22

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2011-12)

FIFTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS
(2011-2012)

[Action Taken by the Government on the Observations/Recommendations contained in the Eighteenth Report of the Standing Committee on Chemicals and Fertilizers (Fifteenth Lok Sabha) on Demands for Grants (2011-12) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)]

सत्यमेव जयते

TWENTY SECOND REPORT

LOK SABHA SECRETARIAT
NEW DELHI

March, 2012/Phalguna, 1933 (Saka)

CC&F No. 22

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FIFTEENTH LOK SABHA

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Presented to Lok Sabha on 15.03.2012

Laid in Rajya Sabha on 15.03.2012

LOK SABHA SECRETARIAT
NEW DELHI

March, 2012/Phalguna, 1933 (Saka)

CONTENTS

COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2011-12)

Shri Gopinath Munde - Chairman	
MEMBERS	
LOK SABHA	
2.	Shri Prabhatsinh Pratapsinh Chauhan
3.	Shri K. D. Deshmukh
4.	Smt. Paramjit Kaur Gulshan
5.	Shri Yashbant N.S. Laguri
6.	Shri Baidya Nath Prasad Mahato
7.	Shri Sakti Mohan Malik
8.	Shri O.S. Manian
9.	Shri Kamlesh Paswan
10.	Shri N. Peethambara Kurup
11.	Shri Ponnam Prabhakar
12.	Shri Ashok Kumar Rawat
13.	Shri Sivakumar alias Ritheesh
14.	Shri Tufani Saroj
15.	Shri Suresh Kumar Shetkar
16.	Shri Raju Shetti
17.	Shri Adagooru Viswanath
18.	Shri Om Prakash Yadav
19.	Vacant
20.	Vacant
21.	Vacant
RAJYA SABHA	
22.	Shri Biswajit Daimary
23.	Shrimati Naznin Faruque
24.	Shri A.A. Jinnah
25.	Shri Brijlal Khabri
26.	Shri Parshottam Khodabhai Rupala
27.	Prof. Anil Kumar Sahani
28.	Shri Raghunandan Sharma
29.	Dr. C.P. Thakur
30. &	Shri Dilipbhai Pandya
31.#	Vacant

SECRETARIAT

1.	Shri C.S.Joon	-	Joint Secretary
2.	Shri Anil Kumar Srivastava	-	Additional Director
3.	Smt. Emma C. Barwa	-	Under Secretary
4.	Shri Ajit Kumar Sahu	-	Committee Officer

& Nominated w.e.f. 17.09.2011.

 # Vacancy arisen due to demise of Shri Silvius Condpan, MP (RS) w.e.f. 10 October 2011

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2011-12) having been authorised by the Committee to present the Report on their behalf present this Twenty Second Report (Fifteenth Lok Sabha) on Action Taken by the Government on the observations / recommendations contained in the Eighteenth Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2011-12) on 'Demands for Grants (2011-12)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Eighteenth Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on 04 August, 2011. The Action Taken Replies of Government to all observations / recommendations contained in the Report were received on 03 November, 2011. The Standing Committee on Chemicals and Fertilizers (2011-12) considered and adopted this Report at their sitting held on 05 March 2012.

3. An analysis of the Action Taken by the Government on the observations/ recommendations contained in the Fifteenth Report (Fifteenth Lok Sabha) of the Committee is given in Appendix-II.

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

New Delhi;
13th March, 2012
23 Phalguna, 1933 (Saka)

GOPINATH MUNDE
Chairman,
Standing Committee on
Chemicals and Fertilizers

REPORT

CHAPTER – I

This Report of the Standing Committee on Chemicals and Fertilizers deals with the action taken by the Government on the Observations / Recommendations contained in the Eighteenth Report (Fifteenth Lok Sabha) of the Committee on Demands for Grants (2011-12) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 04 August, 2011. The Report contained 11 Observations / Recommendations.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the Observations / Recommendations contained in the Eighteenth Report within three months from the date of presentation of the Report, i.e. by 4th November, 2011. The Action Taken Replies of the Government in respect of all the 11 Observations / Recommendations contained in the Report have been received from the Ministry of Chemicals and Fertilizers, Department of Fertilizers vide their O.M. No.5(1)/2011-Fin-II dated 3 November 2011.

The categorization of the Action Taken Replies of the Government is as follows:-

(i) Observations / Recommendations which have been accepted by the Government
Sl.Nos. 1, 2, 5, 6, 7, 9 and 10

(Total =07)
Chapter-II

(ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's replies
Sl.No. NIL.

(Total =NIL)
Chapter-III

(iii) Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration
Sl.Nos. 3, 4 and 8

(Total =03)
Chapter-IV

(iv) Observations / Recommendations in respect of which replies of the Government are of interim nature
Sl.Nos. 11

(Total = 01)
Chapter-V

3. The Committee desire that the Action Taken Notes on the Observations / Recommendations contained in Chapter-I of this Report and the final reply in respect of the Observation/Recommendation for which only interim reply has been furnished by the Ministry should be furnished expeditiously.

4. The Committee will now deal with action taken by the Government on some of their Observations/Recommendations which still require reiteration or merit comments.

A. GENERAL OBSERVATIONS

Recommendation Sl. No./Para No. 1.

5. Taking note of different impediments/maladies in growth of fertilizer industry, the Committee had recommended as under:-

> "At present, there are 56 large fertilizer plants manufacturing a wide range of nitrogenous, phosphatic and complex fertilizers in the country. Out of these, 47 units produce nitrogenous, phosphatic and complex fertilizers and 9 units manufacture ammonium sulphate as bye-product. The Committee observed that production of fertilizers in the country has been more or less stagnant for the last one decade, whereas the imports are increasing to meet the growing demand of fertilizers in the country. The Committee noted that the installed capacity has been 120.61 lakh MT of nitrogenous and 56.59 lakh MT of phosphatic nutrients. The growth of fertilizer industry has not kept pace with the growing requirement of the fertilizers as the country is by and large import dependent for meeting requirements of critical phosphatic inputs such as rock phosphate and phosphoric acid. Paucity of raw materials, lack of long term availability of natural gas, high cost of imported RLNG gas and volatility in prices have impeded growth of the fertilizer industry. These impediments are matter of serious concern. However, keeping in view the vital role played by the chemical fertilizers in the successful agriculture production in the country, the Committee recommend that there is urgent need to take suitable steps to overcome the impediments/maladies in the growth of fertilizer industry so that there is self-sufficiency and sustained growth of fertilizer industry.
>
> Lack of adequate availability of inputs including natural gas required for production of fertilizers and limited resources are the major hindrances in achieving self-sufficiency in fertilizer sector. In the absence of ready availability of potash sources in the country, the entire demand of potassic fertilizers for direct application as well as for production of complex fertilizers is being met through imports. The Committee have been informed that the surveys and explorations are being carried out to find potash and provide indigenous source of potash. The Committee hope that the Department of Fertilizers would continue their best efforts in exploration of indigenous raw materials for the fertilizer industry. Considering the vital role played by chemical fertilizers as one of the key inputs for the success of agriculture output in the country, the Committee feel that there is an urgent need for

more suitable steps to be taken by the Department to ensure a sustained growth of industry as a whole.

The Committee also desire that the Department should vigorously pursue the issues regarding adequate allocation of natural gas and gas pipeline connectivity with Ministry of Petroleum and Natural Gas. The Committees are of the view that with the assured allocation of natural gas to the fertilizer sector, the expansion and revamping process of existing and new fertilizer projects could be completed at the earliest which in turn would avoid cost and time overruns. At the same time, a balanced use of fertilizers (NPK) is also essential for increasing agricultural productivity in the country. The Committee would also like to recommend that expeditious measures need to be taken by the Department for capacity addition programmes so as to achieve self-sufficiency to fertilizer sector."

6. In reply to all the aforesaid para, the Department of Fertilizers have stated as under :-

"More than 90% of the requirement of phosphatic Fertilizers of the country is met through import of finished fertilizers/intermediates/raw materials. The source of potash in the country is non-existent. At present, almost all the DAP/NPK manufacturing plants meet their requirement of the raw material based on imported sources. Presently, the country has 84 SSP manufacturing units, which use various grades of rock phosphate notified by Department of Fertilizers for manufacturing SSP, Rajasthan State Mines and Minerals Ltd.(RSMML) and the Maton Mines of Hindustan Zinc Ltd., Udaipur, Rajasthan are the two sources of rock phosphate for manufacturing SSP. The low grade rock phosphate of Madhya Pradesh State Mines is used by beneficiating rock phosphate by M/s Krishna Phoschem Ltd., Madhya Pradesh, M/s BEC Fertilizers Ltd., Chattisgarh and M/s Shiva Global Industries Ltd. For upgrading the qualtity of the rock phosphate to put it for manufacturing SSP.

Department of Agriculture and Cooperation, vide its notification dated 10.05.2011 has redefined SSP from 16% to 14.5% P2O5 (water soluble). Resultantly, the SSP manufacturers may blend high grade rock phosphate of the imported sources with the low grade rock phosphate of the country to produce SSP of the FCO standards. Department of Fertilizers is also taking up with the state Government of Rajasthan to prospect and explore further indigenous sources of rock phosphates. The State Government of Rajasthan has also been asked by DoF to open it for private entities. Department of Fertilizers has also taken up with the State Governments of Rajasthan, Chattisgarh and Uttar Pradesh to explore possibilities of prospecting and mining rock phosphate indigenously. However, no results has come to light in this direction. However, the proposal of M/s Ugar Sugar Works Ltd., for inducting to the low grade potash (14% K) produced out of the molasses of the sugar cane factories is under consideration with Department of Fertilizers for bringing it under the NBS. This product has already been inducted in the FCO."

Comments of the Committee

7. In their earlier recommendation the Committee had stated that there is an urgent need to take suitable steps to overcome the impediments like paucity of raw materials, lack of long term availability of natural gas, high cost of imported RLNG gas and volatility in prices, that impede the sustained growth of fertilizer industry. The Committee note that efforts towards exploration of indigenous sources of fertilizers is yet to achieve any fruitful result. The Committee hope that Department of Fertilizers would continue with their best effort and apprise the Committee regarding further progress in this direction. The Committee, however, regret to note that the issue of adequate allocation of natural gas and gas pipeline connectivity is yet to be settled with the Ministry of Petroleum and Natural Gas. The Committee desire that the Department of Fertilizers should work in tandem with the Ministry of Petroleum and Natural Gas for expediting the matter at the earliest. The Committee are also unhappy to note that in the Action Taken Reply the Department has not apprised the Committee about capacity addition programmes undertaken recently which are important for achieving self-sufficency in fertilizer production. The Committee, therefore, desire to be apprised about pursuance of different capacity addition programmes undertaken by the Department.

B. DEMANDS FOR GRANTS ALLOCATION

Recommendation Sl. No./Para No. 3.

8. Emphasizing the need to rein in the ballooning expenditure under Non-plan allocation of the Department, the Committee had recommended as under:-

"The Committee are of the view that the non-plan expenditure of the Department need to be kept under control. While the allocation under then on-plan head (RE) reached a peak of Rs. 1,00,491.16 crore during 2008-09, the figures for the financial years 2009-10 to 2010-11 are Rs. 56,600.50 and Rs. 57,860.00 crore respectively. The Department has failed to provide any satisfactory response to a specific query as to how to deep the Non-Plan expenditure under control. While the Committee agree that farmers need to be protected from price volatility in the international market and other negative factors, the need to rein in the ballooning expenditure under the Non-Plan allocation cannot be over-emphasized. The Committee, therefore, recommend that the Department should take steps on a priority basis to address this issue and intimate the measures taken in this regard to them."

9. In reply to all the aforesaid para, the Department of Fertilizers have stated as under :-

"Government of India, Department of Fertilizers has introduced Nutrient Based Subsidy Policy in continuation of the erstwhile concession scheme for decontrolled Phosphatic & Potassic Fertilizers w.e.f. 1.4.2010. This policy has been introduced in the context of Nation's Food Security, declining response of agricultural productivity to increase fertilizer usage and to ensure balance application of fertilizers in the country. As per this policy, fixed rate of subsidy of the nutrients of Nitrogen (N), Phosphate (P), Potash (K) and Sulphar (S) per kilogram/per tonne is fixed by the Government based on the recommendations of the Inter Ministerial Committee under the Nutrient Based Subsidy Policy. These rates based on the international prices of the Fertilizers/intermediates/raw materials and exchange rates. As per this policy, a fixed rate of subsidy is announced annually and the MRP of P&K fertilizers has been left open to be fixed by the manufacturers/importers at the reasonable level. Resultantly, the rise/fall of the prices of fertilizers/intermediates/raw material and the exchange rate in the international market had a direct bearing on the cost of the fertilizers, which results into higher MRP of the P&K fertilizers. Under the Nutrient Based Subsidy Policy, when the rates of subsidy amount is fixed, the quantum of subsidy increases only with the increase iin the consumption of the fertilizer. The increase in the prices of the fertilizers in the international marker leads to increase in the MRP.

Prior to the introduction of the Nutrient Based Subsidy Policy w.e.f. 1.4.2010, the MRP of the P & K Fertilizers covered under the concession scheme was fixed by the Government of India, which was much below the actual cost of the fertilizers. Any rise / fall of the prices of fertilizers/intermediates/raw material and the exchange rate in the international market had the direct bearing on the cost of the fertilizers, which resulted into higher subsidy of the P&K Fertilizers.

More than 90% of the requirement of P&K fertilizers of the country is met through imports. The sources of Potash in the country is non-existent. Accordingly, the escalation / de-escalation of the prices of the fertilizers in the international market is to be borne by the farmers under Nutrient Based Subsidy Policy or by the Government under the erstwhile concession scheme for decontrolled phosphatic & potassic fertilizers. The country doesn't have any control on the volatility of the prices of the fertilizers in the international market. Since the subsidy is fixed, the volatility of price in the international price has direct bearing on MRP of fertilizers. Since under th NBS policy, the subsidy is fixed on annual basis, long term contracting is possible and therefore it reduces the volatility of prices of fertilizers in the country in comparison to international market."

Comments of the Committee

10. The Committee in their earlier recommendation had expressed unhappiness to note that the Department had failed to provide any satisfactory response to a specific query as to how to keep the non-plan expenditure under control. The Committee, therefore, had desired that the Department should take steps on priority basis to address the issue and intimate the measures taken in this regard. The Committee are unhappy with the fact that the Department of Fertilizers in their Action Taken Replies has not given the issue of ballooning expenditure under non-plan expenditure the level of priority it deserves and also has not intimated the specific measures taken to address the issue. The Committee note that more than 90% of the requirement of P&K fertilizer of the country is met through imports and the country does not have any control on the volatility of prices of

fertilizers in the international market. The Committee also note that since under the Nutrient Based Subsidy (NBS) policy, the subsidy is fixed on annual basis, long term contracting is possible. The Committee, however, express unhappiness to note that the Department has not taken any firm steps in this regard. Hence, the Committee is pained to reiterate their earlier recommendation that the Department should take steps on a priority basis to address the issue of ballooning expenditure under non-plan allocation and intimate the Committee regarding the measures taken in this regard.

C. SUBSIDY / CONCESSION ON FERTILIZERS

Recommendation Sl. No./Para No. 4.

11. Stressing the need to cut the galloping subsidy bill, the Committee had recommended as under:-

"The Committee note that the total subsidy disbursed on fertilizers has increased from Rs.28,019.55 crore in 2006-07 to Rs. 64,032.29 crore in 209-10 and Rs. 52,840.73 crore in 2010-11 (BE). The total subsidy released on urea has increased from Rs.17,721.43 crore in the year 2006-07 to Rs. 24,430.73 crore in the year 2010-11 (BE). The subsidy on P&K fertilizers has increased from Rs. 10,298.12 crore in the year 2006-07 to Rs. 28,500.00 crore in the year 2010-11 (BE). The Committee's examination has revealed that the increase in subsidy bill is due to higher consumption of fertilizers and also the rise was due to the increase in international prices of imported fertilizers and increase in the cost of inputs of indigenous fertilizers during the year 2006-07 to 2010-11. Considering all these facts, the Committee desire that concerted efforts are needed to cut the galloping subsidy bill. Needless to say, that in view of increased consumption of fertilizers and international prices of fertilizer, inputs and finished fertilizers, there is an urgent need for technological innovation, state of the art machinery, reducing the cost of production, energy efficiency measures, experienced and qualified technical manpower and optimum capacity utilization so as to reduce our dependence on imports and increase the indigenous production of fertilizers."

12. In reply to all the aforesaid para, the Department of Fertilizers have stated as under :-

"More than 90% of the requirement of the phosphatic fertilizers and its raw materials in the country is met through imports. Since NBS has been implemented on P&K fertilizers in which a fixed subsidy is decided on annual basis taking into consideration of the international prices and affordability of farmers. The MRP of fertilizers has been allowed to be fixed by companies at reasonable level depending upon demand and supply balance. In this scenario, companies need to minimise the cost of production so as to reduce its MRP in the country and be competitive."

Comments of the Committee

13. The Committee in their earlier recommendation had observed that the increase in subsidy bill was due to higher consumption of fertilizers, rise in international price of imported fertilizers and rise in input costs of indigenous fertilizers during the year 2006-07 to 2010-11. Considering these facts

the Committee had felt that efforts are needed to cut the galloping subsidy bill, emphasizing the need to take certain specific measures to reduce our dependence on imports and increase the indigenous production of fertilizers. The Committee are unhappy to note that the Ministry in their Action Taken Replies have not given any specific reply regarding efforts made to cut the galloping subsidy bill. While acknowledging the fact that 90 per cent of requirement of phosphatic fertilizers is met through imports due to non-availability of raw materials in the country, the Department has not specifically mentioned about the efforts contemplated to address the issues of technological innovation, energy efficiency measures, updation of machinery and skill development of workers in order to reduce cost of production so that all the fertilizer companies do not feel any difficulty in fixing MRP at reasonable price in competitive market. The Committee feel that such measure would reduce the dependence on imports of fertilizers as the cost of indigenously manufactured fertilizers, especially non-phosphatic fertilizers, would be lesser than that of imported fertilizers and ultimately reduce the subsidy bill.

D. ASESSED REQUIREMENT AND AVAILABILITY OF FERTILIZERS

Recommendation Sl. No./Para No. 8.

14. Emphasizing the need to devise a foolproof mechanism for proper and equitable distribution of fertilizers in all parts of the country, the Committee had recommended as under:-

> "The Committee note that equitable distribution of fertilizers in all parts of the country is an important criteria for facilitating increased productivity in agriculture sector. At present, the Department of Fertilizers is required to ensure availability of urea, as per the requirement assessed by the Department of Agriculture and Cooperation. The Committee note that the movement of fertilizers is monitored throughout the country by an on-line web based monitoring system (FMS), still the farmers are facing great difficulty in getting the fertilizers on time and also they are facing the problem of artificial scarcity/shortage in some parts of the country. The Committee, therefore, strongly recommend that the Department of Fertilizers should devise a foolproof mechanism for proper and equitable distribution of fertilizers in all parts of the country especially in remote, hilly and inaccessible areas. Also, the Department of Fertilizers should make serious efforts to collaborate with the State Governments to tackle the problem of artificial shortage and punish hoarders and black marketers."

15. In reply to all the aforesaid para, the Department of Fertilizers have stated as under :-

> "There may be some stress in fertilizer availability in case of smaller States because of non availability of adequate warehouse capacity. As a result of this, the States lift fertilizers as and when required.
>
> As per Clause 4 (a) of the Fertilizer (Control) Order – Display of stock position of fertilizers – Every dealer, who makes or offers to make a retail sale of any fertilizers, shall prominently display in his

place of business – the quantities of opening stock of different fertilizers held by his on each day. Any person violating this mandatory provision of FCO is held liable to be proceeded under the provisions of FCO and Essential Commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices viz., hoarding etc.

Under clause 21 of the Fertilizer Control Order (FC)), 1985, it is mandatory to print the maximum retail price on each bag of fertilizers whether under statutory price control or out of the purview of the statutory price control. No person shall charge higher than the price printed on the bag. Any person violating this mandatory provision of FCO is held liable under the provisions of FCO and Essential Commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices.

Comments of the Committee

16. The Committee in their earlier recommendation had stated that the Department of Fertilizers should devise a foolproof mechanism for proper and equitable distribution of fertilizers in all parts of the country especially in remote, hilly and inaccessible areas. In this regard, the Department in their Action Taken Replies have stated that there may be stress in availability of fertilizers in case of smaller States because of non-availability of adequate warehouse capacity. The Committee, therefore, recommend that Department of Fertilizers should take up this issue with State Governments. The Committee feel that fertilizer companies can play an important role in this regard. Fertilizer companies may set up warehouses in coordination with State Governments or through Public Private Partnership in the States where adequate warehousing facility is not available. The Committee, however, feel that the fair and equitable distribution of fertilizers in different parts of the country is neglected. The Committee note that the movement of fertilizers is monitored. However, the Committee are not satisfied over the real working of the system in tracking the demands and availability of fertilizers in different parts of the country and recommend to work towards making the system robust and foolproof.

The Committee had noted that Department of Fertilizers should make serious efforts to collaborate with the State Governments to tackle the problem of artificial shortage and punish hoarders and black-marketeers. In this regard, the Committee are perturbed to note that in the Action Taken Replies, the Department has merely stated that the State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices viz., hoarding etc. The Committee, therefore, strongly reiterate that the earlier recommendation of the Committee should be implemented seriously and desire that the Department should closely monitor commission of different malpractices and proactively ensure timely and equitable distribution of fertilizers throughout the country.

CHAPTER – II

OBSERVATIONS / RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation Sl. No./Para No. 1.

GENERAL OBSERVATIONS

At present, there are 56 large fertilizer plants manufacturing a wide range of nitrogenous, phosphatic and complex fertilizers in the country. Out of these, 47 units produce nitrogenous, phosphatic and complex fertilizers and 9 units manufacture ammonium sulphate as bye-product. The Committee observe that production of fertilizers in the country has been more or less stagnant for the last one decade, whereas the imports are increasing to meet the growing demand of fertilizers in the country. The Committee note that the installed capacity has been 120.61 lakh MT of nitrogenous and 56.59 lakh MT of phosphatic nutrients. The growth of fertilizer industry has not kept pace with the growing requirement of the fertilizers as the country is by and large import dependent for meeting requirements of critical phosphatic inputs such as rock phosphate and phosphoric acid. Paucity of raw materials, lack of long term availability of natural gas, high cost of imported RLNG gas and volatility in prices have impeded growth of the fertilizer industry. These impediments are matter of serious concern. However, keeping in view the vital role played by the chemical fertilizers in the successful agriculture production in the country, the Committee recommend that there is urgent need to take suitable steps to overcome the impediments/maladies in the growth of fertilizer industry so that there is self-sufficiency and sustained growth of fertilizer industry.

Lack of adequate availability of inputs including natural gas required for production of fertilizers and limited resources are the major hindrances in achieving self-sufficiency in fertilizer sector. In the absence of ready availability of potash sources in the country, the entire demand of potassic fertilizers for direct application as well as for production of complex fertilizers is being met through imports. The Committee have been informed that the surveys and explorations are being carried out to find potash and provide indigenous source of potash. The Committee hope that the Department of Fertilizers would continue their best efforts in exploration of indigenous raw materials for the fertilizer industry. Considering the vital role played by chemical fertilizers as one of the key inputs for the success of agriculture output in the country, the Committee feel that there is an urgent need for more suitable steps to be taken by the Department to ensure a sustained growth of industry as a whole.

The Committee also desire that the Department should vigorously pursue the issues regarding adequate allocation of natural gas and gas pipeline connectivity with Ministry of Petroleum and Natural Gas. The Committees are of the view that with the assured allocation of natural gas to the fertilizer sector, the expansion and revamping process of existing and new fertilizer projects could be completed at the earliest which in turn would avoid cost and time overruns. At the same time, a balanced use of fertilizers (NPK) is also essential for increasing agricultural productivity in the country. The Committee would also like to recommend that expeditious measures need to be taken by the Department for capacity addition programmes so as to achieve self-sufficiency to fertilizer sector.

REPLY OF THE GOVERNMENT

More than 90% of the requirement of phosphatic Fertilizers of the country is met through import of finished fertilizers/intermediates/raw materials. The source of potash in the country is non-existent. At present, almost all the DAP/NPK manufacturing plants meet their requirement of the raw material based on imported sources. Presently, the country has 84 SSP manufacturing units, which use various grades of rock phosphate notified by Department of Fertilizers for manufacturing SSP, Rajasthan State Mines and Minerals Ltd.(RSMML) and the Maton Mines of Hindustan Zinc Ltd., Udaipur, Rajasthan are the two sources of rock phosphate for manufacturing SSP. The low grade rock phosphate of Madhya Pradesh State Mines is used by beneficiating rock phosphate by M/s Krishna Phoschem Ltd., Madhya Pradesh, M/s BEC Fertilizers Ltd., Chattisgarh and M/s Shiva Global Industries Ltd. For upgrading the qualtity of the rock phosphate to put it for manufacturing SSP.

Department of Agriculture and Cooperation, vide its notification dated 10.05.2011 has redefined SSP from 16% to 14.5% P2O5 (water soluble). Resultantly, the SSP manufacturers may blend high grade rock phosphate of the imported sources with the low grade rock phosphate of the country to produce SSP of the FCO standards. Department of Fertilizers is also taking up with the state Government of Rajasthan to prospect and explore further indigenous sources of rock phosphates. The State Government of Rajasthan has also been asked by DoF to open it for private entities. Department of Fertilizers has also taken up with the State Governments of Rajasthan, Chattisgarh and Uttar Pradesh to explore possibilities of prospecting and mining rock phosphate indigenously. However, no results has come to light in this direction. However, the proposal of M/s Ugar Sugar Works Ltd., for inducting to the low grade potash (14% K) produced out of the molasses of the sugar cane factories is under consideration with Department of Fertilizers for bringing it under the NBS. This product has already been inducted in the FCO.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Comments of the Committee

(Please see Para No.7 of Chapter – I of the Report)

Recommendation Sl. No./Para No. 2.

ELEVENTH FIVE YEAR PLAN

The Committee note from the Plan Outlay and Expenditure during the first four years of Eleventh Five Year Plan (2007-08, 2008-09, 2009-10 and 2010-11) for the Department of Fertilizers that for the years 2007-08, 2008-09, 2009-10 the total actual expenditure was at Rs. 264.26 crore, Rs. 745.03 crore and Rs. 711.24 crore, respectively and the RE for 2010-11 was Rs. 2262.05 crore while the BE for 2011-12 is Rs. 3550.22 crore totaling Rs. 7532.80 crore which is less than 50% of the allocation, i.e. Rs. 20627.87 crore made for the entire Five Year Plan. The Committee are inclined to conclude that either requisite funds were not made available to the Department every year of the plan period or the Department failed to the utilize fully the available funds.

The Committee, therefore, feel that there is an urgent need for proper planning and drawing up realistic estimates and timely and prudent use of approved outlays. The Department of Fertilizers should endeavour to impress upon the Planning Commission and Ministry of Finance to allocate adequate funds for the various schemes/programmes that are asked for based on the proper estimates. The Committee also feel that there should be optimum utilization of the funds which have been allocated for the various programmes and projects envisaged to be achieved in Eleventh Five Year Plan.

REPLY OF THE GOVERNMENT

The approved outlay of 11th Five Year Plan is Rs.20627.87 crores. This consists of Rs.1492 crores as Gross Budgetary Support (GBS) and Rs.19135.87 crores as Internal and Extra Budgetary Resources (IEBR) generated by the companies from their own resources. GBS of Rs.1492 crores were provided for two schemes namely, revival of sixk PSUs (Rs.607 crores) and capital subsidy for conversion (Rs.885 crores). Later on the capital subsidy schemes for conversion of four urea plants based on FO/LSHS was not pursued and conversion of urea plants were financed through a non-plan scheme. Hence, allocation of Rs.885 crore became redundant. DoF has suggested to Planning Commission to re-allocate the amount under the Head “conversion” for making corpus fund for acquiring resources abroad. Of the allocation of Rs.607 crores for the revival of sick PSEs the funds have been made available to three PSEs namely, BVFCL, FACT, MFL. The total funds made available by the Planning Commission during 11th Five Yeaqr Plan are Rs.875.65 crore which is more than the original allocation under GBS. It may therefore be seen that while Planning Commission provided adequate funds for meeting the requirement of three PSUs, namely, BVFCL, FACT and MFL, shortfall did occur in the realization of the Plan projections insofar as capital expenditure from IEBR is concerned by the respective profit making PSUs.

As mentioned above, bulk of outlay projections during 11th Five Year Plan was supposed to be met by profit making companies through their own resources for various projects during the Five Year Plan period. There is a shortfall in meeting these projections during the 11th Five Year Plan. It may be mentioned that 11th Plan projections for IEBR were made at the beginning of the 11th Five Year Plan keeping in view the investment environment, policy framework expected during medium and likely international environment. These projections were indicative based on economic outlook prevailing at that time and expectations from PSUs. Every year, respective profit making companies re-casted their actual expenditure in each year depending upon international environment policy collections, economic viability and priority of requirements set for that year.

The main reasons for shortfall in IEBR realization are as follows:

In cse of RCF, an outlay of Rs.2699.74 was provided for additional Ammonia-Urea (Thal Expansion) Project by the expenditure could not be incurred by Rashtriya Chemicals & Fertilizers (RCF) due to uncertainty about sourcing of gas. Further an outlay of Rs.2596.25 was provided for revival of Durgapur and Talcher units and the expenditure on the scheme could not be incurred due to absence of favourable policy for new investment in Urea sector.

In case of NFL, the projected capital expenditure of Rs.6050.75 was revised to Rs.3993.75 crore during Mid-term appraisal of the 11th Five Year Plan due to exclusion of revival of Barauni unit which was earlier to be executed by National Fertilizers Limited. It was taken from NFL and entrusted to Joint Venture Company (M/s UVL). The Plan outlay was further revised due to revision in project cost for changeover of feedstock project s at FO based units and capacity enhancement of Urea project of Vijaipura.

In case of KRIBHCO, it intended to set up an additional stream of Ammonia Urea Plant at existing fertilizers complex at Hazaria. However, in absence firm availability of Gas on long term basis and impact of investment policy of the Government, the project was not undertaken. KRIBHCO initially wanted to invest Rs.3000 crores on revival of Gorukhpur Plant at the time of formulation of 11th Five Yea Plan. However, this project was also not undertaken since Government has now proposed different financial model for revival of closed units of FCIL / HFCL.

In view of deviation from the projected outlay to the actual expenditure under IEBR during 11th Five Year Plan, PSUs are asked to make realistic assessment of requirement of expenditure and availability of finance through IEBR. Department will continue to monitor in an effective manner such scheme proposed by the companies and would initiate required follow up action.

As desired, Department of Fertilizers will endure to impress upon the Planning Commission to allocate adequate funds for the plan schemes under GBS after careful and realistic assessment of the requirement. It will further monitor the utilization of funds so allocated with the view to utilize them in most optimal way based on economic efficiency and projected outcome of these schemes.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Recommendation Sl. No./Para No. 5.

DIRECT SUBSIDY TO FARMERS

The Committee are constrained to point out that despite their repeated recommendations in earlier Reports, Government have not achieved the long cherished goal of payment of subsidy directly to farmers. The Committee note that the Government had constituted in February 2011, a Task Force under Chairmanship of Shri Nandan Nilekhani, Chairman, Unique Identification Authority of India (UIDAI) to recommend and implement a solution for direct transfer of subsidies on fertilizers among other things to the intended beneficiaries. The Committee understand that the Task Force has since submitted its Report to the Government. The Committee hope that further follow up action in this regard would be taken at the earliest so as to find ways and means for providing subsidy direct to farmers. The precise action taken in this regard may be communicated to the Committee.

REPLY OF THE GOVERNMENT

The Government has constituted a Task Force under the chairmanship of Shri Nandan Nilekani, Chairman, Unique Identification Authority of India (UIDAI) to recommend and implementation a solution of direct transfer of subsidies on kerosene, LPG & fertilizers to intended beneficiaries. The Task Force submitted its interim Report on 5th July'2011 to the Finance Ministry. The Report is available on the web site of Finance Ministry (www.finmin.nic.in). The Task Force in its interim report has recommended a phased approach to the issue. Phase-I, due to be implemented by Dec.'2011, is being developed as mobile FMS(m-FMS), which will extend the FMS through SMS based, IVRS based and web-based applications to facilitate the tracking of fertilizers till the receipt at the last point, i.e. at the retailer level, from whom the farmer buys the fertilizer.

The information visibility at the last point will be there on a Transparent portal and availability can then be seen on real time basis by the farmers. The Task Force, in phase – II, has recommended subsidy disbursement to the Retailer, who will continue to sell the fertilizer to the farmers at subsidized MRP , which paying the full cost of fertilizers (including subsidy received) to the companies / wholesale. In Phase – III, the task force has recommended the transfer of subsidy to farmer. However, this phase will be implemented when once AADHAR numbers are given to all farmers, beneficiaries entitlements are prescribed and AADHAR enable payments are made. The NIC is developing the software for Phase I with fertilizer companies assisting in the implementation.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Recommendation Sl. No./Para No. 6.

NUTRIENT BASED SUBSIDY

The Committee have been informed that the Government has introduced the first phase of Nutrient Based Subsidy (NBS) policy and potassic fertilizers in April 2010. The subsidy on fertilizers will be determined on the basis of nutrient subsidy fixed by the Government and the nutrient contained in the fertilizers. The NBS regime is expected to bring about a balanced use of fertilizers and also given a boost to indigenous production of fertilizers. The Committee recommend that the Department of Fertilizers should closely monitor the implementation of the policy for its success and fruitful results. The Committee also recommend that the Department should take steps for the implementation of this policy which is likely to increase quality and fertility of the soil and agricultural productivity as well as attaining self-sufficiency of fertilizers in the country.

REPLY OF THE GOVERNMENT

An Inter Ministerial Committee has been constituted under the Chairmanship of Secretary (Fertilizer) under the Nutrient Based Subsidy Policy, which inter- alia, recommends rate of subsidy and inclusion of new fertilizers in the Policy. Resultantly, DoF has announced NBS rates during 2010-11 and 2011-12 on the basis of the recommendations of the IMC, which are based on the prices and availability of the Fertilizers in the international market. As per the Nutrient Based Subsidy Policy the MRP of the P & K fertilizer has been left open to be fixed by the manufacturers / importers of the fertilizers at reasonable level. It has been observed that the prices of the fertilizers / raw material in the international market in the recent past has increased, which has resulted in the increase in the MRP of the fertilizers.

After implementation of the NBS w.e.f. 1.4.2010, several new grades of fertilizers have been included in the scheme thereby increasing the number of grades to 25 under the scheme. Under the NBS, additional subsidy is also given for Boron and Zinc fortification which encourages the companies to at micro nutrients in the fertilizers which is beneficial for the farmers.

India is 90% import dependent in Phosphatic fertilizer sector and its raw material and is 100% import dependent on Potash sector. To attain self sufficiency in the Phosphatic and Potasic sector, the Department is trying very hard to acquire assets abroad in order to have long term supply of fertilizers / raw material at reasonable prices.

NBS scheme is being monitored by IMC so that it serves the purpose for which was it implemented.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Recommendation Sl. No./Para No. 7.

FEEDSTOCK POLICY/ ALLOCATION OF GAS TO FERTILIZERS INDUSTRY

The Committee observe that the total requirement of natural gas for existing 20 units is 40.92 mmscmd which is being met from the supplies under APM Gas, JV gas, PMT gas, RIL gas and RLNG gas. An Empowered Group of Ministers (EGOM) was constituted in 2007 to examine and decide issues of gas pricing and commercial utilization of gas under new Exploration Licensing Policy. The Committee were also informed by the Department of Fertilizers that as per assurance given by the Ministry of Petroleum and Natural Gas, most of the naphtha/fuel oil based plant and closed fertilizer plants will get the gas pipeline connectivity by 2009-10/2011-12. The Committee would like to be apprised about the status report in this regard. At the same time the Committee expect the Department of Fertilizers to vigorously pursue the matter with the Ministry of Petroleum and Natural Gas so that effective and expeditious steps are taken by them to achieve these targets.

The Committee need hardly emphasize that pricing and firm availability of natural gas for existing and new units of fertilizer companies are the pre-requisites to increase their indigenous production and would, therefore, desire the Department to play a proactive role in association with the Ministry of Petroleum and Natural Gas towards allocation of gas for the existing and new fertilizer plants in the country.

The Committee are constrained to point out that the Ministry of Petroleum and Natural Gas (MoPNG) has been non-committal on supplying gas on long term basis at an agreed price to the proposed new investments in the fertilizer sector as has been repeatedly requested by Department of Fertilizers. Also, no decision on nomination of a single nodal agency has been taken by the Government to supply gas to fertilizer industries and to address various issues such as gas contracts, take or pay liabilities, variable gas pricing, gas shortfalls etc. The Committee also regret to observe that no specific decision has been taken regarding the issue of nominating GAIL (India) Limited as the nodal authority for supply of gas to fertilizer industry. The Committee are of the view that the Department of Fertilizers should continue to pursue the matter vigorously with the Ministry of Petroleum and Natural Gas (MoPNG) on the both aspects i.e. supply of natural gas to fertilizer industry as per fixed schedule and nomination of a nodal agency for supply of gas to the fertilizer industry. The Committee would like to be informed of the precise action taken in this regard within three months of the presentation of the Report.

REPLY OF THE GOVERNMENT

As desired by the Committee, the above comments of Committee were communicated to Ministry of Petroleum & Natural gas regarding pricing and firm allocation of gas to fertilizer sector and appointment of GAIL(India) Limited as the nodal authority. The issue is pending for decision by the Ministry of Petroleum & Natural Gas.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Recommendation Sl. No./Para No. 9.

PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS

There are nine Public Sector Undertakings (PSUs), one multi-state cooperative society and one joint sector company under the administrative control of the Department of Fertilizers. Out of this, Krishak Bharati cooperative Limited (KRIBHCO), the multi-State cooperative society and three PSUs, viz. National Fertilizers Limited (NFL), Rashtriya Chemicals and Fertilizers Limited (RCF) and Projects and Development (India) Limited (PDIL) are profit making units. Three PSUs, viz. Fertilizers and Chemicals Travancore Limited (FACT), Madras Fertilizers Limited (MFL) and Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) are loss making units. Besides, two PSUs, viz. Fertilizer Corporation of India Ltd. (FCI) and Hindustan Fertilizers Corporation Ltd. (HFCL) are lying closed after incurring losses continuously over a period of time. Non-availability of surplus funds, outdated machinery causing increased cost of production, poor energy efficiency, non-recruitment of experienced and qualified technical manpower are the other factors on account of which some PSUs have been facing losses year after year. Non-availability of natural gas has also been the main impediment. The Committee, however, have been informed that some initiatives have been taken by the Government to examine the technical and economic feasibility for revival of the sick PSUs. The Committee also note that there has been negligible growth of the fertilizer sector during the last decade. The Committee, therefore, recommend that Department and all PSUs should make efforts for taking suitable measures to overcome the constraints and for improving capacity utilization, energy conservation methods and also to bring down manpower and administrative expenditure.

REPLY OF THE GOVERNMENT

The following steps have been taken by the Fertilizer PSUs to overcome constraints and for improving capacity utilization, energy conservation methods and to bring down manpower and administrative expenditure;

National Fertilizers Limited (NFL)

To cut down energy consumption, NFL has undertaken Ammonia Feedstock Changeover Projects at its three FO based units at Nangal & Bhatinda in Punjab and Panipat in Haryana. These projects shall result in reduction in energy consumption, substitute high cost FO with low cost natural gas and substantial reduction in Govt. subsidy outgo. The company has undertaken energy saving and urea capacity enhancement project at Vijaipur-I & II units in Madhya Pradesh. These projects shall result in increase in urea capacity by 16% at Vijaipur-I & by 23% at Vijaipur-II unit i.e. urea capacity shall increase by 3.37 lakh MT. The company over a period of ten years has brought down its Manpower from 6602 as on 31.03.2001 to 4596 as on 31.03.2011.

Rashtriya Chemicals and Fertilizes Limited (RCF)

RCF is a leading profit making Mini-Ratna fertilizer and Chemical manufacturing company engaged in manufacturing of variety of products such as Ujwala urea and complex fertilizer Suphala. Since inception, RCF has economically and safely operated 2 dozen chemical and fertilizer plants for the past four and half decade at Trombay.

RCF always strives for upkeep of the plants through modernization and upgradation of technology. Company has recently modernized its Ammonia-V, Nitric Acid, Methanol and ANP plants. This has facilitated plants to sustain operations and meet technological challenges of improved efficiency, lower energy consumption and maintain/excel environmental norms. It has resulted in achieving highest standards of safety and product quality.

RCF is continuously reviewing the workforce of its various plants and departments in its endeavour to rationalize and optimize the same. Company's productivity in terms of manpower has always been exceptionally high. Govt. has allocated gas on priority basis to RCF.

Brahmaputra Valley Fertilizers Chemicals Limited (BVFCL)

The company is operating its Namrup-II unit and Namrup –III plants which are based on old and vintage technology. These urea units consume high energy as compared to present day plants. Both the plants have outlived their life resulting repeated machine breakdowns. There is also constraints in availability of original spares and surplus funds preventing the company to take up regular maintenance replacement of critical machine parts. All the problems led to lower capacity utilisation and higher energy consumption.

The company has taken various steps to overcome the constraints and improve capacity.

(i) An in-depth internal study of critical areas of plants causing production limitations has been carried out. Based on the study a short/medium term action plan has been drawn up. Funds have been made available in phases from GOI as Plan/Non Plan loan under Renewal & Replacement Schemes for carrying renovation jobs.

(ii) Various renovation/replacement of equipments have already been carried out which have led to savings in energy. With this , the performance of the company is expected to improve significantly.

(iii) BVFCL has already initiated steps for financial restructuring of the company. M/s Haldor Topsoe has been appointed as Process Licensor for comprehensive study of Ammonia plants and M/s PDIL for Urea plant and off-sites/utilities, situated at Namrup-II and namrup III plant. The report of the Process Licensor has been received and under examination in the company.

Madras Fertilizers Limited(MFL)

With the amendment in NPS-III policy restricting the reduction in fixed cost to 10% from 1.4.2009 onwards, the company's Urea operations became viable. The company's operations for the year 2010-11 ended with a profit of Rs. 169.86 crore against profit of Rs. 6.88 crore in the previous year mainly on account of better production performance and lower energy consumption in urea operations coupled with one time settlement benefit from Financial Institutions.

MFL is implementing the projects of conversion of feedstock from naphtha to natural gas. The provision is also being kept to enable processing of both naphtha and natural gas depending upon the availability. Award of work has been issued to M/s HTAS for carrying out engineering Design package and the work is under process. M/s PDIL has been proposed to be the EPCM contractor for this project.

The annual urea production of the company has been 4.79 LMT (98.4% cap) during 2010-11 which is the highest surpassing the previous best of 4.73 LMT during 2006-07. Annual Specific Energy consumption of 7.492 Gcal/MT urea is the lowest, the previous record being 7.769 Gcal/MT in 2004-05. Annual Specific energy consumption of 10.334 Gcal/MT Ammonia is the Lowest, the previous record being 10.411 Gcal/MT in 2004-05.

During the year Marketing performance of the company shows that the company sold a total of 4.74 lakh MT of fertilizers compared to 4.41 lakh MT last year. The total strength of MFL as on 31.3.2011 is 765 as against 802 for the period ending 31.3.2010.

Fertilizers and Chemicals Travancore Limited (FACT)

During the year 2010-11, FACT have achieved considerable improvement in the production. The production of Ammonium Sulphate increased to 2.03LMT as against 1.79LMT in 2009-10 and production of Caprolactum is 0.44LMT in year 2010-11 as against 0.38LMT in 2009-10. However, Financial performance of the company for the year 2010-11 also improved showing loss of Rs. 49.33 crore as against the loss of Rs.103.84 crore during the year 2009-10.

The company is gearing up to switch over to LNG which is expected to be available by 2012 at Kochi. Company plans to expand its NP production levels by 1000TPD and also re-establish Urea production with 1500 TPD Urea plant. DPR for these ventures is being prepared and the company is examining funding ventures like inviting Expression of Interest from Public sector companies for equity participation in these venture.

For financial restructuring of the company, it has been directed to get a thorough study by M/s Deloitte and submit a fully tide up proposal in this regard.

FCI Aravali Gypsum and Minerals India Limited (FAGMIL)

M/s. FCI Aravali Gypsum and Minerals India Limited (FAGMIL) is engaged in mining and marketing of Minerals Gypsum which is used for reclaiming Sodic Soil. The Minerals Gypsum is also used as fertilizer in Agriculture as a sulphur Nutrient.

The company has earned profit (PBT) of Rs. 19.89 crore during the year 2010-11 as against Rs. 15.87 crore in the previous year. The company's sale turnover has been 61.48 crore during the years 2010-11 as against 45.60 crore in the previous year.

Projects and Development & India Limited (PDIL)

PDIL is mainly engaged in design, engineering and consultancy services and also producing catalyst for the fertilizers and refinery industries. During the year 2010-11 company has earned a profit (PBT) of Rs. 31.78 crore against profit of Rs. 21.21 crore in the previous year.

HFCL and FCIL

Pursuant to the decision dated 30th Oct. 2008 of the Cabinet, an Empowered Committee of Secretaries (ECoS) under the Chairmanship of Secretary (F) was constituted to evaluate all options for revival of closed units of Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) and make suitable recommendations. Based on the recommendations of the ECOS, a proposal was sent to CCEA, which approved the same in its meeting held on 4.8.2011 with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited and thereafter, the matter including changes, if any, required in bid parameters, be placed before the Committee for a final decision. BIFR in their meeting held on 18.8.2011 considered the issue and directed State Bank of India, the Operating Agency (OA), to examine the DRS in consultation with Department of Fertilizers and submit their recommendations within 3 months.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Recommendation Sl. No./Para No. 10.

CLOSED PUBLIC SECTOR UNDERTAKINGS (PSUs)

Out of the nine Public Sector Undertakings (PSUs), Hindustan Fertilizers Corporation Limited (HFCL), Madras Fertilizers Limited (MFL), BVFCL and FCIL are sick units. Out of these four, the units of FCIL and HFCL are presently lying closed since 2002. MFL and BVFCL are operational but are sick companies under the administrative control of the Department of Fertilizers. The Committee have been given to understand that an Empowered Committee of Secretaries (ECOS) was constituted in October 2008 under the Chairmanship of Secretary (Fertilizers) and Secretaries of Department of Expenditure, Department of Disinvestment, Planning Commission, Department of Public Enterprises and Ministry of Petroleum and Natural Gas as Members to look into all the financial model for revival of each of the closed units. Similarly, initiatives have also stated to have been taken by the Government to wipe out the accumulated losses of MFL and BVFCL and to make these PSUs commercially viable till availability of gas around 2011-12. The Committee would like the Department of Fertilizers to take effective and expeditious steps to canalize and implement the whole revival process for the closed and loss-making PSUs. The details of such a revival package may be intimated to the Committee within three months of presentation of the Report.

REPLY OF THE GOVERNMENT

The status of revival of HFCL & FCIL and Financial Restructuring of MFL and BVFCL are as under;

Revival of HFCL and FCIL:

Pursuant to the decision dated 30th oct. 2008 of the Cabinet, an Empowered Committee of Secretaries (ECOS) under the Chairmanship of Secretary (F) was constituted to evaluate all options for revival of closed units of Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) and make suitable recommendations. Based on the recommendations of the ECOS, a proposal was sent to CCEA, which approved the same in its meeting held on 4.8.2011 with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited and thereafter, the matter including changes, if any, required in bid parameters, be placed before the Committee for a final decision. BIFR in their meeting held on 18.8.2011 considered the issue and directed State Bank of India, the Operating Agency (OA), to examine the DRS in consultation with Department of Fertilizers and submit their recommendations within 3 months.

Restructuring of BVFCL.

For financial restructuring of the BVFCL, company has appointed M/s Haldor Topsoe as Process Licensor for comprehensive study of Ammonia plants and M/s PDIL for Urea plant and off-sites/utilities, situated at Namrup-II and namrup III plant. A comprehensive proposal for revival of the company will be prepared based on the technical study report of by Process Licensor M/s Halder Topsoe and PDIL. A thorough study at the existing Namrup-II and Namrup-III plants has already been carried out by them and they have submitted a draft reports in August 2011. In the reports, energy saving schemes as well as required renovation to operate the plants at sustained Load have been suggested. The report is under examination in the company.

Restructuring of MFL:

With regard to restructuring of MFL it may be mentioned that M/s PDIL has submitted its report and recommended the conversion of GOI loan into equity and waiver of outstanding interest liability towards GOI. The views of foreign promoter NICO (Holding 25.77% equity stake) has also been received, they have opposed for sale of assets and conversion of Govt. Loan into Equity.

Since MFL is a sick company and BIFR has appointed State Bank of India as a Operating Agency for submitting a Financial restructuring proposal for MFL, the report of PDIL and the views of Foreign promoter NICO was forwarded to SBI for consideration.

State Bank of India (SBI) had considered the viability of the proposal and views of foreign promoter NICO and submitted the report on the financial restructuring package of MFL. The Board of Directors of the company considered to report of the OA and approved it.

After considering the views of the Board of MFL, NICO and Operating Agency, a BRPSE note for financial restructuring of MFL was circulated for inter-ministerial comment. The comments have been received and are under consideration.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

CHAPTER – III

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

NIL

CHAPTER – IV

OBSERVATIONS / RECOMMENDATIONS IN RESPECT OF WHICH REPLY OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation Sl. No./Para No. 3.

DEMANDS FOR GRANTS ALLOCATION

The Committee are of the view that the non-plan expenditure of the Department need to be kept under control. While the allocation under then non-plan head (RE) reached a peak of Rs. 1,00,491.16 crore during 2008-09, the figures for the financial years 2009-10 to 2010-11 are Rs. 56,600.50 and Rs. 57,860.00 crore respectively. The Department has failed to provide any satisfactory response to a specific query as to how to deep the Non-Plan expenditure under control. While the Committee agree that farmers need to be protected from price volatility in the international market and other negative factors, the need to rein in the ballooning expenditure under the Non-Plan allocation cannot be over-emphasized. The Committee, therefore, recommend that the Department should take steps on a priority basis to address this issue and intimate the measures taken in this regard to them.

REPLY OF THE GOVERNMENT

Government of India, Department of Fertilizers has introduced Nutrient Based Subsidy Policy in continuation of the erstwhile concession scheme for decontrolled Phosphatic & Potassic Fertilizers w.e.f. 1.4.2010. This policy has been introduced in the context of Nation's Food Security, declining response of agricultural productivity to increase fertilizer usage and to ensure balance application of fertilizers in the country. As per this policy, fixed rate of subsidy of the nutrients of Nitrogen (N), Phosphate (P), Potash (K) and Sulphar (S) per kilogram/per tonne is fixed by the Government based on the recommendations of the Inter Ministerial Committee under the Nutrient Based Subsidy Policy. These rates based on the international prices of the Fertilizers/intermediates/raw materials and exchange rates. As per this policy, a fixed rate of subsidy is announced annually and the MRP of P&K fertilizers has been left open to be fixed by the manufacturers/importers at the reasonable level. Resultantly, the rise/fall of the prices of fertilizers/intermediates/raw material and the exchange rate in the international market had a direct bearing on the cost of the fertilizers, which results into higher MRP of the P&K fertilizers. Under the Nutrient Based Subsidy Policy, when the rates of subsidy amount is fixed, the quantum of subsidy increases only with the increase iin the consumption of the fertilizer. The increase in the prices of the fertilizers in the international marker leads to increase in the MRP.

Prior to the introduction of the Nutrient Based Subsidy Policy w.e.f. 1.4.2010, the MRP of the P & K Fertilizers covered under the concession scheme was fixed by the Government of India, which was much below the actual cost of the fertilizers. Any rise / fall of the prices of fertilizers/intermediates/raw material and the exchange rate in the international market had the direct bearing on the cost of the fertilizers, which resulted into higher subsidy of the p&K Fertilizers.

More than 90% of the requirement of P&K fertilizers of the country is met through imports. The sources of Potash in the country is non-existent. Accordingly, the escalation / de-escalation of the prices of the fertilizers in the international market is to be borne by the farmers under Nutrient Based Subsidy Policy or by the Government under the erstwhile concession scheme for decontrolled phosphatic & potassic fertilizers. The country doesn't have any control on the volatility of the prices of the fertilizers in the international market. Since the subsidy is fixed, the volatility of price in the international price has direct bearing on MRP of fertilizers. Since under th NBS policy, the subsidy is fixed on annual basis, long term contracting is possible and therefore it reduces the volatility of prices of fertilizers in the country in comparison to international market.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Comments of the Committee

(Please see Para No.10 of Chapter – I of the Report)

Recommendation Sl. No./Para No. 4.

SUBSIDY / CONCESSION ON FERTILIZERS

The Committee note that the total subsidy disbursed on fertilizers has increased from Rs. 28,019.55 crore in 2006-07 to Rs. 64,032.29 crore in 2009-10 and Rs. 52,840.73 crore in 2010-11 (BE). The total subsidy released on urea has increased from Rs. 17,721.43 crore in the year 2006-07 to Rs. 24,340.73 crore in the year 2010-11 (BE). The subsidy on P&K fertilizers has increased from Rs. 10,298.12 crore in the year 2006-07 to Rs. 28,500.00 crore in the year 2010-11 (BE). The Committee's examination has revealed that the increase in subsidy bill is due to higher consumption of fertilizers and also the rise was due to the increase in international prices of imported fertilizers and increase in the cost of inputs of indigenous fertilizers during the year 2006-07 to 2010-11. Considering all these facts, the Committee desire that concerted efforts are needed to cut the galloping subsidy bill. Needless to say, that in view of increased consumption of fertilizers and international prices of fertilizer, inputs and finished fertilizers, there is an urgent need for technological innovation, state of the art machinery, reducing the cost of production, energy efficiency measures, experienced and qualified technical manpower and optimum capacity utilization so as to reduce our dependence on imports and increase the indigenous production of fertilizers.

REPLY OF THE GOVERNMENT

More than 90% of the requirement of the phosphatic fertilizers and its raw materials in the country is met through imports. Since NBS has been implemented on P&K fertilizers in which a fixed subsidy is decided on annual basis taking into consideration of the international prices and affordability of farmers. The MRP of fertilizers has been allowed to be fixed by companies at reasonable level depending upon demand and supply balance. In this scenario, companies needs to minimise the cost of production so as to reduce its MRP in the country and be competitive.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

Comments of the Committee

(Please see Para No.13 of Chapter – I of the Report)

Recommendation Sl. No./Para No. 8.

ASESSED REQUIREMENT AND AVAILABILITY OF FERTILIZERS

The Committee note that equitable distribution of fertilizers in all parts of the country is an important criteria for facilitating increased productivity in agriculture sector.

At present, the Department of Fertilizers is required to ensure availability of urea, as per the requirement assessed by the Department of Agriculture and Cooperation. The Committee note that the movement of fertilizers is monitored throughout the country by an on-line web based monitoring system (FMS), still the farmers are facing great difficulty in getting the fertilizers on time and also they are facing the problem of artificial scarcity/shortage in some parts of the country. The Committee, therefore, strongly recommend that the Department of Fertilizers should devise a foolproof mechanism for proper and equitable distribution of fertilizers in all parts of the country especially in remote, hilly and inaccessible areas. Also, the Department of Fertilizers should make serious efforts to collaborate with the State Governments to tackle the problem of artificial shortage and punish hoarders and black marketeers.

Comments of the Committee

(Please see Para No.16 of Chapter – I of the Report)

REPLY OF THE GOVERNMENT

There may be some stress in fertilizer availability in case of smaller States because of non availability of adequate warehouse capacity. As a result of this, the States lift fertilizers as and when required.

As per Clause 4 (a) of the Fertilizer (Control) Order – Display of stock position of fertilizers – Every dealer, who makes or offers to make a retail sale of any fertilizers, shall prominently display in his place of business – the quantities of opening stock of different fertilizers held by his on each day. Any person violating this mandatory provision of FCO is held liable to be proceeded under the provisions of FCO and Essential Commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices viz., hoarding etc.

Under Clause 21 of the Fertilizer Control Order (FC)), 1985, it is mandatory to print the maximum retail price on each bag of fertilizers whether under statutory price control or out of the purview of the statutory price control. No person shall charge higher than the price printed on the bag. Any person violating this mandatory provision of FCO is held liable under the provisions of FCO and Essential Commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

CHAPTER – V

OBSERVATIONS / RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT ARE OF INTERIM NATURE

Recommendation Sl. No./Para No. 11.

INDIAN FERTILIZER JOINT VENTURE ABROAD

Due to constraints in the availability of requisite raw materials including gas in the country, the Government is stated to have been encouraging Indian companies to establish joint venture production facilities with buy-back arrangement in other countries, which are rich in fertilizer resources. In this regard, the Committee note with satisfaction that the Government has been encouraging Indian companies to establish joint venture projects in other countries which have rich resources of natural gas and rock phosphate as it would help in augmenting the supply of fertilizers. The Committee, however, observe that only a token amount of Rs.1 lakh has been allocated to joint venture abroad in BE 2010-11 and in the BE of 2011-12. To encourage more joint ventures abroad, the Committee feel that more amount should be allocated in the budgetary provisions under the head. The Committee recommend that the Government should encourage these initiative and explore the possibilities of new joint ventures which would help in making available assured sources of supply of raw materials to the fertilizer industries. The Committee also desire that some incentives should be given to the Indian companies to explore and establish joint ventures abroad.

REPLY OF THE GOVERNMENT

The possibilities of having access to the Natural Resources required for fertilizers and setting up of Joint Ventures fertilizer projects in the Countries rich in fertilizer resources, is being explored. The token provision of Rs. 1 lakh for joint ventures abroad was kept in the BE 2010-11 and BE 2011-12 with a view to keep the head alive with the consideration that in case of some concrete development in this regard, Department of Expenditure / Planning Commission would be requested for requisite funds. As regards providing incentives for the Indian Fertilizer entities for exploration and establishing joint ventures abroad, the same was addressed in the investment policy of 2008, which is now being considered for revision by a Committee of Secretaries under Planning Commission.

[Department of Fertilizers OM No.5(1)/2011-Fin.II]

NEW DELHI;
13th MARCH, 2012
23 Phalguna, 1933 (SAKA)

GOPINATH MUNDE,
Chairman,
Standing Committee on
Chemicals and Fertilizers

APPENDIX – I

MINUTES

MINUTES OF THE FOURTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2011-12)

The Committee sat on Monday, the 05 March, 2012 from 1500 hrs. to 1600 hrs. in Room No.53, Parliament House, New Delhi.

Present

Shri Raghunandan Sharma **-** **In the Chair**

MEMBERS

LOK SABHA

2.	Shri Prabhatsinh Pratapsinh Chauhan
3.	Smt. Paramjit Kaur Gulshan
4.	Shri Yashbant N.S. Laguri
5.	Shri Baidya Nath Prasad Mahato
6.	Shri O.S. Manian
7.	Shri N. Peethambara Kurup
8.	Shri Ponnam Prabhakar
9.	Shri Tufani Saroj
10.	Shri Raju Shetti
11.	Shri Om Prakash Yadav
RAJYA SABHA	
12.	Shrimati Naznin Faruque
13.	Shri Parshottam Khodabhai Rupala
14.	Prof. Anil Kumar Sahani
15.	Dr. C.P. Thakur
16.	Shri Dilipbhai Pandya

SECRETARIAT

i) Shri C. S. Joon - Joint Secretary
ii) Smt. Emma C. Barwa - Under Secretary

2. As the Chairman could not attend the sitting due to pre-occupation, the members chose Shri Raghunandan Sharma, MP and a member of the Committee, to act as the Chairman. The Acting Chairman welcomed the members to the sitting of the Committee.

3. The Committee thereafter took up for consideration and adoption the following draft Action Taken Reports :

(i) *** *** *** *** ***

(ii) Draft on Action Taken by the Government on the recommendations contained in the Eighteenth Report (15th Lok Sabha) on Demands for Grants (2011-12) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers);

(iii) & (iv) *** *** *** ***

4. After some discussion, the draft Reports were adopted by the Committee with minor amendments as indicated in the Annexure-I, II, III and IV respectively.

The Committee then adjourned.

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

Annexure-II

[Please see para 4 of the minutes]

Recom. No.	Page No.	Para No.	Line	Amendments/ modifications
8	13	16	10 from the top	**Substitute** " ………. The Committee …………… parts of the country." **By** "The Committee, however, feel that the fair and equitable distribution of fertilizers in different parts of the country is neglected."

APPENDIX – II

(*Vide* Para 3 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE EIGHTEENTH REPORT (FIFTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2010-11) ON 'DEMANDS FOR GRANTS (2011-12)' OF THE MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

I	Total No. of Recommendations	11
II	Observations / Recommendations which have been accepted by the Government:- (*Vide* Recommendation at Sl.Nos. 1,2,5,6,7,9 and 10)	07
	Percentage of Total	63.63%
III	Observation / Recommendation which the Committee do not desire to pursue in view of the Government's reply:- (*Vide* Recommendation at Sl.No. Nil)	00
	Percentage of Total	0%
IV	Observation / Recommendation in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (*Vide* Recommendation at Sl.No. 3,4 and 8)	03
	Percentage of Total	27.27%
V	Observations / Recommendations in respect of which replies of the Government are of interim nature:- (*Vide* Recommendation at Sl.No.1)	01
	Percentage of Total	9.10%