of the country, so that there is no local shortages of fertilizer and consequently no loss of consumption on account of lack of availability.

With regard to the balanced consumption ratio, it is submitted that though NPK ratio of 4:2:1 is considered to be an optimum ratio, same may not applicable to all parts of the country. The application of nutrients depends upon the soil condition in particular region and the crops which are intended to be grown thereon. The average NPK ratio in the world is 3.2:1.3:1 (2004-05) and it varies widely across various developed countries in the world. However, in India, the Government is committed towards promoting balanced fertilization by encouraging soil based application of fertilizers and non-discriminatory pricing of fertilizers under the subsidy regime. "

32. The Committee note that there has been an increase in the demand of fertilizers in the last few years with urea consumption in the current year estimated to be approximately 240 lakh tonnes. The increase in consumption of fertilizers is expected to continue in the Eleventh Plan period with the demand for urea projected at 287.55 lakh tonnes in 2011-12. Similarly, the demand projected for DAP at 95.10 lakh tonnes, for complex fertilizers at 93.30 lakh tonnes, for SSP at 45.60 lakh tonnes and for MOP at 37.40 lakh tonnes in 2011-12. The Committee also note that various steps have been taken by the Department of Fertilizers to meet the projected demand for urea and phosphatic fertilizers during the 11th Plan period viz. implementation of Stage-III of NPS w.e.f. 1st October, 2006 to 31st March, 2010, conversion of non-gas based urea units in the country to gas with a definite time frame, capacity addition in the existing urea units, revival of seven urea units of HFC and FCI and setting up of joint venture projects abroad where abundant reserves of gas is available. The Department has also informed that steps are also being taken by the Government to ensure monitoring of fertilizers availability upto the block level in all parts of the country. While appreciating the efforts made by the Department for meeting the demand of fertilizers by increasing indigenous production through availability of gas and strengthening the delivery mechanism, the Committee would like that godowns

should be established at block level and distribution of fertilizers to farmers is monitored from block level. The Committee understand that further distribution of fertilizers especially of urea from block level is the prerogative of the State Government even though the Department cannot escape from its responsibility to provide fertilizers to farmers as they may have to face the brunt in case of non-availability of fertilizers to farmers. The Committee, therefore, recommend that the Department should devise a mechanism in coordination with State Governments for monitoring the fair distribution of fertilizers from block level in order to ensure the transparency in distribution system.

(Recommendation Sl. No. 5)

IV. ANALYSIS OF THE DEMANDS FOR GRANTS (NO. 8) OF THE DEPARTMENT OF FERTILIZERS

33. As against actual Plan and Non-Plan expenditure of Rs. 86.90 crore and Rs. 28744.79 crore respectively during 2006-07, the budgetary-provisions for 2007-08 and 2008-09 are as under:-

(Rs. in crore)

	2007-08 Budget			**2007-08 Revised**			**2008-09 Budget**		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue Section	13.50	24530.07	24543.57	13.50	41193.37	41206.87	154.00	34181.51	34335.51
Capital Section	31.50	25.18	56.68	31.50	25.18	56.68	46.00	0.04	46.04
Total	**45.00**	**24555.25**	**24600.25**	**45.00**	**41218.55**	**41263.55**	**200.00**	**34181.55**	**34381.55**

34. When the Committee asked how the Department propose to spend Rs. 154 crore under Revenue Section of plan expenditure for the year 2008-09, the Department of Fertilizers, in a written reply, stated as under:-

> "The Planning Commission has allocated Rs. 154 crores under Revenue Section of Plan expenditure 2008-09. Out of this amount, Rs. 150 crores is earmarked for conversion of four existing FO/LSHS plants to NG/LNG. The remaining Rs.4.00 crores is earmarked for S&T Projects and MIT.
>
> The Department had asked for an outlay of Rs.2168 crores under the 11^{th} Plan for release of capital subsidy towards conversion of four FO/LSHS units and two natural gas plants as committed under new pricing schemes stage-III. Against the above requirement a total of Rs.885 crores only has been provided under 11^{th} Plan. The reduced allocation will be insufficient to undertake the conversion projects with capital subsidy assistance and may lead to delays and cost escalations. This matter has been discussed with the Planning Commission wherein it has been decided to explore the alternative means of financing the conversion projects. Accordingly, an alternative proposal of reimbursing the cost of conversion to the FO/LSHS units by provision of conversion subsidy after conversion is under active consideration of the Government. Once the alternative proposal is approved, the provision of Rs.150 crores for 2008-09 and overall provision of Rs.885 crores under 11^{th} Plan may not be required for providing capital subsidy towards conversion projects. In the above circumstances, a

provision of Rs. 150 crores provided during 2008-09 and the overall provision of Rs.885 crores in the 11th Plan is proposed to be utilized for revival of closed units and promoting joint ventures abroad."

35. On being enquired by the Committee for lesser allocation in the non-plan expenditure of capital section during the year 2008-09 as compared to RE (2007-08), the Department of Fertilizers, in a written reply, as follows:-

"The provision in the Capital Section of Plan expenditure for 2007-2008 was Rs.31.50 crores only as against a provision of Rs.46 crores under BE 2008-09. Thus there is an increase in allocation under capital section of Plan expenditure.

The provision in the Capital Section of Non-Plan expenditure for 2007-08 was Rs.25.18 crores as against Rs.0.04 crore in BE 2008-09. The provision under this Section is meant to be released as loan to PSUs which is to be utilised by these companies as a Non-plan expenditure. Since the requirements on this item from PSUs has not been much, only a token provision has been provided in the BE 2008-09. There is no request pending for release of loan under Non-plan Capital Section for 2008-09 and therefore, only a token provision has been kept under BE. However, if any request is received by the Department during the course of the year, the same will be taken up with the Ministry of Finance for further allocation."

V. HEAD-WISE EXAMINATION FOR BE, RE (2007-08) AND BE (2008-09)

A. Secretariat Economic Services

MAJOR HEAD 3451

36. The provision under this head is for Secretariat expenditure of the Department provision (Non-Plan) for Secretariat Economic Service is as under:-

Year	Allocation/utilization (Rs. in crore)
2006-07 (Actual)	7.81
2007-08 (BE)	9.38
(RE)	9.63
2008-09 (BE)	12.17

There is an increase of Rs. 2.54 crore in BE (2008-09) as compared to RE (2007-08).

37. When the Committee asked about the factors responsible for such an increase in BE (2008-09) as compared to RE (2007-08), the Department of Fertilizers, in a written reply, stated as under:-

"There is an increase of Rs. 2.54 crore in BE (2008-09) as compared to RE (2007-08) in following subheads: -

	Rs. In thousands
Salaries	Rs. 1,00,00
Wages	Rs. 10
OE	Rs. 25,00
Rent Rates & Taxes	Rs. 96,00
Publication	Rs. 1,00
OAE	Rs. 66
Advt. & Publ.	Rs. 38,00
Proff. Services	Rs. (-) 6,70
Total	Rs. 2,54,06

Salaries – Under the salaries subhead, a provision of Rs. 1.00 crore have been added due to expected enhancement of DA and granting annual increments of employees. The increase under this subhead is also due to estimated number of employees in the Department of Fertilizers for the financial year 2008-09 is higher than the number of employees in position at present. The number of unfilled vacancies in this Department may be filled up through direct recruitment or by way of nomination of officials by DOPT or on deputation basis.

A new post of Joint Secretary in this Department has been approved by Cabinet by way of conversion of the existing post of Executive Director, FICC into that of Joint Secretary. Salary of the new Joint Secretary, Department of Fertilizers would be borne out of the budget provision (salary subhead) of this Department for the financial year 2008-09.

Wages – Nominal increase due to increase in DA/Increment to daily wager (temporary status).

Office Expenses – For renovation of proposed new rented office space at Scope Complex (CGO Complex), Lodi Road, New Delhi and renovation of chamber of new Joint Secretary, renovation of corridor of B-Wing, 1st floor of Shastri Bhawan and increasing the rates of petrol, stationary items etc.

Rents, Rates & Taxes – Provision for payment of rent for occupying the new office space at scope complex, CGO Complex, New Delhi

Publication – Due to increase, the cost of printing of annual reports of the Department etc.

OAE – Nominal increase of Rs. 66,000/- payment for training programmes and press conferences of Hon'ble Minister.

Advt. & Publicity – A bill of Rs. 38.00 lakhs for publishing advertisement in newspaper about availability of fertilizers is required to be paid in next financial year."

38. When the Committee asked about the austerity measures adopted by the Department in this regard, the Department, in a written reply, gave the details as under:-

"The Department of Fertilizers has taken necessary steps for rationalization of expenditure in respect of measures as per instructions of Department of Expenditure, Ministry of Finance and made every effort to avoid ostentatious and unnecessary expenditure and the same are explained as under:-

(i) Vehicles – No new vehicle have been purchased in this Department. Also no new fresh appointment of drivers has been made.

(ii) Telephone – This Department has strictly adhere to the norms for usage of telephone at offices, residence and cellphone. Officers who have used telephone at his residence excess over and above the norms prescribed have been intimated and recovered the excess amount from the individual.

(iii) Ban on creation of plan and non-plan posts – Since there is a ban Order on creation of new posts in Ministries/Departments issued by Department of Expenditure, Ministry of Finance, the Department of Fertilizers has strictly adhered to the same and no new post in this Department is created during the financial year."

B. Subsidy/Concession on Fertilizers

MAJOR HEAD 2401 - (For subsidy on imported urea and concession on decontrolled fertilizers)
2852 - (Subsidy on indigenous urea)

39. The total fertilizer subsidy has risen sharply over last few years. The increase consumption has only partially contributed to increase in fertilizer subsidy. The majority increase has been due to sharp increase in international prices of fertilizer, consequently leading to increase in delivered costs of fertilizers at the farmgate level.

40. The details of fertilizer subsidy over the last few years is as below:-

Subsidy on Fertilizers (Rs. in Crore)					
Years	**Urea subsidy**	**P & K fertilizers**	**Total subsidy disbursed in year**	**Carry over to next year**	**Net incidence of subsidy for the year**
2002-03	7788	3225	11013		
2003-04	8509	3326	11835	2002	
2004-05	10637	5142	15779	3372	17149
2005-06	11749	6550	18299	5914	20841
2006-07	15354	10598	25952	8788	28826
2007-08*	25654	20005	45659		36871

***Estimated.**

41. The above table shows that there has been sharp increase in allocation under subsidy on urea and phosphatic and potassic fertilizers. When the Committee asked about the reasons for such a drastic increase in subsidy allocation, the Department of Fertilizers, in a written reply, stated as under:-

> "The sharp increase in allocation under subsidy on urea, and P&K fertilizers for the year 2006-07 and 2007-08 has been due to following reasons:-

i) Increase in consumption of fertilizers

LMT

Year	Urea	DAP	MOP
2005-06	222.97	67.63	27.31
2006-07	243.37	73.81	25.85
2007-08*	258.50	81.09	32.25

*Estimated

ii) Sharp increase in International prices of fertilizer inputs and finished fertilizers as indicated below:-

Year/ Month	Average International Prices in USD (PMT)						
	Urea (C&F)	DAP (C&F)	MOP (C&F)	Phos Acid (C&F)	Rock Phosphate (C&F)	Ammonia (C&F)	Sulphur (C&F)
2002-03	110	183	120	342	56	126	84
2003-04	156	203	123	356	56	215	84
2004-05	202	260	180	403	59	244	90
2005-06	243	290	215	445	80	260	94
2006-07	257	330	213	464	81	300	76
April'07	335	505	250	566	79	352	138
September'07	340	534	280	566	121	263	237
February '08	410	922	450	1437	245	485	614
% change - 2006-07 over 2005-06	6%	14%	-1%	4%	1%	15%	-19%
% change - Feb' 2008 over 2006-07	60%	179%	111%	210%	202%	62%	708%

42. When the Committee asked about the latest position in regard to reimbursement of subsidy bills of fertilizer units for the year 2007-08, the Department of Fertilizers, in a written reply, stated as under:-

"There is an outstanding liability of subsidy payment to the tune of Rs.864.68 crore for urea units in urea sector and Rs. 2575 crore in case of P&K fertilizers. In addition, escalation/de-escalation claims of approximately Rs.1600 crore for the year 2007-08 are also under examination. They will also add to the liability for 2007-08. In case of decontrolled indigenous fertilizers, claims have been settled till the month of November 2007 and claims for December 2007 onwards are pending. In case of decontrolled imported fertilizers, claims have been settled till the month of November 2007 and the claims for December 2007 are pending.

In case of indigenous urea, claims have been settled till the month of December 2007 and the claims for January, 2008 onwards are pending."

43. On being enquired by the Committee how Department of Fertilizers has ensured due to increased subsidy allocation for the year 2007-08, all subsidy bills pending for this year will be reimbursed to fertilizer units, the Department of Fertilizers, in a written reply, stated as under:-

"The total revised final requirement of funds for payment of fertilizer subsidy in 2007-08 is estimated at Rs.45,486.61 crore (net). Against the above requirement, the Department has received an allocation of Rs.36,501.01 crore including Rs.7500 crore as fertilizer bonds in the current year. An additional allocation of Rs.8985.60 crore (net) is required in the current year for reimbursement of all subsidy bills to fertilizer units pending for the year 2007-08.

It is learnt that only Rs.4000 crore is proposed to be released under 3rd Supplementary Demand for Grants 2007-08 for payment of fertilizer subsidy, against the projected additional requirement of Rs.8985.60 crore (net). This will lead to a carryover liability of approximately Rs.5000 crore from the current year to 2008-09, towards payment of fertilizer subsidy."

44. There has been a continuous rise in the amount of subsidy on fertilizers during the year 2004-05 to 2008-09. The amount of subsidy paid on fertilizers from 2004-05 to 2007-08 is as under:-

(Rs. in crores)

Years	Urea	P&K Fertilizers	Total subsidy disbursed in year
2004-05	10637	5142	15779
2005-06	11749	6550	18299
2006-07	15354	10598	25952
2007-08*	25654	20005	45659

45. On the issue of subsidy requirements, the Secretary, Department of Fertilizers apprised the Committee that over the last three or four years, the budgetary allocations have not been sufficient to meet the requirements of

subsidy. The net incidence of subsidy has been increasing considerably. The figure for 2003-04 was Rs. 11,835 crore and in 2007-08, it is coming to Rs. 36871 crore and if last year's amount of Rs. 8788 crore is carry over, it comes to Rs. 45,659 crore. As far as 2008-09 is concerned, in January, 2008, Department would require Rs. 60,000 crore.

46. The Secretary further informed the Committee that our current assessment is Rs. 90,000 crore and our availability in Budget Estimates is one of the issues which is under examination by the Committee is Rs. 31,000 crore.

(i) <u>Outdated technology and consumption of energy</u>

47. The Committee during their visit to Guwahati on 20th February, 2008 interacted with the officials of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL). The following points were brought to the notice of the Committee by the officials of BVFCL with respect to losses:-

(i) Old technology adapted in the units.
(ii) Old age of the plants inspite of selective revamping.
(iii) Non-availability of spares.
(iv) Disturbed socio-political scenario prevailing in the region.
(v) Non-availability of skilled and trained manpower.
(vi) High energy consumption of the old generation plants leading to under utilization of the supplied Natural Gas capable of producing 8-9 lakh MT of urea per annum from a generation energy efficient new generation plant which is more than double the present achievable capacity.

(ii) Fertilizer Bonds

48. The fertilizer bonds are issued by Ministry of Finance in lieu of cash release of fertilizer subsidy. It came to the notice of the Committee that the allocation of Rs. 3890 crore as the first tranche of fertilizers bonds on December, 2007 in lieu of subsidy has failed to enthuse the fertilizer companies. When the Committee asked whether allocation of fertilizer bonds is adequate to meet the rising subsidy bill, the Department of Fertilizers, in a written reply, stated as under:-

> "The fertilizer bonds have been issued by Ministry of Finance in lieu of cash release of fertilizer subsidy for a total of Rs.7500 crore in 2007-08. However, the fertilizer industry has been unwilling to take fertilizer bonds in lieu of cash as it has additional financial implications for the companies. The Department of Fertilizers has requested the Ministry of Finance to provide cash allocation for release of fertilizer subsidy in future. "

49. In regard to tenure of fertilizer bonds, the Department further informed that the tenure of fertilizer bonds has been decided by Ministry of Finance and RBI based on the guidelines laid down for the same. However, the fertilizer industry had requested for a shorter tenure of fertilizer bonds, preferably between 5 to 7 years.

50. The Secretary, Department of Fertilizers, during the course of evidence, stated as under:-

"The first tranche was Rs. 3890 crore and the second tranche was Rs. 3610 crore. In the first tranche, I must say the fertilizer companies did suffer, but they did not suffer too badly. They were prudent enough to manage their bonds in such a manner that they got liquidity at 1 per cent discount. But when the second tranche came, in that they lost very badly as they could not even get it at a discount of 3 or 4 per cent. They had to get it discounted at 7to 8 per cent. This is what is bothering the industry. I must say that they are concerned and this is also the reason why there is no investment in the sector."

51. The Secretary, Department of Fertilizers, during the course of oral evidence, stated before the Committee that subsidy amount to industries should be given in time.

52. The Fertilizer Association of India (FAI), in their written note, stated that interest on delayed payment to subsidy should be given as envisaged in the Tariff Commission Report.

53. The Committee note that during the last few years the fertilizer subsidy bill has increased substantially mainly because of sharp increase in international prices of fertilizer leading to increase in delivery costs of fertilizers at the farmgate level. An additional allocation of Rs. 8985.60 crores (net) is required in the current year for reimbursement of all subsidy bills to fertilizer units pending for the year 2007-08. The Committee were informed that the third Supplementary Demands for Grants (2007-08) of the Department is likely to be only Rs.4000 crore which would result in carry over liability of approximately Rs. 5000 crore from the year 2007-08 to 2008-09 towards payment of fertilizer subsidy. As far as the year 2008-09 is concerned in January 2008, the Department of Fertilizer would require Rs.60,000 crore to meet the subsidy requirement. Against the current assessment of Rs.90,000 crore the availability in the Budget Estimates (2008-09) is only Rs.31,000 crore.

The Committee are surprised to note that there has been a tremendous increase in the subsidy amount during the last five years. It has gone almost six times since 2004-05. The Committee are apprehensive about the authenticity of subsidy amount to the tune of Rs. 90,000 crore as submitted by the Secretary, Department of

Fertilizers. The Committee, therefore, recommend that industry-wise break up of the subsidy amount be furnished to them and the issue regarding the quantum of such a huge subsidy amount should be revaluated. The Committee, therefore, recommend that after revaluating the subsidy amount, the Government should make sufficient budgetary provision to meet the fertilizer subsidy bill including the carryover from the previous years. The Planning Commission and Ministry of Finance should also be apprised to the concern of the Committee in this regard. The Committee, therefore, recommend that Department of Fertilizers should pursue the matter with the Planning Commission so that the adequate amount is allocated to the Department of Fertilizers for meeting the subsidy bill during the first year of 11th Plan period.

(Recommendation Sl. No. 6)

54. The Committee observe that due to outdated machinery and old age technology as in the case of BVFCL about which the Committee were apprised during their study tour, consumption of energy is more which is ultimately responsible for the rise in the cost of fertilizers resulting into the cost of subsidy. As such, it is imperative that Government should also ponder over the root cause of increasing subsidy bill in indigenous production and try to plug the loopholes and revamp the system. The Committee feel that increase in the

subsidy amount is not the permanent solution rather the Department should go into the root cause of high subsidy bill and accordingly modernize the existing machinery/technology.

(Recommendation Sl. No. 7)

55. The Committee note that fertilizer bonds are issued by Ministry of Finance in lieu of cash release of fertilizer subsidy. The Secretary, Department of Fertilizers apprised the Committee during the discussion that the Ministry of Finance had issued first tranche of Fertilizer Bonds. However, the fertilizer industry has been unwilling to take fertilizer bonds in lieu of cash as it has additional financial implication for the companies as the industry feels that bonds can be traded only at discounted rates. Moreover, the tenure of Bond is too long. The Department of Fertilizers has, therefore, requested the Ministry of Finance to provide cash allocation for release of fertilizer subsidy in future. The Department has also requested for a shorter period bonds as demanded by the fertilizer industry. As stated by the Secretary, Department of Fertilizers during the course of evidence that discounted rate of bond at 7 to 8% is bothering industry and due to that there is nil investment in the fertilizer sector. The Committee, therefore, recommend that the Department of Fertilizer should take up this issue with the Ministry of Finance in right earnest and resolve the issue to the satisfaction of fertilizer industries. The Committee also

recommend that the concerted efforts should be made by the Government to minimise the subsidy dues so that the same are not carried forward in the coming years.

(Recommendation Sl. No. 8)

56. The Committee note that the payment of subsidy to fertilizer industries is not made in time. The Committee, therefore, recommend that the payment of subsidy should be made in time. The Committee are of the view that fertilizers industries should not be deprived of their money which they have invested and forced to sell the fertilizers at the reduced price which is much lower than the actual price. The Committee, therefore, recommend that the Government should not make any inordinate delay in the payment of subsidy.

(Recommendation Sl. No. 9)

(iii) Availability of urea

57. The availability of urea, which is the only fertilizer under partial movement control of Government, remained satisfactory throughout the Kharif 2007 season as well as during the current Rabi 2007-08.

58. The following table summarizes the season-wise position in respect of the availability and sales of the major fertilizers i.e. Urea, DAP and MOP during the last three seasons:

(Figures in LMTs)

Crop season	Demand Assessment	Cumulative Availability	Cumulative Sales	%age of availability to assessed demand
Kharif 2006				
Urea	122.37	125.04	113.65	102.18
DAP	33.10	48.67	32.06	147.03
MOP	14.66	20.47	9.99	139.63
Rabi 2006-07				
Urea	127.09	145.25	131.20	114.29
DAP	48.19	46.89	37.18	97.30
MOP	18.57	32.79	13.94	176.58
Kharif 2007				
Urea	131.68	138.29$	124.58	105.02
DAP	40.08	40.26$	36.14	100.45
MOP	16.52	19.29$	14.17	116.77
Rabi 2007-08				
Urea	140.02	153.90*	68.95**	109.91
DAP	49.13	48.58*	28.82**	98.88
MOP	19.61	18.75*	7.53**	95.51

** Estimated*
*** Upto December, 2007.*
$ Excluding silo stock and stock at shipment

59. On being enquired by the Committee as to what efforts have been made by the Department of Fertilizers for timely delivery of fertilizers to farmers, the Department of Fertilizers, in a written reply, stated as under:-

> "Overall availability of urea in all the states during last six months has been higher then the assessed requirement. Every effort is made by Department of Fertilizers that atleast 50% of the month's requirements is available in the beginning of the month and balance 50% is supplied during

the first fortnight of the month. In addition to above, the following measures are taken to ensure timely delivery of fertilizer to farmers.

(i) Each State is required to prepare a monthly supply plan for ensuring availability of fertilizers on a month-wise, company-wise and district-wise format.

(ii) Under the New Pricing Scheme Stage-III for urea units, which has been approved by the Government on 1st February, 2007, the subsidy on urea will be paid only after it reaches the district. Since the district is the basis of planning for fertilizers availability, the subsidy is now being paid to fertilizer companies only on reaching fertilizers to each district in conformity with the agreed Supply Plan.

(iii) To ensure that fertilizer companies supplying urea are able to reach it to each district, the urea manufacturers are compensated for freight based on actual rail and road leads.

(iv) In respect of decontrolled 'P' & 'K' fertilizers, the freight has been revised to account for increase in rail/road transport cost through escalation linked to Wholesale Price Index (WPI).

(v) The supply of fertilizers by manufacturers/suppliers in accordance with the agreed Supply Plan is being monitored through a Web-based Fertilizer Monitoring System (www.urvarak.co.in), which is able to track production, imports, dispatch, arrival and sales upto the district-level.

(vi) With a view to ensure availability of de-controlled phosphatic and potassic fertilizers, the State Governments have been advised to identify at least one State Institutional Agency which would arrange for timely availability of these fertilizes in their respective States.

(a) Strengthen the State institutional agencies, which will coordinate with manufactures and importers of fertilizers for streamlining the supplies.

(b) Undertake assessment of demand at the block level and ensure availability upto the block level.

(c) Review the dealer network in their respective States to ensure sufficient availability of dealer's upto the block level. They have also been requested to review the railway infrastructure in their States and suggest improvements required to ensure availability of fertilizers in all parts of their States.

(vii) A buffer stock of urea up to 5% of the seasonal demand in major fertilizer consuming States though fertilizer companies/ States institutional agencies will be maintained, with each major State having a buffer of at least 50,000 MTs.

60. However, on the issue of availability of urea, Secretary, Department of Fertilizers assured the Committee, during the course of discussion, as under:-

> "We have now introduced a system wherein every month we sit down with the State Secretaries and have a discussion and work out the requirements and accordingly ask the concerned fertilizer companies to send it to the districts. This year, we would like to send the fertilizers to the block level and it will be our endeavour that from June onwards we should be able to send it to the block level. We are making arrangements and we are also making efforts to see that the entire requirement of the block for the month of June is made available by the end of May itself so that people know that there is stock available."

61. Elaborating on the subject further, the Secretary, Department of Fertilizers stated as under:-

> "We have institutionalized the system of buffer stock also. Sometimes with the best of projections, depending on the seasonal condition people may require a little higher stock. If they require sudden stocks, they can be drawn from within the State itself."

62. He further stated that industry has rallied very well and cooperated with Department of Fertilizers. Even for the district distribution, industry have agreed to distribute the fertilizer according to the requirement projected by the State Government. They have agreed to go to the block level also and we pay them transport cost also.

63. When the Committee desired to know the latest status in regard to buffer stock being operated by the Department of Fertilizers to meet the seasonal requirement, the Department of Fertilizers, in a written reply, stated as under:-

> "The Department of Fertilizers is mandated to maintain buffer stock of urea through the State Institutional Agencies/Fertilizer companies upto 5% of the seasonal demand in 14 major fertilizers consuming states. Accordingly, each major state is having a buffer of at least 50,000 MTs. The Lead Fertilizer Supplier (LFS) in all the major state like Andhra Pradesh, Orissa, West Bengal, Rajasthan, Maharashtra, Punjab, Madhya Pradesh, Bihar, Jammu & Kashmir, Haryana, Uttar Pradesh, Gujarat, Tamil Nadu and Karnataka are responsible for operating the buffer stock.
>
> The buffer stocks in most of the states have been drawdown to meet the requirement of farmers in the Rabi season. The buffer stocks are currently being restored during March-April 2008 to meet the requirement for Kharif'08."

64. The Committee have observed during their field visits that there has been the non-availability of fertilizers in many parts of the country. However, the Committee has been apprised by the Ministry that the availability of urea, which is the only fertilizer under partial movement control of Government, remained satisfactory throughout the Kharif 2007 season as well as during the current Rabi 2007-08. The Committee have also been informed that every effort is made by the Department of Fertilizers to see that at least 50% of the month's requirements is available in the beginning of the month and balance 50% is supplied during the first fortnight of the month. The Committee also note that preparation of monthly supply plan, payment of subsidy to fertilizer companies only on reaching fertilizers to each District, compensation of freight based on actual road and rail heads, Fertilizer Monitoring System(FMS), strengthening the State Institutional Agencies and assessment of demand at Block level are some of the effective steps taken by the Department in this direction. In addition to this, Secretary, Department of Fertilizers during his evidence before the Committee stated that from June, 2008 onwards they will be able to send the fertilizers to the Block level. He further stated that they are also making efforts to see that the entire requirement of the Block for the month of June, 2008 is made

available by the end of May, 2008 itself. While appreciating the steps taken by the Government for timely availability of fertilizers in all parts of the country in the coming years, the Committee feel that a realistic action plan be formulated and implemented in a time bound manner so that fertilizer is actually made available to farmers for the Rabi and Kharif crops. The Committee are happy to note that the Department of Fertilizers has taken initiative to supply the fertilizers at Block level from June, 2008 onwards. The Committee, therefore, recommend that an effective coordination and monitoring mechanism be evolved to implement this system successfully so that the availability of fertilizers should not remain in official records only but it reaches to the masses actually.

(Recommendation Sl. No. 10)

65. The Committee observe that the Department of Fertilizers maintain buffer stock of urea through the State Institutional Agencies/ Fertilizer Companies upto 5% of the seasonal demand in only 14 major fertilizers consuming States. The Committee, therefore, recommend that in view of the increased demand of fertilizers, the similar initiative should be taken by the Department in the remaining States/Union Territories also to ensure uninterrupted supply of fertilizers to all the States and Union Territories.

(Recommendation Sl. No. 11)

(iv) ***<u>Shortage of urea in North Eastern States</u>***

66. The States of the North-East, including Sikkim, face a locational disadvantage due to difficult terrain, besides, inadequate rail and road infrastructure. Except for the State of Assam, all other North-Eastern States including Sikkim have very sparse rail network. The difficulties of movement and transportation are compounded in these States by problems arising out of militancy in certain parts, limited sources of supply etc. The per tonne cost of transportation, as a result, has been exceedingly high as compared to the rest of the country. These have been the major bottlenecks in sending urea supplies to these States in time.

67. Considering this and with a view to ensure timely and adequate supply of urea, which would help in boosting agriculture production in the region, the Government decided to reimburse the freight for carrying urea on actual basis through a Special Freight Reimbursement Scheme. This scheme has been introduced in lieu of the Equated Freight Scheme for these States, including Sikkim, but excluding Assam. The Scheme has been in operation since 1.4.1997 and has helped in ensuring timely distribution of urea to these States. Under the special scheme, an expenditure of Rs.2.29 crore and Rs.4.05 crore was incurred during the years 2004-05 and 2005-06, respectively. A similar scheme is also in operation in these States, including Assam, on movement of decontrolled phosphatic and potassic fertilizers covered under the Concession Scheme, at a fixed rate from the declared railheads specific to each State to various destinations within that State.

68. When the Committee asked about the reasons for shortage of urea in North Eastern States especially in the State of Arunachal Pradesh and efforts made by the Government to rectify the situation in the coming years, the Department of Fertilizers, in a written reply, stated as under:-

"It may be observed from the statement that the availability of Urea in the states during last six months has been higher than the assessed requirement except in Arunachal Pradesh. Even in north eastern states it can be observed that availability of urea in all the months is always more than the assessed requirement except in Arunachal Pradesh. As there is limited warehousing in Arunachal Pradesh, BVFCL is supplying urea to the dealers of Arunachal Pradesh on regular basis from Tezpore and North Lakhimpore. FICC has fixed Tezpore and North Lakhimpore as nodal points for distribution of urea from Namrup Plant to the State of Arunachal Pradesh. Adequate quantity of urea earmarked for Arunachal Pradesh has been stored in the warehouses at the nodal points. Several letters have been issued to Director of Agriculture, Government of Arunachal Pradesh for lifting of material during Kharif'07 & Rabi 2007-08. During the last Zonal Conference held at Guwahati in February 2008, the State government was repeatedly requested to lift the material. The opening stock of urea for the nodal points for October'07 to March'08 is as below.

(Figures in MTs)

Stocks of Urea available for Arunachal Pradesh			
Month	North Lakhimpore	Tezpor	Total
October	0.40	28.10	28.5
November	430.35	28.10	458.45
December	430.35	28.10	458.45
January	0.35	28.10	28.45
February	0.35	46.10	46.45
March	0.35	46.10	46.45

The full requirement of the state (Arunachal Pradesh) can be supplied by BVFCL alone. Despite the several requests, Arunachal Pradesh has lifted only 163 MT of urea against their requirement of 500 MT during the last six months. It is clarified that there was no shortage of urea in Kharif'07 and Rabi 2007-08 in Arunachal Pradesh. Further, the states government has requested continue with the arrangements of pre-positioning the consignment at North Lakhimpur and Tezpor Depots."

69. On being enquired by the Committee that if State Government of Arunachal Pradesh is not taking initiative to boost the warehousing capacity, whether Central Government is contemplating any initiative in this regard, the Department of Fertilizers, in a written post evidence reply, stated as under:-

> "BVFCL situated at Namrup (Assam) is having an annual production capacity of 1,20,000 MT and 2,70,000 MT of Urea at II and III units respectively. In total about 3,90,000 MT per annum of urea is produced in Assam itself. The total consumption of urea in North Eastern States including Assam has been about 2,27,550 MT during the year 2005-06 and 2,56,090 MT during 2006-07. We have a surplus production of about 1,35,000 MT of urea which is distributed in States like Bihar, Jharkhand and West Bengal. Keeping in view the production of urea at BVFCL, Namrup Plant, which is located in the North Eastern region itself, it should be possible to meet the full requirement of all North-Eastern States including Arunachal Pradesh, from this unit.
>
> The consumption of urea in Arunachal Pradesh during the last two years viz., 2005-06 and 2006-07 has been to the tune of 800 and 900 MT respectively which can easily be met from the warehouses at Tejpore and North Lakhimpore. However, the Department of Fertilizers will take up the matter of creating warehousing capacity within Arunachal Pradesh with the State Government."

70. The Department of Fertilizers further stated in their post evidence reply that to maintain the mandatory buffer stocks in North Eastern States specifically in Arunachal Pradesh where the warehousing capacity is very low, a proposal for creation of buffer in the North Eastern States will be examined in consultation with BVFCL and the State Governments.

71. The States of North East are facing difficulties of movement and transportation of fertilizers in certain parts of the States. The per tonne cost of transportation has also been exceedingly high as compared to the rest of the country. These are the major bottlenecks in supplying of urea to these States in time. The Committee note that as per the information furnished by the Department, Government have decided to reimburse the freight for carrying urea on actual basis through a Special Freight Reimbursement Scheme for these States. The Committee, therefore, recommend that the Department of Fertilizers should evaluate the success of this scheme from time to time and to see the result and efficacy of the scheme with a view to implementing it in remote and hilly areas also.

The Committee has been apprised that in North Eastern States availability of urea in all the months of the year is always more than the assessed requirement except in Arunachal Pradesh. As there is limited warehousing in Arunachal Pradesh, Brahmputra Valley and Fertilizers Corporation Limited (BVFCL) has been supplying urea to the dealers of Arunachal Pradesh on regular basis from Tezpore and North Lakhimpore as nodal points. The full requirement of the State can be supplied by BVFCL alone. Despite several requests, Arunachal

Pradesh has lifted only 163 MT of urea against their requirement of 500 MT during the last six months. The Committee also note that to maintain the mandatory buffer stocks in North Eastern States specifically in Arunachal Pradesh, a proposal for creation of buffer stock in the North-Eastern States will be examined in consultation with BVFCL and the State Governments.

The Committee, therefore, recommend that sufficient warehousing capacity be created in Arunachal Pradesh to reduce its dependence on neighbouring States as the transport facilities in North-East States are not adequate and cost effective as in other parts of the country. The Committee also recommend that the Department should take up the matter with the Governments of North Eastern States to maintain a mandatory buffer stock in North Eastern States on priority basis in consultation with BVFCL and State Governments. The Committee further recommend that warehouses for fertilizers may either be constructed by the BVFCL in case Government of Arunachal Pradesh does not establish the same or godowns may be constructed by sharing the mutually agreed amount by BVFCL and Government of Arunachal Pradesh.

(Recommendation Sl. No. 12)

(v) Availability of Single Super Phosphate (SSP)

72. At present, 72 small and medium scale fertilizer units in the Department of Fertilizers are in operation and producing Single Super Phosphate (SSP). Presently DAP, MOP, SSP and 11 grades of complex fertilizers are covered under the concession scheme on decontrolled P&K fertilizers. It is mentioned in the press clipping that Single Super Phosphate would soon be available at a uniform price across the country.

73. When the Committee asked whether Single Super Phosphate (SSP) will be available at a uniform price across the country, the Department of Fertilizers, in a written reply stated as follows:-

> "The Department is considering a proposal for a uniform all-India Maximum Retail Price (MRP) of SSP. This forms a part of the input based Concession Policy on SSP, which is in an advanced stage of finalization."

74. On being enquired by the Committee whether the prices of SSP in North Eastern States would be the same as for the rest of country, the Department of Fertilizers stated as follows:-

> "When finalized and notified, the uniform all-India MRP of SSP would supply across the country.
>
> The Department implements an additional transport subsidy scheme for transportation of fertilizers in difficult areas such as the State of Jammu & Kashmir, North Eastern States, Himachal Pradesh, etc. Accordingly, extra cost of transportation for movement of decontrolled P & K fertilizers including SSP from railheads to various destinations in these States is reimbursed.
>
> Further, to enable availability of all fertilizers products across all parts of the country, the Department is also considering to provide freight on transportation of all fertilizers, including SSP, on actual basis. This would enable manufacturers/ suppliers to reach fertilizers including SSP to all parts of the country, irrespective of location of production units."

75. The Committee note that at present 72 small and medium scale fertilizer units in the Department of Fertilizers are engaged in operation and producing Single Super Phosphate (SSP). Presently DAP, MOP, SSP and 11 grades of complex fertilizers covered under the concession scheme on decontrolled P&K fertilizers. In regard to availability of Single Super Phosphate at a uniform price across the country, the Department is considering a proposal for a uniform all India Maximum Retail Price (MRP) of SSP. This forms a part of the input based concession policy on SSP, which is an advanced stage of finalisation. The Committee also note that the Department is also considering to provide freight on transportation to all the fertilizers, including SSP on actual basis. The Committee, therefore, recommend that the Department should undertake an effective long term planning to ensure early finalisation of the proposal regarding concession on SSP with input prices. The Committee desire that for the interests of poor and marginal farmers State Governments should also be consulted in this regard. The Committee would also like the Department to complete the process of providing freight on transportation to all fertilizers on actual basis without any loss of time so as to enable manufacturers to supply fertilizers in all parts of the country especially in hilly and remote areas.

(Recommendation Sl. No. 13)

(vi) ***Import of urea***

76**.** The import of urea on Government account is made to bridge the gap between assessed demand & supply. Steering Committee of Secretaries (SCOS) after reviewing the demand/ supply position decides the quantity of urea to be imported on Government account. The State Trading Enterprises arrange imports of urea on behalf of government. Government of India has also entered into a Urea Off Take Agreement (UOTA) with Oman India Fertilizer Company (OMIFCO), a joint venture company of KRIBHCO, IFFCO and Oman Oil Company, to lift its entire production of granular urea (16.50 lakh MT approximately per annum) in the first 15 years. The company has commenced commercial production from July 2005. The granular urea from Oman is currently imported & distributed through IFFCO & KRIBHCO.

77. The details of Urea imported during the last five years are as under:-

(Quantity in lakh MT)

Year	**Import from Oman**	**Other Imports**	**Total**
2002-03	0.00	0.00	0.00
2003-04	0.00	0.00	0.00
2004-05	0.00	06.41	06.41
2005-06	13.25	07.31	20.56
2006-07	18.37	28.82	47.19
2007-08 (estimated)	19.06	50.57	69.63

78. When the Committee asked about the reasons for increase in the import of urea in 2006-07 and further in 2007-08, the Department of Fertilizers, in a written note, stated as under:-

> "The requirement of urea which was 234.25 LMT in 2005-06 increased to 249.46 LMT during 2006-07 and further to 271.70 LMT during 2007-08. The indigenous production of urea however, was 200.84 LMT in 2005-06, 203.07 LMT in 2006-07 and likely to be 199.15 LMT during 2007-08. The requirements beyond indigenous production have to necessarily be met through higher imports."

79. Asked about the reasons for continuous increase in the import of DAP in the years 2005-06, 2006-07 and 2007-08, the Department of Fertilizers, in a written reply, stated as follows:-

(Quantity in LMT)

Years	Assessed requirement	Indigenous production	Gap between requirement and indigenous production
2005-06	78.02	46.29	31.73
2006-07	81.29	48.50	32.79
2007-08	89.21	48.59*	40.62

*Estimated

It may be observed from the above table that the demand of DAP has been increasing during the years whereas the indigenous production has been almost static, leading to increase in imports of DAP. "

80. On being enquired by the Committee as to what steps have been taken by the government to make country self-sufficient in the production of fertilizers so that import of urea and DAP is minimized in the coming years, the Department of Fertilizers, in a written reply, stated as under:-

"In phosphatic sector, indigenous production is largely dependent on imported raw materials and intermediates such as rock phosphate, sulphur, ammonia, phosphoric ac id etc. Due to tight availability and rise in international price of raw materials and intermediates in recent past, indigenous production has suffered and there has been low capacity utilization. Accordingly, the Department is considering a revised policy framework that encourages optimal capacity utilization in phosphatic sector.

With respect to SSP, the Department is considering providing concession based on the input cost of raw materials – rock phosphate and sulphur. Presently, SSP is given an ad hoc subsidy of Rs. 1125 per MT, which has become un-remunerative due to rise in prices of rock and sulphur.

With respect to DAP, the Department is considering linking indigenous and imported DAP. This would provide parity to indigenous and imported DAP for concession and would not only encourage indigenous production but would also provide an investment-friendly environment in phosphatic sector.

In order to procure raw material for manufacturing DAP, Department of Fertilizers has been facilitating the fertilizer companies to enter into the joint ventures with the countries endowed with the phosphatic raw material/intermediates for sourcing and manufacturing phosphatic fertilizers."

81. The Committee note that the import of urea on Government account is made to bridge the gap between assessed demand and supply. The State Trading Enterprises arrange imports of urea on behalf of Government. The Committee find that the indigenous production of urea is less than the requirements of urea and the requirements beyond indigenous production have to be met through higher imports. Similarly, the demand of DAP has been increasing during the years whereas indigenous production has been almost static due to lack of investment in fertilizer sector, leading to increase in imports of DAP. Considering these facts, the Committee recommend that concerted efforts should be made by the Department to encourage the investment in fertilizer sector and in the production of fertilizes so as to enhance the production capacity of these fertilizers and to reduce the dependence of the country on imports. The Committee are of the view that investment in domestic capacity addition is feasible option to fulfil the burgeoning demand. The Committee feel that investment in fertilizer sector will be forthcoming only, if reasonable rate of return on investment, comparable to other investment avenues available in the country is ensured.

(Recommendation Sl. No. 14)

(vii) ***New Pricing Scheme***

82. The Government has approved the pricing policy for urea units for Stage-III of New Pricing Scheme (NPS) w.e.f. 1.10.2006 to 31.3.2010. The policy has been formulated keeping in view the recommendations of the Working Group set up under the Chairmanship of Dr. Y.K. Alagh. The salient features of the proposed Stage-III Policy which is aimed at promoting further investment in the urea sector, are to maximize urea production from the Urea units including through conversion of non-gas based Units to gas, incentivising additional urea production and encourage investment in Joint Ventrure (JV) projects abroad. It is also aimed at establishing a more efficient urea distribution and movement system in order to ensure availability of urea in the remotest corners of the country.

83. When the Committee asked about the efforts being made by the Government to review the progress of implementation of Stage-III of New Pricing Scheme, the Department of Fertilizers, in a written note, stated as follows:-

> "The New Pricing Scheme Stage-III has been notified by the Department of Fertilizers on 8th March, 2007. The subsidy regime on indigenous urea as per the provisions of NPS Stage-III is to be implemented by Fertilizer Industry Coordination Committee (FICC), an attached office under the Department of Fertilizers.
>
> The FICC has initiated following steps for implementation of Stage-III:-
>
> i) The revised energy norms for NPS-III has been finalized and notified.
> ii) The fertilizer subsidy is now paid on the basis of receipt of fertilizers in the districts.
> iii) The receipt of fertilizers in the district in accordance with the movement plan is being monitored through the Fertilizer Monitoring System (FMS) as provided for under NPS-III.
> iv) The cost updation exercise as provided for under NPS-III is under way and is expected to be completed in next two months.

Further, the Department has also taken the following steps to implement the provisions of NPS-III:-

i) A policy proposal for new investments in urea sector based on IPP benchmark has been prepared and is under active consideration of the Government.
ii) The 'in principle' approval of the Government has been provided for conversion of all four FO/LSHS plants to gas as required under NPS-III.
iii) Feasibility of a single producer price for existing urea units is also being examined. "

84. When the Committee asked about the views/suggestions given by the Fertilizer Industry with reference to implementation of Stage-III of NPS, the Department of Fertilizers, in a written reply, stated as under:-

"During finalization of the New Pricing Scheme Stage-III, consultations have been held with the fertilizer industry. The policy has been formulated keeping in view the suggestions given by the fertilizer industry.

Some companies have submitted specific problems, which their units may face under NPS-III and the same has been examined in the Department. A proposal for suitable modifications in the provisions of NPS-III to resolve the specific problems of the units is under active consideration of the Department."

85. On being enquired by the Committee whether any timeframe has been fixed to complete the procedure of examination of specific problems submitted by fertilizer companies and bring out concrete modifications in the provisions of NPS-III, the Department of Fertilizers, in their post evidence reply, stated as under:-

"The draft proposal for modifications in the provisions under NPS-III to resolve some of the issues raised by various companies, is currently under inter-ministerial consultations. The proposal is expected to be finalized shortly. However, no timeframe can be indicated at present."

86. Fertilizer Association of India (FAI), in their written statement dated 30th January, 2008 furnished a summary of the discussions held with them by the Committee on 22nd January, 2008 which *inter-alia* suggested that pricing policy should be based on normative parameters away from cost based formula.

87. The Committee note that Government has approved the pricing policy for urea units for Stage-III of New Pricing Scheme (NPS) w.e.f. 1.10.2006 to 31.03.2010. The policy has been formulated keeping in view the recommendations of the Working Group set up under the Chairmanship of Dr. Y.K. Alagh. The main aim of Stage-III of NPS is to increase further investment in the urea sector, incentivising additional urea production and encouragement for setting up joint venture projects abroad. The Committee also note that specific problems submitted by fertilizer companies which their units may face under NPS-III have been examined by the Department. The draft proposal for modifications in the provisions under NPS-III to resolve issues raised by fertilizer companies is currently under inter-ministerial consultations. The Committee recommend that a stable and final policy be formulated at the earliest to implement the Stage-III of NPS successfully. The Committee also recommend that in order to achieve the aim of NPS-III, the proposal for suitable modifications in the provisions under this scheme be finalized by the Department in a stipulated time bound period. The Committee, therefore, urge the Department to take all possible measures so that the objectives set under Stage-III of NPS are met. The Committee also desire that the Department of Fertilizers should explore the feasibility of pricing policy based on normative parameters away from cost based formula. The Committee may be apprised of the action taken in this regard.

(Recommendation Sl. No. 15)

C. **Indo-UK Fertilizer Development Programme - Grant to KRIBHCO for Dryland Farming Project**

MAJOR HEAD 2852

88. The budget provision for this purpose are as under:-

Year	**Allocation/utilization** (Rs. in crore)
2006-07 (Actuals)	4.00
2007-08 (BE)	1.50
(RE)	1.50
2008-09 (BE)	-

89. When the Committee asked about the reasons for not making any provision in BE (2008-09) under this head, the Department of Fertilizers, in their written reply, stated as follows:-

> "KRIBHCO has been implementing two Rainfed Farming Projects called Eastern Indian Rainfed Farming Project (EIRFP) and Western India Rainfed Farming Project (WIRFP). EIRFP completed its tenure in March, 2005 and the extended period of WIRFP was completed in June, 2007. This was an externally aided project being funded by Department of International Development (DFIP). Government of UK. The Government of UK did not extend the project period and accordingly stopped their aid to the project. Resultantly, Department of Fertilizers did not make any provision in BE 2008-09 under the Major Head 2852."

90. Further, on being enquired by the Committee as to how much grants have been given during the year 2007-08 from UK for this project and whether the scope and quantum of this project can be enlarged substantially, the Department of Fertilizers, in their written note, stated as under:-

> "During 2007-08, an amount of Rs. 1.50 crore has been released by Department of Fertilizers to KRIBHCO for the implementation of Western Indian Rainfed Farming Project. In the absence of any further external aid to the project, there may be constraint in enlarging the scope and quantum of this project."

D. S & T Programme

MAJOR HEAD 2852

91. Budget allocations (Plan) for S&T Programme are as under:-

Year	Allocation/utilization (Rs. in crore)
2007-08 (BE)	5.50
(RE)	5.50
2008-09 (BE)	2.00

92. When the Committee asked about the reasons for lesser allocation of funds under this head in BE (2008-09) as compared to the last year, the Department of Fertilizers, in their written reply, stated as under:-

> "In BE 2008-09, there is a reduced allocation of Rs. 2 crore under S&T head as compared to the last years' allocation of Rs.5.50 crore. In 2007-08, there were six continuing S&T projects for which last instalment was to be released during the year. The same has been released during 2007-08 and all these projects are expected to be completed by 31.3.08 / 31.12.08. No further funds are required for the continuing projects in 2008-09.
>
> The new projects undertaken during 2007-08 have duration of one year only and are expected to be completed by December, 2008. The funds of Rs.2 crore for S&T project during 2008-09 will be spent entirely on fresh proposals approved by the Department during 2008-09. Thus, the requirement of funds during 2008-09 under S&T head is lower than that in the current year. "

MAJOR HEAD 4552

93. Budget allocations (Plan) on Lumpsum provision for Projects/Schemes for the benefit of the North Eastern Region and Sikkim are as under:-

Year	Allocation/utilization (Rs. in crore)
2007-08 (BE)	4.49
(RE)	4.49
2008-09 (BE)	19.99

94. When the Committee asked about the specific projects being undertaken by the Department of Fertilizers in North Eastern States during the first year of Eleventh Five Year Plan, the Department of Fertilizers, in their written reply, stated as under:-

> "Brahmputra Valley Fertilizer Corporation (BVFCL), is the only major fertilizer manufacturing unit in the North Eastern region of the country. In 2007 – 08, total 27 projects worth Rs 7.47 Crore have been taken up for implementation in BVFCL. "

95. When the Committee asked about the feasibility studies completed by BVFCL to examine the possibility of setting up of Namrup-IV unit for manufacturing of urea, the Department of Fertilizers, in a written reply, stated as under:-

> "BVFCL has got the Techno-Economic Feasibility report (TEFR) for retrofitting, up-gradation of the existing plants for augmentation of the capacity and lowering of specific energy consumption, alongwith the alternative option for setting up of new Brownfield plant (Namrup-IV) prepared by Projects Development India Ltd. (PDIL). The TEFR is presently under consideration of the Planning Commission for its "in-principle" approval.
>
> Moreover, no additional allocation of gas has been committed by the suppliers for setting up of Namrup – IV project. Once the decision on setting up of the project is finalised, fund provision for the same will be required."

E. Plan and Non-Plan Budgetary provisions for the fertilizer PSUs

96. The following table shows the details of the budgetary provisions made for Plan and Non-Plan loans/investment for the PSUs under the administrative control of the Department of Fertilizers for BE 2007-08, RE 2007-08 and BE 2008-09:-

(Rs. In Crores)

Company Name	BE 2007-08		RE 2007-08		BE 2008-09	
	Plan	Non-Plan	Plan	Non-Plan	Plan	Non Plan
Fertilizer Corporation of India Ltd. (FCI)	1.00	0.01	0.01	0.01	0.01	0.01
Fertilizers and Chemicals Travancore Ltd. (FACT)	15.00	0.00	15.00	0.00	13.00	0.00
Hindustan Fertilizers Corporation Ltd. (HFC)	1.00	0.01	0.01	0.01	0.01	0.01
Madras Fertilizers Ltd. (MFL)	9.00	0.00	9.00	0.00	12.97	0.00
Pyrites, Phosphates & Chemicals Ltd. (PPCL)	1.00	0.01	0.01	0.01	0.01	0.01
Brahamputra Valley Fertilizer Corporation Ltd. (BVFCL)	4.50	25.15	7.47	25.15	20.00	0.01
Total	**31.50**	**25.18**	**31.50**	**25.18**	**46.00**	**0.04**

97. In the BE 2008-09 there is a overall increase in the plan allocation as compared to an allocation of Rs 45 crores in 2007-08. As regards the non-Plan budget 2008-09 the allocation has been reduced. An amount of Rs. 0.04 crore has been made in BE 2008-09 as against Rs. 25.18 crore was made in non-plan expenditure for 2007-08.

98. When the Committee desired to know the reasons for lesser allocation in the non-plan expenditure in BE (2008-09) under capital section as compared to BE (2007-08), the Department of Fertilizers, in their written note, stated as under:-

> "As compared to a plan outlay as Rs 31.50 Crores in BE/ RE 2007-08 (earmarked as loans to PSUs) there has been an increase in the outlay to Rs 46 Crores. This provision will be utilized for renewal/ replacement schemes of the loss making PSUs."

99. The provision in the Capital Section of Non-Plan expenditure for 2007-08 was Rs.25.18 crores as against Rs.0.04 crore in BE 2008-09. The provision under this Section is meant to be released as loan to PSUs which is to be utilised by these companies as a Non-plan expenditure. Since the requirements on this item from PSUs has not been much, only a token provision has been provided in the BE 2008-09. There is no request pending for release of loan under Non-plan Capital Section for 2008-09 and therefore, only a token provision has been kept under BE. However, if any request is received by the Department during the course of the year, the same will be taken up with the Ministry of Finance for further allocation.

VI. <u>DEBOTTLENECKING/REVAMP/MODERNIZATION AND EXPANSION OF FERTILIZER UNITS</u>

100. The policy announced in January 2004 envisage the creation of additional capacity through de-bottlenecking/revamp/modernization, provided that the additional production comes from using natural gas/LNG as feedstock. As per the policy, the measures proposed for de-bottlenecking / revamp/ modernization of the plant should result at least in 10% increase in the existing urea production capacity of the applicant units and such additional urea production would be priced at the existing concession rate of the unit.

Subsequent to issue of NPS-III policy, the Policy of debottlenecking has been reformulated as 'Incentives for additional Urea Production'.

101. When the Committee desired to know the latest status in regard to finalization of three expansion projects, the Department of Fertilizers, in their written note, stated as under:-

> "The investment decision of the respective companies on the three expansion projects viz. Hazira Expansion of KRIBHCO, Thal Expansion of RCF & Jagdishpur Expansion of IGFL has not been finalised due to lack of confirmed availability of gas for the expansion projects. Further, the companies have also indicated that they will take a final decision in the matter once the Policy for new investment in urea sector is finalised by the Government."

102. On being enquired by the Committee how far the stagnated production capacity in fertilizers will be improved after revamping/modernization of the existing urea units, the Department of Fertilizers, in a written reply, stated that according to the Working Group on Fertilizers for the XIth Plan Period, it is estimated that an additional 25.186 LMT of urea capacity can be added through revamp/modernization of existing urea units.

103. It is informed that at present there are 8 urea units MFL, SPIC ZIL MCFL, GNFC, NFL – Nangal, NFL – Bhatinda, NFL – Panipat in the country which are based on naphtha or FO/LSHS as feed stock. All these 8 units are required to switch over to natural gas/LNG within a period of next three years. Beyond this time limit, the high cost urea produced by these non-gas based units will not be entitled to subsidy at the existing level and it will be restricted to import parity price of urea. The units, which are unable to tie up gas will have to explore alternative feedstocks like Coal Bed Methane (CBM) and coal gas.

104. When the Committee desired to know the average cost of conversion from non gas based units to gas based units, the Department of Fertilizers, in their written reply, stated as follows:-

> "The cost of conversion of naphtha based units to gas will vary from unit to unit. However, it is estimated that the conversion cost will vary between Rs 50 Crore to Rs 180 Crore depending upon the technology in

use in the existing unit. In case of FO/ LSHS plants, it is estimated that the average conversion cost will be approximately Rs 700 Crore for each unit."

105. When the Committee asked about the demand, availability position of gas/LNG as on February, 2008 and what would be the position by the end of 2008, when more units convert the gas/LNG mode, the Department of Fertilizers, in their written reply, stated as follows:-

"There is an acute shortage in supply of Natural Gas/LNG to urea units. Against a projected demand of 41.28 mmscmd of gas, the actual availability in Dec' 2007 has been only 26.68 mmscmd. The demand for Gas will further increase by about 10.5 mmscmd after all non-gas based units convert to Gas. However, the conversion process is not expected to be completed by the end of 2008."

106. When the Committee further asked whether any action plan is being chalked out for speedy completion of conversion process, the Department of Fertilizers, in their post-evidence reply, stated as under:-

"Availability of gas and an enabling policy regime is necessary for expediting the conversion process. The New Pricing Scheme Stage-III lays down a suitable enabling policy regime for conversion of naphtha based plants. Further, a policy proposal for incentivizing conversion of FO/LSHS plants is under inter-ministerial consultation. The major requirement for expediting conversion is availability of gas which is being regularly pursued with Ministry of Petroleum and Natural Gas. It has been indicated by Ministry of Petroleum and Natural Gas that the work towards providing pipeline connectivity to these plants are already underway and is expected to be completed by 2009-10 and 2010-11."

107. When the Committee desired to know the latest status in regard to finalization of fertilizer policy of new and expansion projects, the Department of Fertilizers, in their written reply, stated as follows:-

"The proposal for fertilizer policy of new and expansion projects is currently under Inter-ministerial consultations. The Group of Ministers (GOM) constituted to look into the sustainable use of fertilizers and pertinent subsidy and pricing issues has also considered the policy proposal for new and expansion projects and has constituted a Committee under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission to look into various options for the new investment policy. The Committee has held its first meeting on 5th March, 2008. The proposal will be placed for final consideration of the Government after the recommendations of the Committee are received. "

108. On being further asked by the Committee what are the broad features of the Abhijit Sen Committee and how the industries would be incentivised for investment in fertilizer sector, the Department of Fertilizers, in their post-evidence reply, stated as under:-

> "The committee under Prof. Abhijit Sen, Member, Planning Commission comprises of Secretary (Fertilizers), Secretary (Expenditure) and Secretary (Agriculture and Cooperation) as Members. The Committee is to look into various options for new investment policy in fertilizer sector. Various International benchmarks in this regard are to be examined by the Committee and recommendations given to the Government in two months time. The policy for new investments will be finalized after the recommendations of the Committee are received. Since the New Policy is being formulated keeping in view the lack of investments in this sector, the effort of the Department is to keep the concerns of industry in mind while finalizing the policy proposal so that it can incentivize the investment in this sector. The actual modalities can be indicated only once the proposal is finalized."

109. The Department further informed that the policy for new and expansion projects is expected to encourage the indigenous industries to invest in the fertilizer sector. The extent of increase of investments will also depend upon the actual availability and price of gas for this sector. However, the government envisages an increase in the production of urea from existing 20 million tonnes to 40 million tonnes by 2011-12, subjected to confirmed long term availability of gas for the fertilizer sector.

110. The Fertilizer Association of India (FAI), in their written note, has also requested for priority in allocation and supply of gas to fertilizer industry as provided for in the Draft Natural Gas Utilization Policy.

111. The Committee note that the policy announced in January, 2004 envisaged the creation of additional capacity through de-bottlenecking/revamp/modernization of Fertilizer Units, provided that the additional production comes from using natural gas/LNG as feedstock. The Committee also note that as per the information furnished by the Department, three expansion projects have not been finalized due to lack of confirmed availability of gas. Further, a policy proposal for incentivizing conversion of FO/LSHS plants is under inter-ministerial consultation. The Committee further note that the policy for new investments in urea sector has not yet been finalized by the Government. In view of the stagnated production capacity and lack of investment in the fertilizer sector, the Committee once again reiterate that the Department of Fertilizers should regularly pursue the matter with the Ministry of Petroleum and Natural Gas and other related agencies for allocation of the natural gas to fertilizer sector on priority basis as envisaged in the Draft Natural Gas Utilization Policy. While expressing the concern over the inordinate delay in finalization of policy for conversion of non-gas based units to gas based units and new investment policy in urea sector, the Committee recommend that both the policies may be finalized without any further delay. The Committee would also like to be apprised of the action taken in this regard.

(Recommendation Sl. No. 16)

VII. REVIVAL OF CLOSED PSU UNITS

112. In line with the Common Minimum Programme of the Government, the possibilities of revival of the closed units of these PSUs is being examined. Possiblities for the Revival of the FCIL, HFCL and PPCL are being explored. In respect of FCIL and HFCL the Cabinet had considered a proposal for obtaining in principle approval for revival of these PSUs on 7.12.2006 and directed that the proposal be first considered by the BRPSE. Accordingly, a proposal was submitted to the BRPSE. The hearing in the matter was held in the BRPSE on 9th February 2007.

113. The Cabinet considered the BRPSE recommendations in its meeting held on 12.4.2007 and decided inter alia, in principle to examine the feasibility of reviving the closed units of FCIL and HFCL. Pursuant to the decision, necessary follow up action has been initiated by the respective companies. Some of the well run fertilizer PSUs/ Cooperative such as RCF, NFL and KRIBHCO have expressed their interest in the revival of individual units of HFCL/FCIL, subject to techno-economic feasibility and availability/ connectivity of gas. The follow up action in this regard is being continued in full vigour.

114. As regards PPCL, the feasibility of reviving the Amjhore Pyrite Mines of PPCL is being examined and necessary action in this regard is being pursued through FAGMIL.

115. When the Committee asked about the factors beyond the control of Department of Fertilizers for timely implementation of revival process of closed fertilizer PSUs, the Department of Fertilizers, in their written reply, stated as follows:-

> "Timely availability and connectivity of gas at the sites of closed fertilizer units is dependent upon Ministry of Petroleum & Natural Gas (MPONG) and Gas Suppliers. While MPONG has indicated that gas would

be made available to meet the existing and future demands of the fertilizer industry, the actual pricing of the delivered gas would be a crucial factor towards implementation of revival process. Allocation of requisite funds for revival is also crucial. Request for Plan funds towards Government's support for revival has been made to the Planning Commission, which is under discussion."

116. The Committee noted that a 'Revival Package' have been approved for more than 25 sick and loss-making companies. When the Committee asked whether sick Fertilizer companies are also included in the aforesaid Revival Package, the Department of Fertilizers, in their written reply, stated as under:-

"On 25.02.2008 the President of India in her address to the Parliament had indicated that revival packages have been approved for more than 25 sick and loss making companies.

In fertilizer sector there are 3 such public sector undertakings viz., HFCL, FCIL and MFL. As far as HFCL and FCIL are concerned, it has been decided by the Government on 12.04.2007 to examine the feasibility of revival of these companies subject to assured availability of gas. Fertilizer PSUs / Cooperatives - Rashtriya Chemicals & Fertilizers Ltd. (RCF), National Fertilizers Ltd. (NFL) and Krishak Bharati Cooperative Ltd. (KRIBHCO) have shown their intention to participate in the revival process and accordingly process of preparing techno-economic feasibility reports have been initiated. With regard to M/s. FACT, financial restructuring package has been sanctioned by the Government on 31.03.2006. Further, an interim relief of Rs.200 Crore have also been sanctioned by the Government on 07.02.2008 to sustain the operations of the company. As regards MFL, the revival package for restructuring of the company is under active consideration of the Government. With regards to M/s BVFCL a financial restructuring package to make its operations profitable is under active consideration of the Government."

117. When the Committee asked about the latest status in regard to availability of gas and allocation of funds for revival of closed fertilizer units, the Department of Fertilizers, in their written reply, stated as under:-

"Regarding availability of gas the Group of Ministers (GOM) in its meeting on 15.01.2008 has assured that gas would be made available to meet the requirements of Fertilizer Industry. "

118. Regarding allocation of funds Department of Fertilizers has sought an allocation of Rs. 5000 crore under 11th Plan as Gross Budgetary Support (GBS) towards revival of closed units of HFCL and FCIL from the Planning Commission. The financing model for revival of closed units is yet to be finalized and is currently under discussion with the Planning Commission.

119. Elaborating on the subject further, the Secretary, Department of Fertilizers, during the discussion apprised before the Committee that as far as Haldia is concerned, there are three units of HFC and FCI that can be immediately revived. We will revive all of them, except the Korba unit because it has not even started; it has not yet been set up. In other units, we would like to revive. Five units i.e. Talcher, Ramagundam, Barauni, Gorakhpur and Drugapur have been identified. The process is on. As far as Haldia and Sindri are concerned, we have requested the respective State Governments whether they would also like to participate because nobody came forward. The profit-making PSUs did not come forward, so we wanted to know from the State Governments. As far as Haldia is concerned, the Government of West Bengal has said that it is not possible for them to participate. As far as we are concerned, we tried to first of all get some PSU to be interested. We have the National Fertilizers Limited, we have the Rashtriya Fertilizer Chemicals and we have the KRIBHCO in which we have a majority shareholding, though it is a multi-state cooperative. They have agreed to take two plus two, and then on a Gorakhpur unit by KRIBHCO. Each of them, has their own investment plans.

Observation of the Committee during study tour

120. The Committee on Chemicals and Fertilizers (2007-08) visited Guwahati on 20th February, 2008 and held discussion with the representations of BVFCL. The representatives of BVFCL apprised to the Committee that there was acute shortage of skilled workers and surplus of unskilled workers. Besides this, there was non-availability of technically qualified persons to operate the plant and other supporting functions.

121. The Committee note that in line with the Common Minimum Programme of the Government, the possibilities of revival of FCIL, HFCL and PPCL are being explored. A proposal was submitted to the Board for Reconstruction of Public Sector Enterprises (BRPSE) for obtaining 'in principle' approval in respect of FCIL and HFCL. As regards PPCL, the feasibility of reviving the Amjhore Pyrite Mines is being examined. The Committee also note that some of the viable fertilizer PSUs/Cooperatives like RCF, NFL and KRIBHCO have expressed their interest in the revival of these units. Timely availability and connectivity of gas and allocation of requisite funds are the main constraints for revival of closed units. In regard to availability of gas, Group of Ministers (GoM) in their meeting have assured that gas would be made available to meet the requirements of fertilizer industry. Regarding allocation of funds, Department of Fertilizers has sought an allocation of Rs. 5000 crore under 11th Plan as Gross Budgetary Support (GBS). The Committee recommend that approved revival/proposals should be implemented within a time-bound manner. The Committee also desire that the Department of Fertilizers should pursue the matter seriously with the Planning Commission for allocation of requisite funds from time to time for early finalization of financing model for revival of closed fertilizer PSUs. The Committee, in their earlier Reports, have repeatedly been

recommending that fertilizer sector should be given top priority in the allocation of gas. The Committee is of the view that this matter is serious and desire that immediate corrective steps should be taken by the Department of Fertilizers to ensure that adequate gas should be made available to fertilizer industries to meet their requirements in a time bound manner. Besides ensuring the adequate supply of gas to fertilizer sector, revival package should emphasize on upgradation of technology, technical know-how, incentives for skilled workers and engineers. Surplus and unskilled workers which are liability for the industry should be given retirement under Voluntary Retirement Scheme (VRS) and adequate funds should be made available for providing money required for VRS to the companies. As submitted to the Committee during their study visit to BVFCL at Guwahati that VRS evoked poor response from workers as they reluctant to leave the job, the Committee are of the view that Department should formulate a policy in consultation with PSUs and Ministry of Finance for surplus and unskilled workers.

(Recommendation Sl. No. 17)

VIII. PERFORMANCE OF INDIVIDUAL UNDERTAKINGS

PUBLIC SECTOR UNDERTAKINGS

A. BRAHMAPUTRA VALLEY FERTILIZER CORPORATION LIMITED (BVFCL)

122. There is a provision of Rs. 4.50 crore in BE (2007-08), Rs.7.47 in RE (2007-08) and a further provision of Rs.20.00 crore is required as budgetary allocation made for BVFCL.

123. When the Committee asked about the ongoing projects of BVFCL for which Budget provisions have been made, the Department of Fertilizers, in their written reply, stated the ongoing projects of BVFCL, for which budgetary provisions for the year 2007-08 and 2008-09 have been made, are as under:-

Name of the schemes	**Amount/outlay (Rs. in crore)**	**Remarks**
Renewals and replacements	7.47 (2007-08) 19.98 (2008-09)	The expenditure is related to replacement of old equipment to maintain efficiency.
Namrup Revamp Project	0.01 (2008-09)	The token provision is for continuation of the revamp project. The same shall be revised to Rs. 31.71 crores on approval of the final project cost estimates (RCE-II) at Rs. 635.53 crores
New Brownfield Project	0.01 (2008-09)	Proposal for the subject project is under examination in Planning Commission. The amount is a token provision for the same.

124. When the Committee asked about the reasons for losses suffered by the company regularly, the Department of Fertilizers, in their written reply, stated as follows:-

> "The Namrup complex of BVFCL based on natural gas comprised of three separate units designated as Namrup-I, Namrup-II and Namrup-III.
>
> The urea units of BVFCL were revamped from 1998-2005 with an aim to achieve sustained production without emphasis on improvement in energy efficiency. The operation of Namrup-I has been suspended due to high cost of production. Namrup-III has been commissioned on 25.03.2002 and Namrup-II on 22.11.2005. Since many critical equipments specially w.r.t Namrup-II was not included in scope of revamp, the plants are unable to run at full capacity resulting in high energy consumption. Moreover against the requirement of 1.95 MMSCMD of gas to run both Namrup-II and Namrup-III at full capacity only 1.72 MMSCMD of gas is available to the plant. Thus, while the Namrup-III plant is running at 90-95% load, the Namrup-II plant is being run only at 50% capacity. This has resulted in high specific energy consumption leading to increased financial losses to the company. The company has drawn loan from Government of India for revamping of the plants. Due to losses resulting from the higher energy consumption as explained above, the company is unable to pay back the loan. The interest burden is increasing over the years and one of the major reasons of company's net losses. The contribution to the losses in the year 2006-07 due to interest and depreciation is Rs. 100 crores.
>
> There is excess manpower in the company compared to present fertilizer industry norms resulting in higher salary burden and overhead expenditure. Voluntary Retirement Scheme (VRS) introduced by the company for rationalization of manpower had poor response."

125. When the Committee desired to know the steps taken to improve the viability of BVFCL, the Department of Fertilizers, in their written reply, stated as follows:-

> "The company has taken following steps to improve the viability:-
>
> a. Continuous follow up with Oil India Limited (OIL) to make gas available for optimum utilization of production capacity.
>
> b. Technical constraints in achieving optimal capacity utilization of Namrup-II and III plants have been identified. The Namrup-III plant is facing problem in Drive turbine of Synthesis gas compressor and Synthesis converter. The Namrup-II plant is

facing problem in Reformed Gas (RG) Boiler and Electrical systems. Action plan for attending the above problems have been drawn, which will improve capacity utilization of Namrup-III upto 100% . The capacity utilization of Namrup-II plant will also improve.

c. End-to-end energy survey of Namrup-III plants has been carried out through M/s. The Energy Research Institute (TERI) for suitable energy saving schemes which are under implementation to reduce cost of production.

d. In order to overcome the losses due to interest, the financial restructuring of the company by converting Plan loan to equity is under inter-ministerial consultation."

B. FERTILIZERS AND CHEMICALS TRAVANCORE LIMITED (FACT)

126. A provision of Rs.15.00 crore was made in BE and RE (2007-08) for FACT. Against this FACT has incurred an expenditure of Rs.2.61 crore as on 31st January, 2008. The provision has been reduced to a level of Rs. 13.00 crore in BE (2008-09).

127. When the Committee asked about the reasons for less utilization of funds during the year 2007-08, the Department of Fertilizers, in their written reply, stated as follows:-

"The outlay of Rs.15 crore had been made under two heads as below:

(a) Continuing Schemes – Rs.6.15 crore
(b) Renovation & Modernization (R & M) - Rs.8.85 crore

Rs. 15.00 crore

All these projects are under various stages of implementation and an amount of Rs.3.21 crore has been utilized as on 29.2.2008. By 31.3.2008, a further amount of Rs.2.0 crore will be spent. The reason for less utilization is that many of the jobs are at various stages of completion and release of balance amount will be made in stages depending on the completion of the jobs. Further, some of the jobs are delayed due to delay in receipt of proprietary items required for replacement of the original parts/equipments. The company is making efforts to achieve full utilization of the budgetary allocation in the current year."

128. The Committee note that Government has approved a one time interim grant of Rs. 200 crore to enable it to sustain operation. When the Committee desired to know as to how FACT proposed to spend Rs. 200 crore by the Centre as interim relief, the Department of Fertilizers, in their written reply, stated as follows:-

> "Due to the losses suffered in the previous years i.e., Rs.125 crore during 2006-07 and loss of Rs.176 crore incurred in 2007-08 (upto February 2008), the working capital of the company has been seriously eroded. The company proposes to utilize the interim grant of Rs.200 crore to meet the working capital requirements for sustained operation of the plants for the time being. The grant will enable FACT to procure raw materials for continued operations of its plants and for restarting the closed plants at Udyogmandal Division. "

129. When the Committee asked whether the Government have decided any plan for giving subsidy to FACT for sulphur content in factamfos like nitrogen and phosphoric content, the Department of Fertilizers, in their written reply, stated as follows:-

> "Currently, sulphur is not recognized as a nutrient for compensation under the price concession scheme. The Tariff Commission has recently submitted its Report in December, 2007 in which it has recommended recognition of Sulphur as nutrient for compensation. The recommendations of Tariff Commission are under examination of the Government. Moreover, the Group of Ministers in its meeting 20.02.2008 has considered various issues regarding subsidy and pricing and it was approved that sulphur should be included as a subsided nutrient under the subsidy regime with suitable cost recovery from farmers."

C. NATIONAL FERTILIZERS LIMITED (NFL)

130. The plan outlay, revised plan outlay and actual expenditure (as on January, 2008) in respect of National Fertilizer Limited are as under:-

Particulars	2006-2007	2007-2008
Plan Outlay	Rs.59.02 crores	Rs.184.00 crores
Revised Plan Outlay	Rs.40.30 crores	Rs.25.00 crores
Actual expenditure	Rs.29.11 crores	Rs 11.66 crores (upto Jan-08)

131. During the year 2006-07, the company recorded a post-tax profit of Rs. 176.10 crores, and disbursed a dividend of Rs. 52.83 crore which is 10.77% of the paid up capital. The company has posted a profit of Rs. 149.15 crore during the period April, 2007 to December, 2007.

132. The Committee note that during the last two years, no major project was envisaged for completion, other minor schemes have been completed as per targets. When the Committee asked as to whether Department of Fertilizers has analyzed the reasons for not setting up of any major project of NFL during the last two years, the Department of Fertilizers, in their written reply, stated as follows:-

> "During 2006-07 and 2007-08 in respect of NFL two major projects i.e. Change over of feed stock from Fuel Oil (FO) to gas at three FO based units at Nangal, Bhatinda and Panipat and Energy Saving Project at gas based plant at Vijaipur-I were envisaged and kept in the Budget estimates. In Revised estimates of 2007-08 the provisions for above schemes were curtailed due to the fact that these schemes can start physical implementation only in 2008-09. The status/basic constraints in implementing the schemes are:
>
> - In terms of New Pricing Scheme (NPS)-III, for Urea implemented from 1.10.2006, FO based units are required to be converted to gas by 31.3.2010. NFL has completed the feasibility study on change over of feed stock at its three FO based units during the year 2006-07. In principle approval of Planning Commission has been obtained. NFL has invited the bids and techno-commercial discussions with the bidders are underway. However, the implementation will commence on finalization of the policy relating to financing of the conversion from FO/LSHS to gas which is under examination.

- Energy Saving Project at Vijaipur-I at an estimated cost of Rs.101 crore was undertaken during the year 2006-07. The project had to be kept in abeyance due to unprecedented hike in the price of equipments due to sudden spurt in the equipment market which has adversely affected the viability of the project. New Investment Policy relating to incentivising additional production of urea is under examination. The final view on the project shall be taken after notification of the above policy."

133. When the Committee asked whether NFL has taken initiative to set up major projects with collaboration of any joint venture, the Department of Fertilizers, in their written reply, stated as follows:-

> "NFL has signed Memorandum of Understanding (MOU) with RCF and KRIBHCO for setting up of a Joint Venture (JV) company to explore the possibility of investment in nitrogenous, phosphatic and potassic fertilizer sector in other resource-rich countries and for exploring opportunities for setting up of JVs in India and abroad for mining/ manufacturing/ long-term tie-ups in these sectors and for rendering consultancy services. JV Company has applied for registration with the Registrar of Companies."

134. The Committee note that during 2007-08, plan outlay of Rs.184.00 crore was reviewed and revised to Rs.25.00. The actual expenditure is Rs.11.66 crore (upto 31st January, 2008) and the revised target for the year shall be met by March, 2008. When the Committee desired to know how NFL will utilize the remaining amount so as to achieve the revised target by March, 2008, the Department of Fertilizers, in their written reply, stated that against the revised target of Rs. 25 crore during 2007-08, the company has utilized Rs. 12.29 crore upto Feb, 2008. The company is expected to utilize a total of Rs. 20 crore upto 31.3.2008. Schemes of Renewal/Replacement, upgradation of instrumentation and information technology, being continuing schemes, the remaining amount is likely to be spent in next financial year.

D. PROJECTS AND DEVELOPMENT (INDIA) LIMITED (PDIL)

135. The Company is mainly engaged in Design, Engineering, Procurement, Inspection, State Management and Supervision during construction and commissioning of fertilizer and chemical plants.

136. An amount of Rs.1.50 crore had been proposed for the year 2006-07 and utilized amount was 1.23 crore. Similarly an amount of Rs.6.74 crore is proposed for the year 2007-08 and the amount utilized upto January, 2008 is 4.14 crore.

137. The Company has not undertaken any new scheme/present. However, the continuing scheme towards PCS and computer items, networking and renewal and replacements are continuing.

138. When the Committee asked about the major projects scheduled to be completed in 11th Five Year Plan, the Department of Fertilizers, in their written reply, stated as follows:-

> "The company has three continuing schemes and one new scheme (for construction of new building and infrastructure facilities at Baroda which is a regional office catering to Western India), as given below:

Rs. in crores

Sl.No.	Scheme	2007-12 Plan outlay
	Continuing Schemes	
1.	PC's and other computer items for Computer Aided Design	4.00
2.	Computer Networking	0.50
3.	Renewal and Replacement	3.00
	Sub-total	7.50
	New Scheme	
1.	Construction of Bulding and other engineering infrastructure at Baroda	5.00
	Sub-total	5.00
	Total	12.50
	Budgetary Support	-
	Internal & Extra Budgetary Resources	12.50

Construction of new Office Building and infrastructure facilities at Baroda shall be completed in the 11th Five year plan and the other continuing schemes as mentioned above shall be implemented.

With the implementation of the above schemes , the company's design and engineering base will be strengthened. This will enable the company to function more efficiently and take up the large number of projects expected in the fertiliser sector in India and also take up overseas projects."

E. RASHTRIYA CHEMICALS AND FERTILIZERS LIMITED (RCF)

139. Against a Plan Outlay of Rs.304.40 crore, We have actually utilized Rs.127.91 crore during the year 2006-07 and the balance amount spent in the year 2007-08. In the year 2007-08, the plan outlay is Rs. 253.24 crore and an amount of Rs. 79.03 crore has been utilized till January 2008.

140. In the 11th Five Year Plan an amount of Rs.6880.67 crore was proposed for continuing projects/ schemes and new schemes for Rashtriya Chemicals and Fertilizers Limited. The BE (2007-08) is Rs.302.41 crore and RE (2007-08) is Rs.253.24 crore. The actual expenditure upto January, 2008 is only Rs.79.03 crore.

141. When the Committee asked about the reasons for less utilization of funds for the year 2007-08, the Department of Fertilizers, in their written reply, stated as follows:-

"The major reasons for less utilization of funds for the year 2007-08 are as under:

a) Rs 20 Crore on the project related to DAP joint venture in Rajasthan. There is delay in finalising and awarding Lump sum Turnkey (LSTK) contract due to non-execution of the Sulphuric Acid supply agreement with Hindustan Zinc Limited (HZL).

b) Rs 10 Crore on account of delay in execution of methanol Revamp scheme due to excessively high quotations by bidders for the Compressor.

c) Rs.8 Crore on account of poor response from vendors for ANP Revamp granulation scheme resulting in re-floating of tenders.

d) Rs. 32 Crore on Argon Recovery Project due to delay in execution by the contractor namely M/s Bharat Heavy Plates & Vessels Ltd. (BHPV)

e) Rs. 30 Crore on Rapid Wall project due to change in specifications by technology suppliers, as this is first project of its kind in the country.

f) Rs. 5 Crore on Thal Expansion because of ongoing discussion for gas tie up.

g) Rs. 6.5 Crore on development of new projects. The situation for such contingency expenditure has not arisen.

h) Rs. 8 Crore on Thal ammonia for creation of additional indigenous capacity of urea. The tenders for consultant has been initiated final approval awaits decision on policy for new investment which is under inter ministerial consideration."

142. When the Committee asked what are the efforts made by RCF for proper utilization of amount allocated to them during each year of 11th Five Year Plan, the Department of Fertilizers, in their written reply, stated as follows:-

"A total out lay of Rs 6880.67 Crore is proposed to be spent in 11th five-year plan as under:

Year	Amount (Rs/Cr)
2007-08	253.24
2008-09	812.43
2009-10	2160.08
2010-11	2298.97
2011-12	1355.95
Total	6880.67

Out of Rs 6880.67 Crore, major investment of Rs 5746 Crore is related to 3 projects viz capacity addition of indigenous urea at Thal (Rs 450 Crore), Thal expansion (Rs 2699.74 Crore) and revival of Durgapur & Talcher units (Rs 2596.26 Crore)

i) Regarding the project on capacity addition of indigenous urea at Thal, preparatory work has been taken up. Detailed feasibility report has been prepared by the consultant. The project will be finalized after the New Investment Policy for urea which is under inter ministerial consideration.

ii) As regards Thal expansion, the Planning Commission's approval has been obtained. Work for preparation of Detailed Feasibility Report (DFR) has started. The consultant PDIL is developing off site report for the project. They are also taking environmental clearance. The project will be finalized after the New Investment Policy for urea is finalized and tie up for confirmed availability of gas.

iii) As regards the revival of Durgapur and Talcher, TEFR through PDIL has been prepared. Government's support towards equity/loan is under discussion with the Planning Commission. As regards remaining projects, continuous monitoring is being done by the company and the Board of Directors. "

143. When the Committee asked what efforts were made by RCF for revival of closed units of Durgapur Unit of HFCL and Talcher Unit of FCIL, the Department of Fertilizers, in their written reply, stated as follows:-

> "PDIL has carried out feasibility study for the revival of closed units of Durgapur of HFCL and Talcher of FCIL. Further action can be initiated depending upon firm tie up of gas, allocation of requisite plan funds by Planning Commission and new investment policy. Company is in dialogue with supplier for allocation of gas. New investment policy is under consideration. Once these are in place investment decision will be taken."

144. During the Study Tour of the Committee in Mumbai in December, 2007, CMD, RCF enumerated the following issues:-

(i) Insufficient supply of gas.

(ii) Price of sulphuric acid in international market, the price has shot up 10 times in terms of dollar. As such Rs.15.00 crore is required to meet the demand.

(iii) There is no margin of profit in fertilizer sector as compared to chemical sector. As in the fertilizer sector they are to spend much and earn little.

145. When the Committee desired to know whether Department of Fertilizers has examined the above issues and what is the response of the Government on each of these issues, the Department of Fertilizers, in their written reply, stated as follows:-

> "The gas problem is not specific to RCF but fertilizer sector as a whole is facing the problem of shortage of gas. Against requirement of 41.28 MMSCMD, the supply of gas was 21.68 MMSCMD in Dec, 2007. Continuous attention has been drawn by DOF of MOP & NG to address the issue of shortage of gas.
>
> Regarding the price of sulphur, CMD, RCF has indicated that no discussion was held on Sulphuric Acid but reference was made with respect to rising of international price of sulphur. However, the Tariff Commission has recommended (in its latest report in December, 2007) recognition of Sulphur as a subsidized nutrient under the concession scheme. The recommendations are under examination of the Government. Moreover, the Group of Ministers in its meeting 20.02.2008 has considered various issues regarding subsidy and pricing and it was approved that sulphur should be included as a subsided nutrient under the subsidy regime with suitable cost recovery from farmers.
>
> It is not true that there is no margin of profit in fertilizer sector as 12% post tax return is stipulated while calculation of retention price of urea. But due to certain constraints like feedstock supply and rising international prices of imported raw materials, some companies face pressure on profit margins. It is not possible to comment upon the profitability in chemicals sector as that sector is operating in different products and market segment."

F. MADRAS FERTILIZERS LIMITED (MFL)

146. A provision of Rs. 9.00 crore was made in BE 2007-08) for Madras Fertilizers Limited (MFL) which has been increased to Rs. 12.97 crore in BE (2008-09).

147. The Committee note that during the year 2006-07, the company reported a net loss of Rs.114.78 crore as compared to a net loss of Rs 131.74 crore during the year 2005-06. The losses posted by the Company upto December 2007 is to the tune of Rs. 85 crore. When the Committee desired to know the circumstances under which the accumulated loss of the company (MFL) became Rs. 85 crore upto December, 2007, the Department of Fertilizers, in their written reply, stated as follows:-

> "The loss for the period April to December 2007 is Rs 121.08 crore and the cash loss is Rs 85.22 crore. However the accumulated loss upto December 2007 stands at Rs 634.78 crores.
>
> The main reason for the loss is the withdrawal of outlier benefit amounting to Rs 1996/MT from Stage III effective 1/10/2006.
>
> Further, due to annual turn around in Apr/May 2007 and other technical problems in Plant in Aug 2007, the average capacity utilisation for the period was 84% as against the target of 90% for Urea.
>
> The under recovery in Urea was Rs 3473/MT for the period upto December 2007.
>
> NPK production was also stopped after July 2007 for want of Raw Materials due to paucity of funds on account of continuous cash losses.
>
> All the above factors attributed to loss during the period Apr – Dec 2007."

148. When the Committee asked about the corrective steps being taken by the Government so that the company does not plunge into such a heavy loss during the 11th Five year Plan, the Department of Fertilizers, in their written reply, stated as follows:-

> "The accumulated losses upto December, 2007 stand at around Rs. 634.78 crore. The company has become sick as the net worth of Rs.175 crore has been eroded completely. The company is facing extreme difficulty in sustaining its operations. A financial restructuring/dispensation proposal to address the issue of financial crisis faced by MFL has been prepared by the Department of Fertilizers which is under inter-ministerial consultations. Besides, recently Tariff Commission recommendations

have been received in DOF in December 2007 which are under examination. The recommendations address the issues of subsidy for complex fertilizers. However the under recovery in respect of Urea shall continue till the above mentioned restructuring proposal is finalized and implemented. In the meantime, the Government has been providing subsidy on priority basis over other units, to MFL, to mitigate the liquidity crunch faced by the Company."

149. When the Committee enquired about the present status of the financial restructuring proposal of the company, its finalization and implementation process, the Department of Fertilizers, in their written reply, stated as follows:-

"The draft CCEA note for the financial restructuring proposal in respect of Madras Fertilizers Ltd. (MFL) was sent to Cabinet Secretariat in September 2007. The Cabinet Secretariat has suggested that the proposals may be resubmitted after further consultations with the Department of Expenditure (DOE) and Planning Commission. Accordingly, meetings have been held with the DoE and Planning Commission for further inter-Ministerial consultations. A final decision is expected to emerge shortly."

COOPERATIVE SECTOR

KRISHAK BHARATI COOPERATIVE LIMITED (KRIBHCO)

150. An IEBR provision of Rs. 210.00 crore was made in BE (2007-08) for Krishak Bharati Cooperative Limited (KRIBHCO) which has been reduced to Rs. 106.00 crore in RE (2007-08) . However, an IEBR provision of Rs. 685.00 crore has been made in BE (2008-09).

151. When the Committee asked how KRIBHCO propose to utilize Rs. 685.00 crore during the year 2008-09, the Department of Fertilizers, in their written reply, stated as follows:-

"Out of the budgetary provision of Rs.685 crore in the Budget Estimate, a provision of Rs.600 crore is earmarked for Hazira Expansion Project for the year 2008-09. The Society has proposed to initiate further action in respect of the project immediately after the New Fertilizer Policy for investment in urea sector is finalized and firm tie up for gas is available. Of the remaining Rs.85 crores, Rs. 35 crore has been provided for

Container Trains operations, Rs.30 crore for procurement of Air Pre-heater for Ammonia Plant, Rs. 5 crore is proposed to be utilized for Detailed Project Report (DPR) for Ammonia Urea Revamp and for Remaining Life Assessment (RLA)/Health Study of Fertilizer Complex and an amount of Rs. 15 crore is proposed for Renewals and Replacements."

152. When the Committee desired to know the projects/ plans being undertaken by KRIBHCO for which provision has been made during 2007-08 and 2008-09, the Department of Fertilizers, in their written reply, stated as follows:-

"The Society has undertaken/proposed to undertake the following projects during 2007-08 and 2008-09 :

Project	Outlay and year
Argon Recovery Plant	Rs.75 crore (2007-08)
Bi-Metallic Urea Strippers	Rs. 1 crore (2007-08)
Renewals and replacements	Rs.10 crore (2007-08) Rs.15 crore (2008-09)
Container Trains operations	Rs.20 crore (2007-08) Rs.35 crore (2008-09)
Air Pre-Heater for Ammonia Plant	Rs.30 crore (2008-09)
Hazira Expansion	Rs.600 crore (2008-09)
Hazira Ammonia-Urea Revamp – DPR	Rs.1.5 crore (2008-09)
Health Study of Fertilizer Complex	Rs.3.5 crore (2008-09)"

153. When the Committee asked about the steps being taken by KRIBHCO to ensure availability of Natural Gas, the Department of Fertilizers, in their written reply, stated as follows:-

"The Society has registered their requirement of 2.2 MMSCMD Natural Gas for Hazira Expansion Project to produce 11.5 LMT of urea per annum with Gas suppliers at Hazira including Gas Authority of India Limited (GAIL), Gujarat State Power Corporation (GSPC), Reliance Industries Limited (RIL) and the matter is under discussion with the suppliers to get the gas at a price to make the project viable."

154. As per the study tour of the Committee to Ahmedabad in July, 2007, the Committee suggested that a mechanism should be devised in the Insurance Scheme of KRIBHCO called ‘Sankat Haran Bima Yojana’ so as to provide large insurance benefits to small and marginal farmers.

155. When the Committee desired to know the efforts made by KRIBHCO in this direction, the Department of Fertilizers, in their written note, replied that KRIBHCO’s “Sankat Haran Bima Yojna” is now being known as “Kisan Apda Niwaran Bima Yojna”. This scheme is applicable mainly for small and marginal farmers on the purchase of every bag of KRIBHCO Urea with an upper limit of 25 bags. No premium is charged by KRIBHCO from farmers on this. The maximum amount of insurance coverage available to the farmer is Rs.1 lakh. So far 708 farmers have benefited under this scheme.

156. From the facts placed before the Committee about the performances of individual Undertakings/Cooperative under the administrative control of the Department of Fertilizers, the Committee find that KRIBHCO, RCF and NFL are profit earning units. The other PSUs viz. FACT, MFL and BVFCL are loss making units andFCI, HFC and PPCL are closed units. The Committee note that most of the PSUs are suffering losses year after year as their projects are not completed in a time bound period and remain under various stages of implementation and no major project has been undertaken by them. The Committee found that non-availability of assured quantity of gas, non-finalization of New Investment Policy, under examination of policy relating to conversion of non-gas based fertilizer units to gas based units, delay in finalization of financial restructuring proposal and revival proposals are the main factors responsible for their losses. However, some initiatives have been taken to examine the feasibility to revive/set up new plants at the existing sites of HFCL, FCIL and PPCL. The Committee desire that the Department of Fertilizers should review and monitor the working of all PSUs on a regular basis and to give suitable directions to them for taking remedial measures. The Committee also desire that urgent steps should be taken by the Department for early finalization of the revival and restructuring proposals. The Committee recommend that the Department of

Fertilizers should tackle both the issues regarding availability of gas and finalization of New Investment and conversion policies at priority basis.

(Recommendation Sl. No. 18)

New Delhi;
April , 2008
Chaitra , 1930 (Saka)

ANANT GANGARAM GEETE
Chairman,
Standing Committee on
Chemicals and Fertilizers.

Appendix-I

MINUTES

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2007-08)

FIFTH SITTING
(18.03.2008)

The Committee sat from 1630 hours to 1840 hours.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Sunil Khan
3. Shri Shrichand Kripalani
4. Shri Subhash Maharia
5. Shri Prasanta Pradhan
6. Shri Ramswaroop Prasad
7. Shri P. Chalapathi Rao
8. Shri Anantha Venkatarami Reddy
9. Shri Narsingrao H. Suryawanshi
10. Shri D. Venugopal

Rajya Sabha

11. Shri Mahendra Sahni
12. Shri R. Shunmugasundaram

Secretariat

1. Shri A.K. Singh - *Joint Secretary*
2. Shri A.S. Chera - *Director*
3. Shri A.K. Srivastava - *Deputy Secretary-II*
4. Smt. Balwant Kaur Saimbhi- *Under Secretary*

Representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)

1.	Dr. J.S. Sarma	- Secretary (F)
2.	Shri Mathew C. Kunnumkal	- Additional Secretary & Financial Adviser
3.	Shri Vijay Chhibber	- Joint Secretary (A&M)
4.	Shri Deepak Singhal	- Joint Secretary (F) & ED (FICC)
5.	Shri Jayant Dasgupta	- Joint Secretary, M/o Commerce
5.	Shri A.K. Parashar	- Economic Adviser (F)

Representatives of the Public Sector Undertakings (PSUs)/Cooperatives

1. Shri R.G. Rajan - CMD, Projects & Development India Ltd. (PDIL)
2. Shri G.S. Mangat - CMD, National Fertilizers Ltd. (NFL) and Madras Fertilizers Ltd. (MFL)
3. Shri B.D. Sinha - MD, Krishak Bharati Cooperative Ltd. (KRIBHCO)
4. Shri Sunil Dayal - CMD, FCI, Aravali Gypsum & Minerals India Ltd.
5. Dr. George Saleeba - CMD, Fertilizers & Chemicals Travancore Ltd. (FACT)
6. Shri U.S. Jha - CMD, Rashtriya Chemicals & Fertilizers (RCF) and Brahmaputra Valley Fertilizer Corp. Ltd. (BVFCL)
7. Shri Deepak Singhal - CMD, Fertilizer Corporation Of India (FCI) and Hindustan Fertilizer Corporation (HFC)
8. Shri Vijay Chhibber - CMD, Pyrites Phosphates and Chemicals Ltd. (PPCL)

2. At the outset, the Hon'ble Chairman welcomed the Members, officials of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and Public Sector Undertakings to the sitting of the Committee.

3. Thereafter, the representatives introduced themselves and Secretary, Department of Fertilizers (DOF) made a brief presentation regarding the Demands for Grants of the Department for the year 2008-09.

4. During the course of evidence, the following issues came up for discussion:-

(i) Consumption of Fertilizers;

(ii) Timely availability of subsidy and increase in the allocation under subsidy;

(iii) Monitoring of fertilizer availability upto block level;

(iv) Fertilizer Monitoring System (FMS);

(v) Availability of gas to fertilizer sector;

(vi) Revival of sick fertilizer units;

(vii) Setting up of new and expansion of projects;

(viii) Impact of Stage-III of New Pricing Scheme (NPS) on Fertilizer Sector;

(ix) Allocation of Fertilizer Bonds;

(x) Mandatory buffer stock to meet the requirements of farmers specifically in North Eastern States; and

(xi) Setting up more warehouses in Arunachal Pradesh.

5. A verbatim record of the proceedings of the sitting has been kept.

The Committee, then, adjourned.

Appendix-II

MINUTES

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2007-08)

SEVENTH SITTING

(10.04.2008)

The Committee sat from 1500 hours to 1700 hours.

Present

Shri Sunil Khan - In the Chair

Members

Lok Sabha

2. Shri A. Narendra
3. Shri Prasanta Pradhan
4. Shri Ramswaroop Prasad
5. Shri P. Chalapathi Rao
6. Shri Devwrat Singh
7. Shri Bhanupratap Singh Verma

Rajya Sabha

8. Shri Gireesh Kumar Sanghi
9. Shri Mahendra Sahni

Secretariat

1. Shri A.K. Singh - *Joint Secretary*
2. Shri A.S. Chera - *Director*
3. Shri A.K. Srivastava - *Deputy Secretary-II*
4. Smt. Balwant Kaur Saimbhi- *Under Secretary*

2. At the outset, owing to the absence of Chairman of the Committee, the Committee chose Shri Sunil Khan, a Member of the Committee to act as Chairman in accordance with Rule 258 (3) of the Rules of Procedure and Conduct of Business in Lok Sabha. He then welcomed the Members to the sitting of the Committee.

3. Thereafter, the Committee considered the draft Report on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers). After some discussion, the draft Report was adopted by the Committee with some amendments.

(Acting Chairman Shri Sunil Khan left the Chair and thereafter Shri Gireesh Kumar Sanghi presided over the sitting of the Committee)

4. ** ** ** ** ** ** ** ** ** ** **
** ** ** ** ** ** ** ** ** ** **

5. The Committee authorised the Chairman to make consequential changes, if any, arising out of the factual verification of the Reports by the Ministry of Chemicals and Fertilizers (Department of Fertilizers and Department of Chemicals & Petrochemicals) and present the same to both the Houses of Parliament.

The Committee, then, adjourned.

***** Matters not related to this Report***

APPENDIX-III

STATEMENT OF RECOMMENDATIONS/ OBSERVATIONS OF THE COMMITTEE

Reco. No.	Para No.	Recommendations/ Observations
1	2	3
1	7	The Seventeenth Report of the Committee on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) was presented to Parliament on 26th April, 2007. The Twenty-Second Report of the Committee on Action Taken by the Government on the recommendations contained in Seventeenth Report was presented to Lok Sabha on 20th November, 2007. Out of the total 20 recommendations, 11 Recommendations (Sl. Nos. 1, 3, 4, 5, 9, 10, 12, 13, 14, 17 and 19) were accepted by the Government. Recommendation at Sl. No. 2 was not pursued by the Committee in view of the Government's reply. In regard to Recommendations at Sl. Nos. 6, 7, 8, 11, 15, 16, 18 and 20, the replies of the Government were of interim nature. Subsequently, the Minister of Chemicals and Fertilizers was supposed to make a Statement in Lok Sabha regarding the status of implementation of the recommendations contained in Seventeenth Report of the Committee during the last winter session of Parliament under Direction 73A of the Directions by the Speaker, Lok Sabha. Despite repeated requests and reminders to Department of Fertilizers, the Statement could not be made in Lok Sabha during the last winter session. Now, the Minister of Chemicals and Fertilizers made the Statement regarding status of implementation of recommendations contained in the Seventeenth Report of the Committee in the Lok Sabha on 13th March, 2008 and in Rajya Sabha on 14th March, 2008. The analysis of the Committee of implementation of recommendations by the Government has revealed that out of the total 20 Recommendations, the Department of Fertilizers have implemented only 6 Recommendations so far. The implementation process in regard to 9 recommendations is in progress. The Recommendations at Sl. Nos. 6, 11, 16, 17 and 18 relating to disbursal of subsidy, finalization of fertilizer policy, de-bottlenecking/revamp/modernization of existing urea units, availability of natural gas to fertilizer units and revival of sick and loss making and closed fertilizer PSUs have not been implemented so far. The Committee are anguished to note that even after repeated recommendations of the Committee, the Government have not come out with any specific planning to implement these recommendations. The Committee trust that the Department would take all corrective steps to implement these recommendations in future.

		The Committee also recommend that in future the Department should ensure that the Statement made by the Minister on each of the original Reports is made invariably within the specific period i.e. six months after the presentation of Report to Parliament as per Direction 73A of the Direction by Speaker, Lok Sabha.
2	11	The Committee note that during the Tenth Five Year Plan (2002-2007), there has been a shortfall in utilization of plan funds and the Department of Fertilizers had given various reasons for non-utilization of funds during this period. The total plan outlay for the 10^{th} Plan period was Rs. 5900 crore against the above outlay, the actual expenditure was only Rs. 2,383.11 crore, which is even less than 50% of the total plan outlay. The Committee are unhappy to note that during the Tenth Plan period, there was a shortfall in utilization of funds in almost all the major projects/schemes being undertaken by various PSUs under the administrative control of Department of Fertilizers resulting into continuous failure in achieving the target fixed for Tenth Plan period. The reasons given by Department for under-utilization of funds are (i) non-availability of gas for Hazira Expansion Project of KRIBHCO and Thal Expansion project of RCF; (ii) Repatriation of Government of India's equity by IFFCO as IFFCO is no more a Cooperative under Department of Fertilizers; and (iii) Closure of Fertilizer Corporation of India (FCI). As regards the FACT, there was no internal generation of funds for investment as planned at the outset of Tenth Plan as such there was constraints of funds. The Committee, therefore, recommend that re-appropriation of funds from one scheme to another should be carried out, so that the amount allocated to the Department is fully utilized in the particular financial year.
3	20	The Committee note that the plan Budget proposal of the Department of Fertilizers was discussed in the Planning Commission. The Planning Commission had agreed with the proposals of the Department in respect of Internal and Extra Budgetary Resources (IEBR) generated by PSUs, but they have provided a Gross Budgetary Support (GBS) of Rs. 200.00 crore against the projected requirement of Department of Rs. 1031.72 crore. Against the projected requirement of Rs. 800.00 crore for payment of capital subsidy towards conversion of FO/LSHS plants to Gas in 2008-09, only Rs. 150 crore has been allocated which is inadequate to initiate the conversion projects in the coming year. In view of the above, it has been decided to explore alternative means of financing the conversion projects. Accordingly, an alternate scheme for provision of conversion subsidy in place of capital subsidy to incentivise and expedite conversion of FO/LSHS plants is under active consideration of the Department. The Committee also note that the fund provided under various heads under the Plan and Non-Plan expenditure has not been utilized. However, the Committee desired that the fund utilization and the expenditure under various heads should improve in 2008-

		09. The Budget estimates for the year 2008-09 may be made accordingly. The Committee feel and recommend the Department of Fertilizers to strengthen the monitoring mechanism so that the PSU under the Department are able to implement their programme effectively by proper utilization of fund and time bound target should be fixed for utilization of fund by each PSU during each year of the Eleventh Plan so that real benefit should reach the people.
4	27	The Committee note that the installed capacity and production of Nitrogen and Phosphate has reached a level of 120.61 lakh MT and 56.59 lakh MT respectively as on 31st January, 2008. The Committee also note that the target for indigenous production of fertilizers is fixed in consultation with the fertilizer industry and the production plan for the year indicated by them. To achieve the targeted production of urea in the country, the Government has announced the New Pricing Scheme (NPS) Stage-III on 8th March, 2007, under which the production of urea beyond 100% of reassessed capacity in the existing units has been incentivised. The Committee recommend that incentive should also be given to those companies who have achieved targets more than 90 per cent. The Committee further note that concerted efforts are being made by the Department to achieve full capacity utilization of all major fertilizers in the coming years. The Committee, therefore, recommend that process regarding revival of closed/sick fertilizer units should be completed at the earliest and the Government should finalize the various policy decisions pending with them without any delay to increase the indigenous production of urea and to achieve the production targets fixed for the 11th Plan period.
5	32	The Committee note that there has been an increase in the demand of fertilizers in the last few years with urea consumption in the current year estimated to be approximately 240 lakh tonnes. The increase in consumption of fertilizers is expected to continue in the Eleventh Plan period with the demand for urea projected at 287.55 lakh tonnes in 2011-12. Similarly, the demand projected for DAP at 95.10 lakh tonnes, for complex fertilizers at 93.30 lakh tonnes, for SSP at 45.60 lakh tonnes and for MOP at 37.40 lakh tonnes in 2011-12. The Committee also note that various steps have been taken by the Department of Fertilizers to meet the projected demand for urea and phosphatic fertilizers during the 11th Plan period viz. implementation of Stage-III of NPS w.e.f. 1st October, 2006 to 31st March, 2010, conversion of non-gas based urea units in the country to gas with a definite time frame, capacity addition in the existing urea units, revival of seven urea units of HFC and FCI and setting up of joint venture projects abroad where abundant reserves of gas is available. The Department has also informed that steps are also being taken by the Government to ensure monitoring of fertilizers availability upto the block level in all parts of the country. While appreciating the efforts made by the Department for meeting the demand of fertilizers by increasing indigenous production through availability of gas and strengthening the delivery mechanism, the Committee would like that godowns should be established at block

		level and distribution of fertilizers to farmers is monitored from block level. The Committee understand that further distribution of fertilizers especially of urea from block level is the prerogative of the State Government even though the Department cannot escape from its responsibility to provide fertilizers to farmers as they may have to face the brunt in case of non-availability of fertilizers to farmers. The Committee, therefore, recommend that the Department should devise a mechanism in coordination with State Governments for monitoring the fair distribution of fertilizers from block level in order to ensure the transparency in distribution system.
6	53	The Committee note that during the last few years the fertilizer subsidy bill has increased substantially mainly because of sharp increase in international prices of fertilizer leading to increase in delivery costs of fertilizers at the farmgate level. An additional allocation of Rs. 8985.60 crores (net) is required in the current year for reimbursement of all subsidy bills to fertilizer units pending for the year 2007-08. The Committee were informed that the third Supplementary Demands for Grants (2007-08) of the Department is likely to be only Rs.4000 crore which would result in carry over liability of approximately Rs. 5000 crore from the year 2007-08 to 2008-09 towards payment of fertilizer subsidy. As far as the year 2008-09 is concerned in January 2008, the Department of Fertilizer would require Rs.60,000 crore to meet the subsidy requirement. Against the current assessment of Rs.90,000 crore the availability in the Budget Estimates (2008-09) is only Rs.31,000 crore. The Committee are surprised to note that there has been a tremendous increase in the subsidy amount during the last five years. It has gone almost six times since 2004-05. The Committee are apprehensive about the authenticity of subsidy amount to the tune of Rs. 90,000 crore as submitted by the Secretary, Department of Fertilizers. The Committee, therefore, recommend that industry-wise break up of the subsidy amount be furnished to them and the issue regarding the quantum of such a huge subsidy amount should be revaluated. The Committee, therefore, recommend that after revaluating the subsidy amount, the Government should make sufficient budgetary provision to meet the fertilizer subsidy bill including the carryover from the previous years. The Planning Commission and Ministry of Finance should also be apprised to the concern of the Committee in this regard. The Committee, therefore, recommend that Department of Fertilizers should pursue the matter with the Planning Commission so that the adequate amount is allocated to the Department of Fertilizers for meeting the subsidy bill during the first year of 11th Plan period.
7	54	The Committee observe that due to outdated machinery and old age technology as in the case of BVFCL about which the Committee were apprised during their study tour, consumption of energy is more which is ultimately responsible for the rise in the cost of fertilizers resulting into the cost of subsidy. As such, it is imperative

		that Government should also ponder over the root cause of increasing subsidy bill in indigenous production and try to plug the loopholes and revamp the system. The Committee feel that increase in the subsidy amount is not the permanent solution rather the Department should go into the root cause of high subsidy bill and accordingly modernize the existing machinery/ technology.
8	55	The Committee note that fertilizer bonds are issued by Ministry of Finance in lieu of cash release of fertilizer subsidy. The Secretary, Department of Fertilizers apprised the Committee during the discussion that the Ministry of Finance had issued first tranche of Fertilizer Bonds. However, the fertilizer industry has been unwilling to take fertilizer bonds in lieu of cash as it has additional financial implication for the companies as the industry feels that bonds can be traded only at discounted rates. Moreover, the tenure of Bond is too long. The Department of Fertilizers has, therefore, requested the Ministry of Finance to provide cash allocation for release of fertilizer subsidy in future. The Department has also requested for a shorter period bonds as demanded by the fertilizer industry. As stated by the Secretary, Department of Fertilizers during the course of evidence that discounted rate of bond at 7 to 8% is bothering industry and due to that there is nil investment in the fertilizer sector. The Committee, therefore, recommend that the Department of Fertilizer should take up this issue with the Ministry of Finance in right earnest and resolve the issue to the satisfaction of fertilizer industries. The Committee also recommend that the concerted efforts should be made by the Government to minimise the subsidy dues so that the same are not carried forward in the coming years.
9	56	The Committee note that the payment of subsidy to fertilizer industries is not made in time. The Committee, therefore, recommend that the payment of subsidy should be made in time. The Committee are of the view that fertilizers industries should not be deprived of their money which they have invested and forced to sell the fertilizers at the reduced price which is much lower than the actual price. The Committee, therefore, recommend that the Government should not make any inordinate delay in the payment of subsidy.
10	64	The Committee have observed during their field visits that there has been non-availability of fertilizers in many parts of the country. However, the Committee has been apprised by the Ministry that the availability of urea, which is the only fertilizer under partial movement control of Government, remained satisfactory throughout the Kharif 2007 season as well as during the current Rabi 2007-08. The Committee have also been informed that every effort is made by the Department of Fertilizers to see that at least 50% of the month's requirements is available in the beginning of the month and balance 50% is supplied during the first fortnight of the month. The Committee also note that preparation of monthly supply plan, payment of subsidy to fertilizer companies only on reaching

		fertilizers to each District, compensation of freight based on actual road and rail heads, Fertilizer Monitoring System(FMS), strengthening the State Institutional Agencies and assessment of demand at Block level are some of the effective steps taken by the Department in this direction. In addition to this, Secretary, Department of Fertilizers during his evidence before the Committee stated that from June, 2008 onwards they will be able to send the fertilizers to the Block level. He further stated that they are also making efforts to see that the entire requirement of the Block for the month of June, 2008 is made available by the end of May, 2008 itself. While appreciating the steps taken by the Government for timely availability of fertilizers in all parts of the country in the coming years, the Committee feel that a realistic action plan be formulated and implemented in a time bound manner so that fertilizer is actually made available to farmers for the Rabi and Kharif crops. The Committee are happy to note that the Department of Fertilizers has taken initiative to supply the fertilizers at Block level from June, 2008 onwards. The Committee, therefore, recommend that an effective coordination and monitoring mechanism be evolved to implement this system successfully so that the availability of fertilizers should not remain in official records only but it reaches to the masses actually.
11	65	The Committee observe that the Department of Fertilizers maintain buffer stock of urea through the State Institutional Agencies/ Fertilizer Companies upto 5% of the seasonal demand in only 14 major fertilizers consuming States. The Committee, therefore, recommend that in view of the increased demand of fertilizers, the similar initiative should be taken by the Department in the remaining States/Union Territories also to ensure uninterrupted supply of fertilizers to all the States and Union Territories.
12	71	The States of North East are facing difficulties of movement and transportation of fertilizers in certain parts of the States. The per tonne cost of transportation has also been exceedingly high as compared to the rest of the country. These are the major bottlenecks in supplying of urea to these States in time. The Committee note that as per the information furnished by the Department, Government have decided to reimburse the freight for carrying urea on actual basis through a Special Freight Reimbursement Scheme for these States. The Committee, therefore, recommend that the Department of Fertilizers should evaluate the success of this scheme from time to time and to see the result and efficacy of the scheme with a view to implementing it in remote and hilly areas also. The Committee has been apprised that in North Eastern States availability of urea in all the months of the year is always more than the assessed requirement except in Arunachal Pradesh. As there is limited warehousing in Arunachal Pradesh, Brahmputra Valley and Fertilizers Corporation Limited (BVFCL) has been supplying urea to the dealers of Arunachal Pradesh on regular basis from Tezpore and North Lakhimpore as nodal points. The full

		requirement of the State can be supplied by BVFCL alone. Despite several requests, Arunachal Pradesh has lifted only 163 MT of urea against their requirement of 500 MT during the last six months. The Committee also note that to maintain the mandatory buffer stocks in North Eastern States specifically in Arunachal Pradesh, a proposal for creation of buffer stock in the North-Eastern States will be examined in consultation with BVFCL and the State Governments. The Committee, therefore, recommend that sufficient warehousing capacity be created in Arunachal Pradesh to reduce its dependence on neighbouring States as the transport facilities in North-East States are not adequate and cost effective as in other parts of the country. The Committee also recommend that the Department should take up the matter with the Governments of North Eastern States to maintain a mandatory buffer stock in North Eastern States on priority basis in consultation with BVFCL and State Governments. The Committee further recommend that warehouses for fertilizers may either be constructed by the BVFCL in case Government of Arunachal Pradesh does not establish the same or godowns may be constructed by sharing the mutually agreed amount by BVFCL and Government of Arunachal Pradesh.
13	75	The Committee note that at present 72 small and medium scale fertilizer units in the Department of Fertilizers are engaged in operation and producing Single Super Phosphate (SSP). Presently DAP, MOP, SSP and 11 grades of complex fertilizers covered under the concession scheme on decontrolled P&K fertilizers. In regard to availability of Single Super Phosphate at a uniform price across the country, the Department is considering a proposal for a uniform all India Maximum Retail Price (MRP) of SSP. This forms a part of the input based concession policy on SSP, which is an advanced stage of finalisation. The Committee also note that the Department is also considering to provide freight on transportation to all the fertilizers, including SSP on actual basis. The Committee, therefore, recommend that the Department should undertake an effective long term planning to ensure early finalisation of the proposal regarding concession on SSP with input prices. The Committee desire that for the interests of poor and marginal farmers State Governments should also be consulted in this regard. The Committee would also like the Department to complete the process of providing freight on transportation to all fertilizers on actual basis without any loss of time so as to enable manufacturers to supply fertilizers in all parts of the country especially in hilly and remote areas.
14	81	The Committee note that the import of urea on Government account is made to bridge the gap between assessed demand and supply. The State Trading Enterprises arrange imports of urea on behalf of Government. The Committee find that the indigenous production of urea is less than the requirements of urea and the requirements beyond indigenous production have to be met through higher imports. Similarly, the demand of DAP has been increasing during

		the years whereas indigenous production has been almost static due to lack of investment in fertilizer sector, leading to increase in imports of DAP. Considering these facts, the Committee recommend that concerted efforts should be made by the Department to encourage the investment in fertilizer sector and in the production of fertilizers so as to enhance the production capacity of these fertilizers and to reduce the dependence of the country on imports. The Committee are of the view that investment in domestic capacity addition is feasible option to fulfil the burgeoning demand. The Committee feel that investment in fertilizer sector will be forthcoming only, if reasonable rate of return on investment, comparable to other investment avenues available in the country is ensured.
15	87	The Committee note that Government has approved the pricing policy for urea units for Stage-III of New Pricing Scheme (NPS) w.e.f. 1.10.2006 to 31.03.2010. The policy has been formulated keeping in view the recommendations of the Working Group set up under the Chairmanship of Dr. Y.K. Alagh. The main aim of Stage-III of NPS is to increase further investment in the urea sector, incentivising additional urea production and encouragement for setting up joint venture projects abroad. The Committee also note that specific problems submitted by fertilizer companies which their units may face under NPS-III have been examined by the Department. The draft proposal for modifications in the provisions under NPS-III to resolve issues raised by fertilizer companies is currently under inter-ministerial consultations. The Committee recommend that a stable and final policy be formulated at the earliest to implement the Stage-III of NPS successfully. The Committee also recommend that in order to achieve the aim of NPS-III, the proposal for suitable modifications in the provisions under this scheme be finalized by the Department in a stipulated time bound period. The Committee, therefore, urge the Department to take all possible measures so that the objectives set under Stage-III of NPS are met. The Committee also desire that the Department of Fertilizers should explore the feasibility of pricing policy based on normative parameters away from cost based formula. The Committee may be apprised of the action taken in this regard.
16	111	The Committee note that the policy announced in January, 2004 envisaged the creation of additional capacity through de-bottlenecking/revamp/modernization of Fertilizer Units, provided that the additional production comes from using natural gas/LNG as feedstock. The Committee also note that as per the information furnished by the Department, three expansion projects have not been finalized due to lack of confirmed availability of gas. Further, a policy proposal for incentivizing conversion of FO/LSHS plants is under inter-ministerial consultation. The Committee further note that the policy for new investments in urea sector has not yet been finalized by the Government. In view of the stagnated production capacity and lack of investment in the fertilizer sector, the Committee once again reiterate that the Department of Fertilizers

		should regularly pursue the matter with the Ministry of Petroleum and Natural Gas and other related agencies for allocation of the natural gas to fertilizer sector on priority basis as envisaged in the Draft Natural Gas Utilization Policy. While expressing the concern over the inordinate delay in finalization of policy for conversion of non-gas based units to gas based units and new investment policy in urea sector, the Committee recommend that both the policies may be finalized without any further delay. The Committee would also like to be apprised of the action taken in this regard.
17	121	The Committee note that in line with the Common Minimum Programme of the Government, the possibilities of revival of FCIL, HFCL and PPCL are being explored. A proposal was submitted to the Board for Reconstruction of Public Sector Enterprises (BRPSE) for obtaining 'in principle' approval in respect of FCIL and HFCL. As regards PPCL, the feasibility of reviving the Amjhore Pyrite Mines is being examined. The Committee also note that some of the viable fertilizer PSUs/Cooperatives like RCF, NFL and KRIBHCO have expressed their interest in the revival of these units. Timely availability and connectivity of gas and allocation of requisite funds are the main constraints for revival of closed units. In regard to availability of gas, Group of Ministers (GoM) in their meeting have assured that gas would be made available to meet the requirements of fertilizer industry. Regarding allocation of funds, Department of Fertilizers has sought an allocation of Rs. 5000 crore under 11th Plan as Gross Budgetary Support (GBS). The Committee recommend that approved revival/proposals should be implemented within a time-bound manner. The Committee also desire that the Department of Fertilizers should pursue the matter seriously with the Planning Commission for allocation of requisite funds from time to time for early finalization of financing model for revival of closed fertilizer PSUs. The Committee, in their earlier Reports, have repeatedly been recommending that fertilizer sector should be given top priority in the allocation of gas. The Committee is of the view that this matter is serious and desire that immediate corrective steps should be taken by the Department of Fertilizers to ensure that adequate gas should be made available to fertilizer industries to meet their requirements in a time bound manner. Besides ensuring the adequate supply of gas to fertilizer sector, revival package should emphasize on upgradation of technology, technical know-how, incentives for skilled workers and engineers. Surplus and unskilled workers which are liability for the industry should be given retirement under Voluntary Retirement Scheme (VRS) and adequate funds should be made available for providing money required for VRS to the companies. As submitted to the Committee during their study visit to BVFCL at Guwahati that VRS evoked poor response from workers as they reluctant to leave the job, the Committee are of the view that Department should formulate a policy in consultation with PSUs and Ministry of Finance for surplus and unskilled workers.
18	156	From the facts placed before the Committee about the performances of individual Undertakings/Cooperative under the administrative control of the Department of Fertilizers, the Committee find that

		KRIBHCO, RCF and NFL are profit earning units. The other PSUs viz. FACT, MFL and BVFCL are loss making units andFCI, HFC and PPCL are closed units. The Committee note that most of the PSUs are suffering losses year after year as their projects are not completed in a time bound period and remain under various stages of implementation and no major project has been undertaken by them. The Committee found that non-availability of assured quantity of gas, non-finalization of New Investment Policy, under examination of policy relating to conversion of non-gas based fertilizer units to gas based units, delay in finalization of financial restructuring proposal and revival proposals are the main factors responsible for their losses. However, some initiatives have been taken to examine the feasibility to revive/set up new plants at the existing sites of HFCL, FCIL and PPCL. The Committee desire that the Department of Fertilizers should review and monitor the working of all PSUs on a regular basis and to give suitable directions to them for taking remedial measures. The Committee also desire that urgent steps should be taken by the Department for early finalization of the revival and restructuring proposals. The Committee recommend that the Department of Fertilizers should tackle both the issues regarding availability of gas and finalization of New Investment and conversion policies at priority basis.