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STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2009-10)

FIFTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS

(DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS
(2009-2010)

SECOND REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2009/ Agrahayana 1931, (Saka)

COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2009-10)

Shri Ananth Kumar - Chairman **Members** **Lok Sabha**	
2	Smt. Sushmita Bauri
3	Shri Prabhatsinh P. Chauhan
4	Shri K.D. Deshmukh
5	Shri Ganeshrao Nagorao Dudhgaonkar
6	Shri Madhu Koda
7	Shri N. Peethambara Kurup
8	Shri Baidyanath Prasad Mahato
9	Shri Ponnam Prabhakar
10	Shri Ashok Kumar Rawat
11.	Shri Suresh Kumar Shetkar
12	Shri Ajit Singh
13	Shri N. Cheluvaraya Swamy
14	Shri Narendra Singh Tomar
*15	Vacant
16 to 21	Vacant
RAJYA SABHA	
22	Shri J.D. Seelam
23	Shri Raghunandan Sharma
24	Dr. C.P. Thakur
25	Shri Brijlal Khabri
26	Shri A.A. Jinnah
27	Shri Raj Mohinder Singh Majitha
28	Shri Biswajit Daimary
#29	Vacant
30 to 31	Vacant

*** Consequent upon nomination to the Committee on Information Technology Shri Tufani Saroj, MP (LS) ceased to be Member of the Committee w.e.f. 13.10.2009.**

 # Vacancy arisen due to demise of Shri Mahendra Sahni, MP (RS) w.e.f. 6 November 2009.

SECRETARIAT

1.	Shri N. K. Sapra	-	Additional Secretary
2.	Shri P. Sreedharan	-	Joint Secretary
3.	Shri A.K. Srivastava	-	Deputy Secretary
4.	Smt Madhu Bhutani	-	Committee Officer

SECOND REPORT

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2009-10)

(FIFTEENTH LOK SABHA)

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS

(2009-2010)

Presented to Lok Sabha on ***08.12.2009***

Laid in Rajya Sabha on ***08.12.2009***

LOK SABHA SECRETARIAT
NEW DELHI

DECEMBERl, 2009/ Agrahayana 1931 (Saka)

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I. INTRODUCTORY

Agriculture which accounts for one-fifth of GDP, provides sustenance to two-thirds of our population. Besides, it provides crucial backward and forward linkages to the rest of the economy alongwith livelihood to a large section of population in India. Fertilizer is one of the key inputs for agriculture and, along with seeds and irrigation, it helps in increased productivity in agriculture.

2. The main objectives of the Department of Fertilizers (DOF), a Department under the Ministry of Chemicals and Fertilizers are to ensure adequate and timely availability of fertilizers for maximizing agricultural production in the country and for this purpose to promote and assist industries in the fertilizers sector. They also plan and arrange import and distribution of fertilizers in the entire country.

3. The main activities of the Department of Fertilizers (DOF) include planning, promotion and development of the Fertilizer Industry; overall planning and monitoring; 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 four Divisions dealing with (i) Fertilizers Projects and Planning (ii) Fertilizer Imports, Movement and Distribution (iii) Administration and Vigilance and (iv) Finance and Accounts.

4. The Office of Fertilizer Industry Coordination Committee (FICC) is an attached office under the Department of Fertilizers headed by the Executive Director. The FICC comprises the Secretaries to the Government of India in the Department of Fertilizers, Industrial Policy and Promotion, Agriculture and Cooperation, Expenditure, Ministry of Petroleum and Natural Gas, Chairman, Tariff Commission and two representatives of the urea industry. FICC, which was initially constituted w.e.f. 1 December 1977 to administer and operate the erstwhile Retention Price Cum Subsidy Scheme (RPS), has been replaced vide Resolution dated 13 March 2003 to administer and operate the New Pricing Scheme (NPS), which has come into existence w.e.f. 1 April 2003. The policy for Stage-III (NPS-III) of the New Pricing Scheme for Urea has been amended on 8 March 2007 making it effective from 1 October 2006.

5. The Department have under its administrative control nine Public Sector Undertakings (PSUs), one Multi-State Co-operative Society and one Joint Sector Company. The details are as under:-

Sl. NO.	Name of Company/ Public Sector	Headquarters	Incorporated in
1	2	3	4
(i)	Fertilizers and Chemicals Travancore Ltd. (FACT)	Udyogmandal	September 1943
(ii)	Fertilizer Corporation of India Ltd. (FCI)	New Delhi	January 1961
(iii)	National Fertilizers Ltd.(NFL)	Noida	August 1974
(iv)	Rashtriya Chemicals & Fertilizers Ltd. (RCF)	Mumbai	March 1978
(v)	Madras Fertilizers Limited (MFL)	Chennai	December 1966
(vi)	Projects & Development India Ltd. (PDIL)	Noida	March 1978
(vii)	Hindustan Fertilizer Corporation Limited (HFC)	New Delhi	March 1978
(viii)	Brahmaputra Valley Fertilizer Corporation Limited (BVFCL)	Guwahati	April 2002
(ix)	FCI Aravali Gypsum and Minerals India Limited (FAGMIL)	Jodhpur	February 2003
	Co-operative Sector		
(x)	Krishak Bharti Cooperative Limited (KRIBHCO)	Noida	April 1980
	Joint Sector		
(xi)	Indian Potash Limited (IPL)	Chennai	February 1971

II. IMPLEMENTATION STATUS OF RECOMMENDATIONS CONTAINED IN THE TWENTY-SIXTH REPORT ON DEMANDS FOR GRANTS (2008-09)

6. The Standing Committee on Chemicals and Fertilizers presented their 26th Report on Demands for Grants (DFG) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) for the year 2008-09 on 16 April 2008 in Lok Sabha and on 23 April 2008 in Rajya Sabha. The Committee presented their 29th Report on 'Action Taken by the Government on the recommendations contained in the 26th Report of the Committee on Demands for Grants (2008-09) of the Department of Fertilizers' in Parliament on 16 December 2008. Out of the eighteen recommendations contained in the 26th Report, twelve recommendations (Sl. Nos. 1, 2, 3, 5, 7, 8, 9, 10, 12, 13, 17 and 18) were accepted by the Government. In respect of three recommendations (Sl. No. 4, 6 and 11), the replies of the Government have not been accepted by the Committee. In respect of rest of the three recommendations (Sl. Nos. 14, 15 and 16), the replies of the Government were interim in nature. The 29th Action Taken Report was sent to the Department of Fertilizers on 17 December 2008 for furnishing Action Taken Statement on the recommendations made by the Committee in the Report. Subsequently, the then Minister of the Chemicals and Fertilizers made a statement in Lok Sabha and Rajya Sabha on 24 October 2008 regarding the status of implementation of the recommendations contained in the 26th Report of the Committee on Demands for Grants (2008-09) under direction 73A of the Directions by the Speaker Lok Sabha. On the basis of the information made available by the Department of Fertilizers, the category-wise analysis of implementation of recommendations by the Government is given as under:-

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
A.	Gist of the recommendations which were accepted by the Government	
1	The Committee had recommended for implementation of the partially implemented/ not implemented recommendations contained in the Seventeenth Report of the Committee on Demands for Grants 2007-08 of the Department of Fertilizers.	The Department of Fertilizers (DOF) stated that they are making all out efforts for implementation of those recommendations which were not accepted by the Committee and also those which were of interim nature. One recommendation i.e. 1(6) pertaining to disbursal of direct subsidy to farmers has not been found feasible.
2.	The Committee had recommended that re-appropriation of funds from one scheme to another should be carried out so that the amount allocated to the Department of Fertilizers is fully utilized in the particular financial year.	The DOF stated that the PSUs are being separately advised to plan and complete the scheme in a time bound manner so that if needed the re-appropriation of funds from one scheme to another scheme can be carried out and the amount allocated under the annual plan is fully utilized during the relevant financial year.
3.	The Committee had recommended that Department of Fertilizers should strengthen the monitoring mechanism to enable each	The Department of Fertilizers stated that the physical output and outcomes of the approved schemes are reviewed in the

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
	Public Sector Undertaking (PSUs) under their administrative control for implementation of their programme effectively by proper utilization of funds during each year of the Eleventh plan.	quarterly review meetings. The Department have also undertaken to review plan expenditure of all the companies every three months at the level of Additional Secretary and Financial Advisor so as to ensure that there is no shortfall in utilization of plan funds.
5.	The Committee had recommended that the Department should devise a mechanism in coordination with the State Governments for monitoring the fair distribution of fertilizers from block level in order to ensure transparency in the distribution system.	The DOF stated that they have been impressing upon the State Governments to upload the information relating to block-wise requirement/ supply plan of urea on the web-based Fertilizers Monitoring System (FMS) to monitor its availability at block level.
7.	The Committee had felt that Government should ponder over the root cause of increasing subsidy bill in indigenous production and try to plug the loopholes and revamp the system. The Committee therefore had recommended that increase in the subsidy amount was not the permanent solution rather the Department should go into the root cause of high subsidy bill and accordingly modernize the existing machinery/ technology of the concerned PSU.	The DOF stated that the sharp increase in subsidy bill is mainly due to the sharp increase in international price of fertilizer inputs and finished fertilizers. Steady increase in consumption of fertilizers have also contributed towards increase in subsidy bill. The Minister has stated that the production of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) is crucial towards meeting the demand in North-Eastern Region of the country. Nevertheless, there is a case for improving the energy efficiency in BVFCL. The same is being taken up separately with the company for making the necessary investments required towards improvement of energy efficiency in the units.
8.	The Committee had recommended that Department of Fertilizers should take up the issue for payment of subsidy in cash instead of bonds with the Ministry of Finance in right earnest and resolve the issue to the satisfaction of fertilizer industries. The Committee had also recommended that concerted efforts should be made by the Government to minimize the subsidy dues so that the same are not carried forward in the coming years.	The DOF stated that they have taken up the issue with the Ministry of Finance for additional allocation of funds for release of fertilizer subsidy in 2008-09 in cash and not in bonds. Efforts are being made to get adequate allocation so that minimum subsidy dues are carried over to next year.
9.	The Committee had recommended that the payment of subsidy should be made in time. The Committee had also desired 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 DOF stated that the payment of fertilizer subsidy is a continuous process and DoF are making all out efforts to release fertilizer subsidy to fertilizer companies on time. Further, the matter is being regularly taken up with the competent authority for additional allocation of funds to meet the requirement of fertilizer subsidies.
10	The Committee had recommended that an effective coordination and monitoring mechanism be evolved to implement the distribution system of fertilizers at block level successfully so that availability of fertilizers should not remain in official records only but reaches to the masses actually.	The DOF stated that they have been impressing upon the State Governments to upload the information relating to block-wise requirement/ supply plan of Urea, DAP, MoP and complex fertilizers on the web-based Fertilizer Monitoring System (FMS) and also to ensure that fertilizer actually reaches every block within the State as per the supply plan.
12	The Committee had recommended that sufficient warehousing capacity should be created in Arunachal Pradesh to reduce its dependence on neighbouring States as the transport facilities in the North-Eastern States are not adequate and cost effective as in	The DOF stated that the contents have been noted. The matter is being explored with the State Governments in the North-east and M/s BVFCL.

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
	other parts of the country. The Committee had also recommended that the Department should take up the matter with the Governments of North-Eastern States to maintain a mandatory buffer stock in these States on priority basis in consultation with BVFCL and State Governments.	
13.	The Committee had recommended that the Department should undertake an effective long term planning to ensure early finalization of the proposal regarding concession on SSP with input prices. The Committee had also desired that Department should 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.	The DOF stated that at present 78 Single Super Phosphate (SSP) manufacturing units are covered under the concession scheme. The Department of Fertilizers have announced revised concession scheme for SSP fertilizer for 2008-09 on 30.04.2008 w.e.f. 01.05.2008. As regards the proposal to provide freight transportation to all fertilizers on actual basis, the same is being implemented separately.
17.	The Committee had recommended that approved revival/ proposals should be implemented within a time bound manner. The Committee had also recommended 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. The Committee had also desired that Department should formulate a policy in consultation with PSUs and Ministry of Finance for surplus and unskilled workers.	The Department of Fertilizers stated that Government has already initiated steps for revival of closed fertilizers units and appropriate plan allocations are expected to be available at the time of final decision in the matter. Further the matter of allocation of gas to fertilizer sector on priority basis has also been taken up with Ministry of Petroleum and Natural Gas and Department of Fertilizers has been assured of availability of gas on priority basis. Further the proposal for VRS/VSS scheme will be examined by DoF in consultation with Department of Public Enterprises (DPE) for implementing the scheme and with Minister of Finance for providing necessary funds.
18.	The Committee had desired that DoF 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 had also desired that urgent steps should be taken by the Department for early finalization of the revival and restructuring proposals. The Committee had also recommended that Department of Fertilizers should tackle both the issues regarding availability of gas and finalization of New Investment and Conversion policies at priority basis.	The DoF stated that they are reviewing and monitoring the performance of all PSUs under its control on a regular basis through the Quarterly Review Meetings (QRMs) at the level of Secretary (Fertilizers). Suitable directions are issued to the PSUs wherever deficiencies are noticed to take remedial measures and improve their performance. As regards the revival and restructuring proposals, expeditious steps are being taken and the process of obtaining the necessary approval are under various stages of implementation.
B.	Gist of recommendations on which reply of the Government has not been accepted by the Committee	
4.	The Committee had recommended that incentive should also be given to those companies who have achieved targets more than 90%. The Committee also recommended that the process regarding revival of closed/ sick fertilizer units should be completed at the earliest and Government should also finalise the various policy decisions pending with them without any delay to increase the indigenous production of urea and to achieve the production targets.	The DOF stated that as regards the issue of incentive to the companies for production beyond 90% of their reassessed capacity is concerned, production beyond 100% of installed capacity has already been incentivised under NPS Stage-III. The revival of closed fertilizer units in the country is under active consideration of the Government. As regards the new policy for attracting investments in urea sector, the policy based on the recommendations of Professor Sen Committee is expected to be

Rec. Sl. No.	Recommendation in Brief	Implementation by Government
		finalised shortly.
6	The Committee had recommended that after revaluating the subsidy amount the Government should make sufficient budgetary provision to meet the fertilizer subsidy bill including the carry over from the previous years. The Committee had also recommended that DoF should pursue the matter with the Planning Commission so that adequate amount should be allocated to the Department of Fertilizers for meeting the subsidy bill.	The DOF stated that substantial increase in the amount of subsidy over last 3-4 years is mainly on account of the sharp increase in prices of fertilizer inputs and finished fertilizers in the international market. They have also stated that the estimated requirement of subsidy for 2008-09 is Rs. 95013 crore including Rs.5000 crore carryover from 2007-08. The above estimates have been intimated to Ministry of Finance to make available adequate funds for release of subsidy during the year 2008-09.
11	The Committee had recommended that in view of the increased demand of fertilizers, Department should take the initiative of maintaining buffer stock of urea in the remaining States/ Union Territories also to ensure uninterrupted supply of fertilizers to all the States and Union Territories.	The DOF simply stated that they have noted the contents.
C.	Gist of recommendations on which replies of the Government were Interim in nature	
14.	The Committee had recommended that concerted efforts should be made by the Department to encourage the investment in fertilizer sector and in the production of fertilizer so as to enhance the production capacity of Di-Ammonia Phosphate (DAP) fertilizer and to reduce the dependence of the country on imports.	The DOF stated that they are in process of finalizing a New Investment Policy for Urea sector which is expected to encourage investments and addition of indigenous capacities in future. Further, in phosphatic sector an import parity based policy has been approved on 26.06.2008 w.e.f. 01.04.2008 to encourage production of phosphatic fertilizers in the country and also facilitate possibility of new investment in this sector.
15.	The Committee had recommended that a stable and final policy should be formulated at the earliest to implement the Stage-III of New Pricing Scheme (NPS) successfully and the proposal for suitable modifications in the provisions under this scheme should also be finalised by the Department in a stipulated time bound period. The Committee had also desired that Department should explore the feasibility of pricing policy based on normative parameters away from cost based formula.	The Department of Fertilizers stated that the provisions of New Pricing Scheme (NPS) Stage-III are currently under implementation. The proposal for modification in the provision under NPS-III to resolve issues raised by fertilizer companies is under inter-ministerial consultations and is expected to be decided shortly. As regards the feasibility of pricing policy based on normated parameters, a policy for new investments in urea sector based on normated parameter is under active consideration of the Department and is expected to be decided shortly.
16	The Committee had recommended that 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. The Committee also recommended early finalisation of policy for conversion of non-gas based units to gas based units and new investment policy in urea sector.	The Department of Fertilizers stated that the proposal for New Investment Policy is currently under Inter- Ministerial Consultation and the same is expected to be finalized shortly. The policy for conversion of non-gas based units to gas is also under Inter-Ministerial Consultations and is expected to be finalized shortly. Further it has been decided in the Empowered Group of Ministers (EGOM) meeting to accord highest priority to fertilizer sector for allocation of gas.

7. The 26th Report of the Committee on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) was presented to Lok Sabha on 16 April 2008 and Rajya Sabha on 23 April 2008. The 29th Report of the Committee on Action Taken by the Government on the recommendations contained in the 26th Report was presented to Lok Sabha on 16 December 2008.

The analysis of the Committee on implementation of recommendations by the Government has revealed that out of the total eighteen recommendations, the Department of Fertilizers have implemented only six recommendations, viz. recommendations Sl. No. (2, 3, 7, 8, 9 & 13) so far, whereas the implementation process with regard to nine recommendations, viz. recommendations Sl. No. (1, 5, 10, 12, 14, 15, 16, 17 & 18) relating to investment in fertilizer sector, exploring the feasibility of pricing policy, giving priority for allocation of natural gas to fertilizer sector, etc. as per latest information submitted to the Committee, are at various stages of implementation. The Committee, therefore, desire that the Government should implement the remaining recommendations expeditiously. They would also like to be apprised of the conclusive action taken in regard to such recommendations.

(Recommendation Sl. No.1)

III. OVERVIEW OF FERTILIZER INDUSTRY

8. Recounting the growth of the fertilizer industry in India, the Department of Fertilizers in their Annual Report have stated that the industry made a very humble beginning in 1906, when the first manufacturing unit of Single Super Phosphate (SSP) was set up in Ranipet near Chennai with an annual capacity of 6000 MT. The Fertilizer & Chemicals Travancore Limited (FACT) at Cochin in Kerala and the Fertilizers Corporation of India (FCI) in Sindri in Bihar (now Jharkhand) were the first large sized fertilizer plants set up in the forties and fifties with a view to establishing an industrial base to achieve self-sufficiency in food-grains. Subsequently, green revolution in the late sixties gave an impetus to the growth of fertilizer industry in India and the seventies and eighties then witnessed a significant addition to the fertilizer production capacity. The installed capacity as on 31 March 2009 has reached a level of 120.61 lakh MT of nitrogen and 56.59 lakh MT of phosphatic nutrient, making India the 3rd largest fertilizer producer in the world. Presently, there are 56 large size fertilizer plants in the country manufacturing a wide range of nitrogenous, phosphatic and complex fertilizers. Out of these, 30 (as on date 28 are functioning) units produce urea, 21 units produce DAP and complex fertilizers, five units produce low analysis straight nitrogenous fertilizers and nine manufacture ammonium sulphate as by-product. Besides, there are about 78 medium and small-scale units in operation producing SSP. The sector wise installed capacity is given in the table below: -

SECTOR-WISE, NUTRIENT-WISE INSTALLED CAPACITY OF FERTILIZER MANUFACTURING UNITS - AS ON 31.03.2009.

Sr. No	Sector	Capacity (lakh MT)		Percentage Share	
		N	P	N	P
1	Public Sector	34.98	4. 33	29.0	7.65
2	Cooperative Sector	31.69	17.13	26.27	30.27
3	Private Sector	53.94	35.13	44.73	62.08
	Total	**120.61**	**56.59**	**100.00**	**100.00**

9. In the prevailing status of the agriculture sector in the country, with the challenges posed by the drought conditions in several parts and the vital role played by chemical fertilizers for the success of agricultural production, the Committee wanted to know the assessment of the Department of Fertilizers about the current situation in the country. In a note, the Department of Fertilizers, stated that the role of the Department of fertilizers is limited to ensure availability of fertilizers in the States as per the requirement assessed by the Department of Agriculture & Cooperation(DAC). The Department of Fertilizers have been able to ensure sufficient

availability of fertilizers, as per requirement assessed by DAC. Agriculture extension activities are carried out by DAC and the Agriculture departments of the States. The consumption (Sales) of Urea, DAP, MOP and Complex fertilizers in Kharif 2009 from April to August is 95.57 LMT, 52.11 LMT, 13.01 LMT and 27.46 LMT respectively compared to the consumption (Sales) of Urea, DAP, MOP and Complex fertilizers of 99.94 LMT, 40.26LMT, 16.76 LMT and 28.00 LMT respectively during the same period in the last Kharif. From the above, it can be seen that consumption of Urea, MOP and Complex fertilizers has decreased while consumption of DAP has increased.

10. When the Committee desired to know as to how the Department of Fertilizers evaluate the growth of the fertilizer industry in the country over the years, the Department in their post evidence reply, stated as under:-

> "The major fertilizer consumed in India can be classified as Nitrogenous, Phosphatic and Potassic based on the nutrient content therein.
>
> Our country is completely deficient in potassic resources with 100% of the indigenous requirement being met through imports. There are no known economically exploitable reserves of potash in the country.
>
> In phosphatic sector, though there are some deposits of rock phosphates in the country, they are sufficient to meet approximately 10% of the current requirement of phosphatic fertilizer in the country. The remaining 90% of the requirement need to be met through import either in the form of raw materials, intermediates or finished fertilizers.
>
> In nitrogenous sector, we have urea production capacity of approximately 20 million tonnes of urea which currently meets 75% of our requirement. The production of urea is based on inputs like Natural Gas, RLNG, Naphtha, FO/LSHS etc. India is an energy deficient country with majority of the crude oil requirement (which leads to production of naphtha, fuel oil etc.) and significant portion of natural gas requirements is met through imports. Thus, in nitrogenous sector too, we are indirectly import dependent.
>
> The growth of fertilizer industry in the country has not kept pace with the growing requirement of fertilizer in the country due to above constraints. However, it is expected that with the current natural gas finds in the country and the projected increase in its availability, the production of nitrogenous fertilizer in India will increase significantly to help the country achieve near self-sufficiency in at least nitrogenous sector. As far as phosphatic and potassic sector is concerned, the country will have to depend upon imports to meet its growing requirements."

11. The major fertilizers consumed in India have nitrogenous, phosphatic and potassic based nutrients. Presently, India is the third largest fertilizer producer in the world with the installed capacity as on 31 March 2009 reaching a level of 120.61 lakh MT of nitrogenous and 56.59 lakh MT of phosphatic nutrients. However, the growth of the fertilizer industry has not kept pace with the growing requirement of the fertilizer in the country due to the absence of potassic resources, paucity of raw materials and intermediates in the phosphatic sector and energy deficiency in the nitrogenous sector. This is a matter of serious concern. According to the Department of Fertilizers, with the current finding of natural gas in the country and the projected increase in its availability, the production of nitrogenous fertilizers in India is expected to increase significantly to achieve self sufficiency in the nitrogenous sector by the country. However, keeping in view the vital role played by chemical fertilizers as one of the key inputs for the success of agriculture in the country, the Committee feel that there is an urgent need for suitable steps to be taken by the Department to ensure a sustained growth of the fertilizer industry as a whole. The Committee, in this regard, desire that the Department should vigorously pursue the issues regarding suitable and uninterrupted allocation of natural gas and laying of gas pipeline with the Ministry of Petroleum and Natural Gas. The Committee are of the view that with the increased allocations of gas to the fertilizer sector, the manufacturing cost of the fertilizer will also go down and the amount thus saved can be better utilized for the growth of the fertilizer industry. At the same time a balanced use of fertilizers is also essential for increasing foodgrain production in the country. Therefore, considering the feedstock/ raw materials constraints and also the need to have a balanced fertilizer availability in the country, the Committee recommend that the Government should further explore the possibilities for establishing joint venture production facilities with buy back arrangement, in other countries, which have rich resources of feedstock / raw materials like natural gas, rock phosphate, etc.

(Recommendation Sl. No.2)

IV. CAPACITY BUILD- UP

12. The indigenous annual capacity for fertilizer production at the end of the Eighth Five Year Plan, beginning of the Ninth Five Year Plan and the annual capacity at the end of the year 2006-07 are indicated below:

(In lakh tonnes)

Fertilizer Nutrient	Capacity at the end of the terminal year (1996-97) of Eighth Plan	Capacity at the terminal year (2001-02) of Ninth Plan	Capacity at the end of 5th year of Tenth Plan (2006-07)
Nitrogen	97.77	120.58	120.61
Phosphate	29.06	52.31	56.59

According to the Department, the target and actual production of fertilizers and percentage achievement against the target from 1994-95 onwards is given below:-

Year	Nitrogen			Phosphate		
	Target	Actual	%age achievement	Target	Actual	%age achievement
1994-95	81.16	79.45	98.00	23.31	24.93	107.00
1995-96	86.33	87.77	101.70	26.67	25.58	95.90
1996-97	90.33	85.99	93.50	26.80	25.56	88.00
1997-98	96.10	100.86	105.00	28.60	29.76	104.10
1998-99	106.82	104.80	98.10	30.27	31.41	103.80
1999-00	110.67	108.90	98.40	33.45	33.99	100.61
2000-01	112.14	112.09	99.96	39.93	40.41	101.20
2001-02	116.59	107.68	92.36	49.30	38.60	78.38
2002-03	119.15	105.62	90.57	48.19	39.04	81.01
2003-04	111.81	106.34	95.11	46.41	36.31	78.24
2004-05	114.06	113.35	99.38	49.26	40.67	82.56
2005-06	118.11	113.54	96.13	46.63	42.21	90.52
2006-07	114.48	115.78	100.14	48.21	45.17	93.69
2007-08	119.08	109.00	91.54	49.14	38.07	77.47
2008-09	118.62	108.70	91.64	43.88	34.64	78.94

13. According to the Department, the production performance of both nitrogenous and phosphatic fertilizers during the year 2008-09 was less than the target mainly due to constraints in supply and quality of natural gas, equipment breakdown, low production in Namrup-II and in SPIC – Tuticorin due to financial constraints in the company and delay in commissioning of Rashtriya Chemicals and Fertilizers Limited (RCF) – Trombay –V & DIL-Kanpur remained under continued shutdown. In case of phosphates, production in Di Ammonia Phosphate (DAP) plants was low due to shortage of phosphoric acid and imported ammonia.

14. When the Committee desired to know about the fresh investment in the fertilizer sector over the last few years, the Department of Fertilizers in their post evidence reply, stated as under:-

> “The last major investment in nitrogenous sector was in the year 1999 and that in the phosphatic sector was in the year 2002. There has not been any

further investment in this sector due to raw material / inputs constraints and the country's dependence on imports to meet its growing requirements."

15. During evidence, Secretary, Department of Fertilizers stated as under :-

"…. No fresh investments have taken place during last 10 years in the fertilizer sector. There are multiple reasons why it has not happened which is interlinked with subsidy regime, which we are running. It is also inter-linked in the profitability of the companies, which want to invest in the fertilizer sector. These are all inter-related matters. On the top of it, we are deficient in Fertilizer availability".

16. The Government had announced a new investment policy for the fertilizer sector (urea) on 4 September 2008. When the Committee asked about the impact of the new policy in terms of attracting fresh investment in the sector, the Department of Fertilizers in their post evidence reply, stated as under:-

"The fertilizer industry has responded positively towards the new investment policy. The existing fertilizer companies have initiated revamp of their existing units viz. Chambal Fertilizers, KRIBHCO, Tata Chemicals Limited, NFL, RCF, etc. Further, some of these companies have also expressed their interest towards expansion of their existing plants subject to assured availability of gas, viz. IFFCO Kalol, KRIBHCO Hazira, RCF Thal, CFCL Gadepan, TATA Chemicals Babrala and IGFL Jagdishpur."

17. On being enquired about the extent of expansion and capacity addition envisaged by the Department in this regard, the Department of Fertilizers in their post evidence reply, stated as under:-

"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 2012-13, subject to confirmed long term availability of gas for the fertilizer sector.

Out of the above, envisaged increase of 20 million tonnes, approximately 6 – 7 million tonnes is envisaged through expansion and capacity addition, subject to assured availability of gas for these projects."

18. The Committee are deeply concerned to note that there has been negligible major investment in the fertilizer sector for over a decade. The last major investment in nitrogenous sector was in the year 1999 and that in the phosphatic sector was in the year 2002. Fresh investments have eluded this sector mainly due to raw materials / inputs constraints which, in turn, have made the country more dependent on imports to meet its growing requirements. Adding to the woes, the capacity utilization, both in nitrogenous as well as phosphate segments, has reached an all time low in the last two years. Undoubtedly, there is an urgent need not only to ensure maximum capacity utilization, but also to augment the existing capacity build-up. In this connection, the Committee note that the Government have announced a new investment policy for the fertilizer sector (urea) on 4 September 2008. The Department of Fertilizers have stated that the fertilizer industry has responded positively towards the new investment policy. According to them, the existing fertilizer companies have initiated revamp of their present units and some of them have expressed their interest towards expansion of their existing plants subject to assured availability of gas. The Committee recommend that the Department of Fertilizers should make all out efforts to extend possible assistance in co-ordination with other Ministeries /Departments with a view to ensuring not only higher indigenous production of fertilizers but also to reduce our dependence on imports.

(Recommendation Sl. No.3)

V. ELEVENTH FIVE YEAR PLAN

19. For the Eleventh Five year plan (2007-12), the Planning Commission has approved an outlay of Rs.20627.87 crore consisting of Rs.1492.00 crore as Domestic Budgetary Support and Rs.19135.87 as Inter & Extra Budgetary Resources (IEBR) for the Department of Fertilizers.

Statement showing XI Plan Outlays, Outlays for Annual Plans 2007-08, 2008-09 and 2009-10

(Rs. in crore)

S. No	Name of the Scheme	XI th Plan Outlay	Annual Plan 2007-08			Annual Plan 2008-09			Annual Plan 2009-10
			BE	RE	Actuals	BE	RE	Actuals	BE
	Centally Sponsored Schemes-CSS								
	Total CSS								
	Central Sector Scheme(CS)								
1	RCF	6880.37#	302.41	253.24	118.57	812.43	469.06	241.83	988.05
2	FAGMIL	42.25#	0.14	3.20	0.69	22.4	22.40	0.61	29.01
3	PDIL	12.5#	2.50	6.74	4.77	4.85	4.65	3.88	5.35
4	NFL	6050.75#	477.91	25.00	22.04	154.25	48.05	27.56	550.15
5	KRIBHCO	6150.00#	210.00	106.00	79.73	685	105.00	58.52	497
6	Revival of Sick CPSEs	607.00**				46.00			
6(i)	BVFCL *		4.50	7.47	7.47	20.00	20.00	20.00	65.00
6(ii)	FACT		15.00	15.00	15.00	13.00	13.00	8.69	34.00
6(iii)	MFL		9.00	9.00	9	13.00	13.00	13.00	96.99
6(iv)	FCI		1.00	0.01	0	0.00			
6(v)	HFC		1.00	0.01	0	0.00			
6(vi)	PPCL		1.00	0.01	0	0.00			
7	Misc. Schemes (MIS/IT and R&D)		8.50	8.50	6.99	4.00	4.00	3.38	4.00
8	Capital Subsidy for conversion	885.00**	5.00	5.00	0	150.00	0.01	0.01	
9	Investments for JVs abroad##								0.01
10	Revival of Closed Units								
	Total CS	20627.87	1037.96	434.18	264.26	1924.93	699.17	377.48	2269.56

* The amount earmaked for BVFCL will be utilised for the benefits of North-East Region
DOF is exploring possibilities of JV abroad. Since no firm proposal is at hand right now only a token amount of Rs. 1 Lakh has been provided.
\# IEBR
** GBS

20. The Annual Plan Allocation of Department of Fertilizers (2009-10) is Rs.200 crore of Gross Budgetary Support (GBS) and Rs.2,069.60 crore of Internal and Extra Budgetary Resources (IEBR). The amount provided with the approval of Planning Commission for different schemes will be utilized as under:-

Sl. No	Name of the Scheme	Annual Plan 2009-10(BE) (Rs. crore)		
		GBS	IEBR	Total
1	RCF		988.05	988.05
2	FAGMIL		29.01	29.01
3	PDIL		5.35	5.35
4	NFL		550.15	550.15
5	KRIBHCO		497.00	497.00
6	Revival of Sick CPSEs			200.00
6(i)	BVFCL *	65.00		65.00
6(ii)	FACT	34.00		34.00
6(iii)	MFL	96.99		96.99
7	Misc. Schemes (MIS/IT and R&D)	4.00		4.00
8	Capital Subsidy for conversion			0.00
9	Investments for JVs abroad#	0.01		0.01
10	Revival of Closed Units			0.00
	Total	200	2069.56	2269.56
	Or		2069.60	2269.60

***** *The amount earmaked for BVFCL will be utilised for the benefit of North-East Region*
 # DOF is exploring possibilities of JV abroad. Since no firm proposal is at hand right now only a token amount of Rs.1 Lakh has been provided.

21. When the Committee asked whether the amount recommended by the Planning Commission for various public sector undertakings and other schemes in annual plan 2009-10 is sufficient to meet the need, the Department of Fertilizers, in a written reply, stated as follows:-

> "Planning Commission has recommended the allocation of Rs.200 crores for the Annual Plan 2009-10 for the Department. The sum will be utilized for taking up the approved schemes of underperforming fertilizer PSUs namely MFL, FACT and BVFCL as also for taking up research activities by renowned technical/research institutes, etc. and use of IT for monitoring purposes. Since the other profit making PSUs fund their schemes through their own internally generated funds, they do not require financial support from the Department. Further, the major scheme of Conversion of Feedstock from Fuel Oil (FO)/Low Sulphur Heavy Stock to Natural Gas (LSHS to NG) /RLNG in respect of three units of NFL and one unit of GNFC has been remodeled, in accordance with the provisions of the policy on the Capital Subsidy for Conversion Projects, approved by the Government. Now, instead making a direct investment by the Government in this Scheme, the cost of the project will be recovered by the respective units by way of a special fixed cost to be decided by the Public Investment Board, in five years. Apart from this, since the availability of natural gas for taking up any expansion/ new brownfield / green field / debottlenecking activities by the fertilizer PSUs, is likely to take place towards the end of the Eleventh Five Year Plan, such projects are likely to materialize by then. It has also been decided that the Department will not directly invest into the equity of any future Joint Venture Fertilizer Plants and this activity has been entrusted with the Urvarak Videsh Limited (UVL), a joint venture entity of KRIBHCO, NFL and RCF. In view of above, at present, the allocation of funds by the Planning Commission to the Department for Annual Plan 2009-10 is sufficient to carry out approved schemes smoothly in the year 2009-10."

22. Asked whether necessary planning has been done by the Department of Fertilizers to avoid any shortfall in the utilization of plan funds allocated for the third year of 11th Five Year Plan, the Department of Fertilizers, in their written reply stated as under:-

> "The proposals received from Fertilizer PSUs for taking up certain schemes by them during Annual Plan 2009-10, have been thoroughly discussed in the Department. Comments of Technical Adviser of the Department and the concurrence of the Financial wing of the Department has also been obtained on these proposals. The approval of the competent authority is obtained on these schemes.
>
> The progress of the schemes is reviewed at the level of Economic Adviser and also Additional Secretary & Financial Adviser of the Department on periodical basis. Further, the meeting of the Project Approval Committee (PAC) of the Department is also held, at the level of Secretary (Fertilizers) to apprise PAC about the progress of S&T Projects. Accordingly, PSUs / concerned organizations are asked to take the necessary steps to achieve the targets within the stipulated time.
>
> The PSUs are being asked to ensure speedy implementation of the approved schemes in the Quarterly Review Meetings (QRM) held in the Department."

23. On being enquired by the Committee about the latest status of all such projects started during the 11th Five Year Plan, the Department of Fertilizers, in a written reply stated as under:-

> "The Department has taken up the following three major projects during the Eleventh Plan period. The status is also indicated against each project:-
>
> (i) **Revival of sick fertilizer units** – The sick units namely MFL, FACT and BVFCL have been given continued budgetary support by the Department to sustain their operations. At the same time, the Department is actively considering proposals aimed at their revival.
>
> (ii) **Revival of closed fertilizer units** – The closed units of FCI and HFC are being looked at by the Department for exploring the possibility of their revival. The profit making fertilizer PSUs/ cooperative are also being involved in the process of revival of those feasible units, wherever natural gas for the project is available or likely to be available in the near future.
>
> (iii) **Capital subsidy for conversion of feedstock changeover projects** -- Government has approved the policy for grant of capital subsidy for conversion of feedstock changeover projects at Panipat, Bathinda and Nangal (NFL) and Bharuch (GNFC). Accordingly, draft Public Investment Bureau (PIB) Note is being finalized by the Department to implement the scheme.
>
> (iv) **S&T Scheme** – It has been decided to sponsor those R&D proposals which are directly beneficial to the fertilizer industry. Accordingly, the proposals in which the fertilizer industry desires to be involved and which are aimed at developing new energy consumption and carbon emission reducing processes of manufacturing fertilizers, alternative fertilizers, etc. are being considered by the Department."

24. When the Committee asked about the corrective measures taken by the Department for maximum utilization of budgetary amount allocated for the year 2009-10, the Department of Fertilizers in their written reply have stated as under:-

"The Department has approved only those schemes, in respect of each of the underperforming PSUs, which have a very high probability of getting completed in time. The Technical and Financial Wing, apart from the Department's consultancy organization, have been entrusted with the responsibility to examine the schemes very carefully and critically, wherever required.

However, in spite of above, Fertilizer Sector being one of the sectors of the industry which have very limited number of Process Licensors (Technology Suppliers), Equipment manufacturers and suppliers, EPC contractors, troubleshooters etc., the delays in certain critical components of schemes cannot be ruled out. The Department has been monitoring and trying consistently to reduce the likely delays in the implementation of the schemes by following up with the concerned PSUs and consultants of the projects to pre-empt the delays effectively."

25. Regarding utilization of an amount of Rs.131.04 crore granted to fertilizer industry as a loan, the Department further stated that the three underperforming fertilizer PSUs, namely, MFL, FACT and BVFCL, have been allocated a total of Rs.131.04 as Loan, including Rs. 131.00 crore as Plan Loan and the remaining as token provision under Non-Plan Loan. The sum is proposed to be utilized for the schemes such as renewal and replacement, IT, replacement of catalysts, etc. by these PSUs.

26. On being asked about the monitoring mechanism set up by the Department of Fertilizers to check and ensure the implementation of the approved schemes by the PSUs, the Department of Fertilizers, in their post evidence reply, stated as under:-

"At inception stage, the proposals for plan schemes which the PSUs intend to undertake during the year are discussed at the level of Economic Adviser. The proposals are examined technically by the Technical Wing of the Department. The appropriateness of the cost of the Scheme, wherever required, is also established on the basis of inputs taken from Departmental Consultancy Organisation, i.e. PDIL. Thereafter, Administrative approval of Secretary (Fertilizers) is obtained on each of the Schemes based on the proposals submitted by the company and technical and financial inputs obtained thereon. Finally, the concurrence of Finance Wing of the Department is obtained on these Schemes. Clarifications, if any, required at any stage, is taken from the respective company promptly. Thereafter, the proposals are discussed in the Planning Commission, threadbare. Based on these proposals, Planning Commission approves the Annual Plan of the Department.

The progress of the Schemes undertaken by various PSUs, as approved by the Planning Commission, is monitored in the Department at the level of Economic Adviser. Also, the performance of the individual PSUs is reviewed at the level of Secretary(Fertilizers) in the Quarterly Review Meetings. The Financial Adviser of the Department also undertakes review of the expenditure by individual PSUs from time to time to ensure timely implementation of the approved Schemes."

27. On being enquired by the Committee whether any time frame has been fixed by the Department for completion of the schemes undertaken by the concerned PSUs the Department of Fertilizers, in their post evidence reply, stated as under:-

"The Fertilizer PSUs other than the three loss making companies, namely, BVFCL, FACT and MFL, undertake the schemes out of their own internally generated funds (IEBR). The PSUs undertake the schemes based on their priorities and their own business decisions considering a number of factors such as availability and cost of raw materials, availability of technology, equipments, global business environment etc. Companies submit Feasibility Reports(FRs) on major proposals, prepared by the professional consultants. The FRs invariably include costs and time frame for the projects which vary from project to project. Also, the three companies which undertake projects out of Budgetary support of the Government, are required to submit proposals including cost and completion schedule as a part of their project proposals."

28. In a note furnished after evidence, the Department of Fertilizers stated that their performance in respect of the utilization of funds for the plan schemes during the year 2007-08, 2008-09 and 2009-10 (till August, 2009) was as under:-

(in Rs. Crores)

Sl. No.	PSU	2007-08		2008-09		2009-10	
		Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure (upto August, 2009)
1	RCF	253.24	118.57	469.06	241.83	988.05	54.58
2	FAGMIL	3.20	0.69	22.4	0.61	29.01	0.14
3	PDIL	6.74	4.77	4.65	3.88	5.35	2.65
4	NFL	25	22.04	48.05	27.56	550.15	13.91
5	KRIBHCO	106.00	79.73	105.00	58.52	497.00	76.59
6	Revial of Sick CPSEs						
6(i)	BVFCL	7.47	7.47	20.00	20.00	65.00	10.00
6(ii)	FACT	15.00	15.00	13.00	8.69	34.00	11.33
6(iii)	MFL	9.00	9.00	13.00	13.00	96.99	32.34
6(iv)	Misc Schemes *	8.50	6.99	4.00	3.38	4.00	
7	Capital Subsidy for conversion	5.00	0.00	0.01	0.01	0.00	
8	Investments for JVs abroad		0.00			0.01	
9	Revival of Closed Units					0.00	
9(i)	FCI	0.01				0.00	
9(ii)	HFC	0.01				0.00	
9(iii)	PPCL	0.01				0.00	
	TOTAL:	439.18	264.26	699.17	377.48	2269.56	201.54

29. The Committee note that for the Eleventh Five Year Plan (2007-12), Planning Commission has approved an outlay of Rs.20,627.87 crore consisting of Rs.1,492.00 crore as Domestic Budgetary support and Rs.19,135.87 as Internal and Extra Budgetary Resources (IEBR). The present allocation of funds by the Planning Commission will be utilized for taking up the approved schemes of underperforming fertilizer PSUs and research activities by renowned technical/research institutes. The Committee have been informed that three major projects, viz. revival of sick and closed fertilizer units, capital subsidy for conversion of feedstock changeover projects and S&T schemes have been taken up by the Department during the Eleventh plan period. The Committee's examination, however, revealed that out of the total outlay of Rs.20,627.87 crore during the 11th Plan, the allocation during the BE stage of the first three years, viz. 2007-2008, 2008-2009 and 2009-10 amounted to Rs.1,037,96 crore, Rs.1,924.93 crore and Rs.2,269.56 crore, respectively making a total of Rs.5,232.45 crore. The allocations at RE stage during 2007-08 and 2008-09 were further brought down to Rs.434.18 crore and Rs.699.17 crore respectively. In other words, more than 80% of the plan outlay is yet to be allocated and will have to be sanctioned and utilized in the remaining two years of the plan. The Committee are dismayed over such an unrealistic approach which would jeopardize the whole planning process in a vital sector of the economy. They desire that necessary steps should be taken at least in future with a view to ensuring appropriate and methodical allocation of approved outlays so that the Department can and implement the targeted programme/activities in a scientific manner.

What has further caused concern to the Committee is that the actual utilization of funds by the Department of Fertilizers had also been equally unsatisfactory. The Committee find that as against Rs.1,037.96 crore (BE) sanctioned in 2007-08 and Rs.1,924.93 crore (BE) sanctioned in 2008-09, the utilization was only Rs.264.26 crore and 377.48 crore, respectively. The Committee also observe that the major allocation of funds in the year 2009-10, i.e. Rs.988.05 crore (approximately 43%) has been made for Rashtriya Chemicals and Fertilizers Limited (RCF) against which the actual expenditure till August 2009 is Rs.54.58 crore only. Similarly, against the allocation of Rs.550.15 crore for National Fertilizers Limited (NFL), the actual expenditure till August 2009 is Rs.13.91 crore only. Pertinently, the utilization of funds allocated to these two organizations in the first two years of the 11th plan had been around 50% only. This clearly speaks about the poor performance of Department in the utilization of plan allocation which is unfortunate, to say the least. The Committee feel that there is an imperative need for planned and progressive utilization of the sanctioned outlays so that the set objectives are fully achieved. To ensure this, the Committee recommend that the Department should review the progress of all plan projects on a regular basis for their timely completion in a more effective manner and submit a status report to the Committee.

(Recommendation Sl. No.4)

VI. Demands for Grants (No.7) of the Department of Fertilizers for 2009-10.

30. A statement showing the Budget Estimates (BE), Revised Estimates (RE) and actual Expenditure for each of the years 2006-07, 2007-08, 2008-09 and the Budget Estimates for the year 2009-10 for Plan and Non-Plan expenditure is as follows:-

(Rs. in Crore)

	2006-2007			2007-2008			2008-2009			2009-2010
	Budget Estimates	Revised Estimates	Actual Expenditure	Budget Estimates	Revised Estimates	Actual Expenditure	Budget Estimates	Revised Estimates	Actual Expenditure	Budget Estimates
Plan	98.81	98.00	86.90	45.00	45.00	39.96	200.00	50.01	49.33	200.00
Non-plan	18055.25	24555.25	28744.79	24555.25	41218.55	43554.20	34181.55	100491.16	99508.57	53600.50
Total	18154.06	24653.25	28831.69	24600.25	41263.55	43594.16	34381.55	100541.17	99557.90	53800.50

The provisions for 2009-10 (BE) (Rs.53,800.50 crore) is almost half of the 2008-09 (RE) (Rs.1,00,541.17 Crore) and considerably less than the Actuals, 2008-09 (Rs.99,557.90 Crore)

31. When the Committee asked about the reasons for lesser provision made under 2009-10 (BE) as compared to 2008-09 (RE) and the actuals, the Department of Fertilizers in their post evidence reply, stated as under:-

"The requirement of fertilizer subsidy had risen sharply during 2008-09 due to sharp increase in international prices of fertilizer inputs and finished fertilizers. The above increase led to substantial increase in the normative delivered cost of subsidized fertilizers at the farm gate level, whereas the Maximum Retail Prices(MRPs) for the subsidized fertilizers remained constant. Rather, the MRPs of complex fertilizers were reduced by an average 19% with effect from 18 July 2008.

However, the international prices fertilizer inputs and finished fertilizers have declined after achieving its peak in August 2008. In view of the reduction in international prices, there has been a fall in the normative delivered cost of subsidized fertilizers at farm gate level during 2009-10 as compared to 2008-09. Consequently, there is a lower requirement of fertilizer subsidy in the current year as compared to 2008-09. The total projected requirement of subsidy for current year is Rs. 77,425.91 crore including the carry over liability of Rs. 17,158.15 crore from 2008-09. Against the above requirement, the allocation in the current year for payment of fertilizer subsidy is Rs. 53,580.75 crore."

On being pointed about considerable variations at different budgetary stages during 2008-09, the Department in their note stated as follows:-

"The initial projected requirement of funds for payment of fertilizer subsidy for 2008-09 was projected at Rs. 48,379.71 crores (net) in October 2007 to Ministry of Finance. Based on above an allocation at Rs. 30,986.36 crore (Net) under BE 2008-09 was finalized by the Finance Ministry in December, 2007.

The above projected requirement was based on the average price of fertilizers and fertilizer inputs prevailing in September 2007 with a 10% escalation over it. However, there was substantial increase in international prices of fertilizers and fertilizer inputs during the latter half of 2007-08 which carried on till August 2008.

In view of the above increase in international prices coupled with depreciation of rupee, the projected requirement of fertilizer subsidy for 2008-09 was subsequently revised to Rs. 60,649.36 crores (net) in January, 2008 to Rs. 1,00,714 crore (gross)."

32. The Committee note that Parliament has since voted an amount of Rs.53,800.50 crore (gross) to defray the expenditure for the Department of Fertilizers for the year 2009-10. Out of this, Rs.200 crore are meant for the plan and Rs.53,600.50 crore for the non- plan expenditure. During the preceding financial year, i.e. 2008-09, the provision of Rs.34,381.55 crore during BE stage had to be revised to Rs.1,00,541.17 crore at RE stage. This was because of the unprecedented rise in the international prices of fertilizers which the Department could not foresee. Explaining the reasons for reduced allocation during the year 2009-10, the Department of Fertilizers stated that this situation has since changed. However, the Department have maintained that the allocation in the current year would be about Rs.24,000 crore less than what they had asked for on account of the requirement of subsidy. The Committee hope that Government will take a realistic view in the matter particularly keeping into account the need for ensuring that the carry over liability on account of subsidy does not go on increasing year after year. On their part, the Department of Fertilizers should also keep a strict watch and control over factors impacting budgetary allocations and expenditure thereon.

(Recommendation Sl. No.5)

VII SECRETARIAT ECONOMIC SERVICES

Major Head 3451

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

Year	Allocation / Utilization (Rs. in Crores)
2007-08 (Actual)	08.90
2008-09 (BE)	12.17
(RE)	14.43
2009-10 (BE)	17.22

The above provision is meant for the expenditure of the Secretariat of the Department of Fertilizers. There is an increase of Rs.2.79 crore in BE (2009-10) as compared to RE (2008-09).

34. When the Committee asked about the factors responsible for such increase, the Department of Fertilizers in their written reply stated as follow:-

> "The increase of Rs. 2.79 crore in BE 2009-10 as compared to RE 2008-09 is mainly due to the following factors:
>
> Increase of Rs. 1.14 crore in salaries head is due to the fact that 60% of arrears have to be paid to the staff for the purpose of implementation of recommendations of 6th pay commission and also due to the annual increase in the salaries.
>
> Increase of Rs. 10 lakhs in foreign travel expenses head is due to the increase in the number of countries to be visited by officers during the current financial year 2009-10 mainly for the purpose of setting up of joint ventures with countries rich in fertilizer resource.
>
> Increase of about Rs. 1 crore in Professional services head is mainly due to increase in charges of the inspection of SSP units. SSP units are inspected by PDIL, a Public Sector Undertaking under the administrative control of Deptt. of Fertilizers. The charges of inspection per unit was Rs. 30,000/- per inspection in the previous year which has been increased to Rs. 50,000/- per inspection in current financial year. The number of inspections carried out in a year is 160 approximately. Further, the Deptt. of Fertilizers has engaged the PDIL to conduct a study on Uniform price mechanism for Urea. The cost involved is Rs. 46 lakh.
>
> The Increase in budget provision from Rs.1.50 crore in R.E. (2008-09) to Rs.1.85 crore in B.E. (2009-2010) in the Office Expenses Head is mainly due to pending bills which occurred due to mandatory 10% cut in previous year's allocation and due to price escalation during current year."

35. The Committee note that the provision for the Secretarial Services have almost been double that of the actual expenditure for the year 2007-08. The Department of Fertilizers have attributed the rise on this score inter-alia to the implementation of the recommendations of the Sixth Pay Commission, foreign tour expenses, increase in charges of inspection of Single Super Phosphate (SSP) units, etc. The Committee hope that the Department would be strictly observing the Government's austerity measures and desire that a continuous watch be kept over the expenditure on this account so that such non-plan expenditures are subjected to proper control and also ensuring at the same time that the production programmes of the fertilizer sector are not hampered.

(Recommendation Sl. No.6)

VIII. SUBSIDY/CONCESSION ON FERTILIZERS

Major head 2401 (for subsidy on imported urea and concession on decontrolled fertilizers) 2852 (Subsidy on indigenous urea).

36. The objective of the Concession Scheme is to make the decontrolled phosphatic & potassic fertilizers available to the farmers at the affordable prices and also to ensure reasonable rate of return on the investments made by the entrepreneurs in the phosphatic and potassic fertilizer sector. The Concession Scheme for DAP/MOP/NPK/MAP/TSP/AS has been allowed to continue w.e.f. 1 April 2008 and the same hase also been modified with certain changes w.e.f. 1 April 2009.

37. When the Committee desired to know the latest position on subsidy management in respect of fertilizers, the Department of Fertilizers in their post evidence reply, stated as under:-

> "The fertilizer subsidy is transferred to the farmers in the form of subsidised Maximum Retail Prices (MRPs) of fertilizers. Under the subsidy regime, the MRPs of subsidized fertilizers have been fixed at a level much below the actual of cost of production/import of fertilizers and its delivery at farm gate level (normative delivered cost). The Department of Fertilizers (DOF) provides subsidy to fertilizer manufacturers/importers equivalent to the gap between the normative delivered costs of subsidised fertilizers and the notified selling prices (MRPs) at the farm gate level. The fertilizers currently covered under the subsidy regime are Urea, Di Ammonium Phosphate (DAP), Muriate of Potash (MOP), Mono Ammonium Phosphate (MAP), Triple Super Phosphate (TSP), Ammonium Sulphate (AS), Single Super Phosphate (SSP) and twelve grades of complex fertilizers.
>
> The demands for these fertilizers are met through indigenous production and the shortfall is bridged through import of Urea, DAP, TSP, MAP & MOP. The import of fertilizers is permitted under OGL except for urea, import of which is canalised. The fertilizer subsidy has been growing sharply over the last few years as can be seen from the table below:-

FERTILIZER SUBSIDY

(Rs.in Crores)

Years	Subsidy Released				Total subsidy disbursed/ due
	Urea	Indigenous (P&K)	Imported (P&K)	Total (P&K)	
2001-2002	8304	3760	744	4504	12808
2002-2003	7788	2488	737	3225	11013
2003-2004	8509	2606	720	3326	11835
2004-2005	10986	3977	1165	5142	16128
2005-2006	11749	4500	2050	6550	18299
2006-2007	15354	6648	3950	10598	25952
2007-2008	23204	10334	6800	17134	40338
2008-2009	33901	32957	32598	65555	99456
Increase in 2008-09 over 2007-08	**46.10%**	**218.92%**	**379.38%**	**282.61%**	**146.56%**

Since the farm gate price (MRPs) of fertilizers has remained constant since 28 February 2002 (reduction by approximately 19% on an average in prices of complex fertilizers w.e.f. 18 June 2008), the increase in quantum of fertilizer subsidy is mainly on account of two factors:

- Increase in consumption of fertilizers (accounts for approximately 6.09% of the total increase in fertilizer subsidy during 2001-02 to 2008-09).
- Increase in normative ex-factory / port costs of subsidized fertilizers (accounts for approximately 93.91% of the increase in fertilizer subsidy). The increase in normative cost of fertilizers has been mainly due to the sharp increase in international prices of fertilizers and fertilizer inputs over last few years.

The MRPs of fertilizers have not only remained constant over these years but have actually fallen in real terms as they have not been adjusted for inflation also. If the current MRPs are adjusted for WPI for all the commodities from 2002-03 to 2008-09, it is found that the current MRPs have actually fallen by approximately 45% in real terms over last seven years.

In order to reduce the growth in fertilizer subsidy, the Department has been encouraging indigenous production of fertilizers especially in nitrogenous sector. The New Investment Policy for urea was announced in September'08 to promote investments in urea sector subject to assured availability of natural gas. It is expected that with assured availability of natural gas towards new fertilizer projects, there will be significant addition in indigenous capacities leading to reduction in overall fertilizer subsidy. In phosphatic sector also, an Import Parity Price (IPP) regime has been provided on phosphates to encourage production of phosphatic fertilizers in the country. It is expected that with an IPP regime, the indigenous industry will enter into long-term contracts for supply of fertilizer inputs bringing in stability in international prices and consequent moderating effect on the overall fertilizer subsidy requirement in the country.

Further, to rationalize the fertilizer subsidy disbursement and to examine the nutrient based subsidy policy, a GoM has been constituted to examine and make appropriate recommendations, keeping in view the following objectives:

i) Strengthen balanced use of fertilizers and proper and efficient nutrient management in the interest of sustainable agriculture;
ii) Avoid indiscriminate use of fertilizers leading to high subsidy burden;
iii) Ensure significant incentives for investors to invest in the fertilizer industry for promoting its growth and management; and
iv) Ensure higher agricultural productivity and production for food security."

38. When the Committee asked about the assessment of the Department on the impact of subsidy on the farmers and agriculture production in real terms, the Department of Fertilizers in their post evidence reply, stated as under:-

"The farmers were completely insulated from the increase in international price of fertilizers as the Maximum Retail Prices (MRPs) of subsidised fertilizers were kept constant at March 2002 levels. All the increase in delivered costs of fertilizers on account of increase in international prices was absorbed in the form of increased fertilizer subsidy. As a result, there was a continuous increase in consumption of fertilizers over last few years as can be seen from the table below:

Yearly Sale/ Consumption of Fertilizers							
Years	Urea	DAP	Complexes	SSP	MOP	Total P&K	Total
LMT							
2002-03	186.44	54.33	48.10	24.99	18.60	146.02	332.46
2003-04	195.79	55.20	47.57	25.44	16.47	144.68	340.47
2004-05	205.47	60.79	55.08	25.49	23.14	164.50	369.97
2005-06	220.00	65.00	67.00	24.00	27.00	183.00	403.00
2006-07	244.85	69.24	74.64	28.06	23.93	195.87	440.72
2007-08	261.67	75.55	58.50	19.97	27.92	181.94	443.61
2008-09	266.47	99.04	71.22	30.00	40.89	241.15	507.62
CAGR 2004-09	6.71%	12.98%	6.64%	4.16%	15.30%	10.03%	8.23%

The agricultural production in the corresponding years has been as below**:-**

Years	Food grain Production
	LMT
2002-2003	1747.8
2003-2004	2131.9
2004-2005	1983.6
2005-2006	2085.9
2006-2007	2172.8
2007-2008	2307.8
2008-2009	2278.8

39. During the course of examination, the Committee pointed out that only 6% of the increase in subsidy bill is due to higher consumption while the rest, i.e. 94% of the costs are linked to increase in international prices. Between 2001 and 2007-08 while foodgrain production increased by 8.37% and productivity by 6.92%, the subsidy bill went up by 214%.

40. Responding to it, the representative of the Department, during the course of evidence, apprised the Committee as under:-

> "Today, we are running a subsidy regime in which subsidy is fluctuating and the prices are constant. So, subsidy payment is a function of either cost of domestic production or cost of imports. In 2007-08 when the petroleum prices went up to 160 dolloars per barrel, now it has stabilized at 60-65 dollars per barrel, the prices of gas, the prices of all other raw materials and commodities went sky high. For example the DAP which we are importing today at about 370-380 dollars per MT, it went up to 1,360 dollars per MT in the international market. The Potash which we are importing today at 460 dollars went up to 900 dollars per MT in the international market. Phos-Acid which we are importing today at 508 or 510 dollars went up to 2,690 dollars per MT in the previous year. Sulphur which we are importing at 52 dollars went up to 856 dollars per MT. Urea which we are importing at 270-280 dollars range today went up to 890 dollars per MT. But since the requirement was not compromised, the volumes were not compromised, MRP was constant, it resulted into increased subsidy bills. As compared to last year, this year we have been able to do strategic buying."

41. The Department of Fertilizers informed the Committee that to ensure balanced application of fertilizers and achieve ideal NPK consumption ratio, the Government intends to move towards a nutrient based subsidy regime instead of the current product pricing regime. It will lead to availability of innovative fertilizer products in the market at reasonable prices. A Group of Ministers (GoM) has been constituted by the Government to examine the nutrient based subsidy policy and measures for rationalisation of fertilizer subsidy disbursement keeping in view the objective of strengthening balanced use of fertilizers with proper and efficient nutrient management in the interest of sustainable agriculture.

42. The Government also intends to strengthen the existing soil testing infrastructure in the country by setting up of 500 soil testing laboratories during the current plan period. It is expected that this will encourage soil based application of fertilizers leading to balanced fertilization and an ideal NPK ratio.

43. Further, when the Committee desired to know whether the Group of Ministers (GoM) has submitted its Report on nutrient based subsidy, the Department of Fertilizers in their written reply, stated as under:-

> "The Group of Ministers has been constituted on 31 July 2009. The Agenda note for the consideration of the GoM has been finalised by the Department. However, the first meeting of the GoM is yet to be convened."

44. The Committee note that the total subsidy disbursed on fertilizers has increased from Rs.12,808 crore in 2001-02 to Rs.99,456 crore in 2008-09. The total subsidy released on urea has increased from Rs.8,304 crore in the year 2001-02 to Rs.33,901 crore in the year 2008-09. Similarly, on P&K fertilizers, the fertilizer subsidy has increased from Rs.4,504 crore in the year 2001-02 to Rs.65,555 crore in the year 2008-09. The Committee's examination revealed that only 6% of the increase in subsidy bill is due to higher consumption of fertilizers while the rest, 94% rise was due to the increase in international prices. It was also revealed that between 2001 and 2008, while foodgrain production increased by 8.37%, and productivity by 6.92%, the subsidy bill went up by 214%. All these facts point towards the grave situation arising out of the galloping subsidy bill which now warrants some concrete solution. The Committee are of the view that to cut the subsidy bill, there is an imperative need for technological innovation, optimum energy consumption, manpower and capacity utilization so as to increase the indigenous production as well to cut down the production cost of fertilizers.

(Recommendation Sl. No.7)

IX. DIRECT SUBSIDY TO FARMERS:-

45. The Committee in their earlier Reports had recommended repeatedly the issue of providing direct subsidy to poor and marginal farmers. When the Committee desired to know the latest status in this regard, the Department of Fertilizers in their written reply, stated as under:-

> "An Inter Ministerial Group (IMG) with Secretary (Fertilizers) as Chairman and Secretaries of Department of Expenditure, Agriculture & Planning Commission as members, was constituted in November 2008 to look into all aspects of fertilizer subsidy regime and make recommendations.
>
> After considering all the issues relating to agriculture productivity, balanced fertilization and growth of indigenous fertilizer industry, and examining all options for rationalization of existing fertilizer subsidy regime, the IMG recommended to implement a nutrient based subsidy regime, wherein the farmgate prices of fertilizers are decontrolled and subsidy is fixed for each fertilizer based on nutrient content therein. According to IMG, the new regime can be carried on till such time when authenticity of land records allows us to move towards disbursement of fertilizer subsidy as direct cash transfers to the farmers' bank account based on land record details.
>
> Now a Group of Ministers (GoM) has been constituted to look into the nutrient based subsidy policy and measures for rationalisation of fertilizer subsidy disbursement with the objective to promote balanced fertilization. The GOM is expected to look into all options of release of subsidy including direct subsidy to farmers."

46. According to the Department, a Group of Ministers (GoM) has been constituted which will examine the nutrient based subsidy policy and measures for rationalisation of fertilizer subsidy disbursement and make appropriate recommendations, keeping in view the following objectives :-

- (i) Strengthen balanced use of fertilizers and proper and efficient nutrient management in the interest of sustainable agriculture;
- (ii) Avoid indiscriminate use of fertilizers leading to high subsidy burden;
- (iii) Ensure significant incentives for investors to invest in the fertilizer industry for promoting its growth and management; and
- (iv) Ensure higher agricultural productivity and production for food security."

47. Elaborating this aspect further, Secretary, Department of Fertilizers, during evidence stated as under :-

> " ….. The direct subsidy has got few issues which we are trying to resolve. After the announcement by the hon. Minister of Finance in the Budget speech, we have held consultations with the States; we have held consultations with

the industry; we have held consultations with Agriculture, Finance, Petroleum, Planning Commission and all. The Cabinet has constituted a Group of Ministers headed by the Finance Minister. We have prepared a nutrient-based subsidy leading to ultimate transfer of subsidy into the accounts of fertilizers and that paper has been submitted, after clearance from the Department, to Group of Ministers for whom the first meeting is to be convened."

48. Further on being enquired by the Committee when will the Department be able to achieve the long cherished goal of direct payment of subsidy to the farmers, the Department of Fertilizers in their post evidence reply, stated as under:-

The government has recently announced the following:-

"In the context of the nation's food security, the declining response of agricultural productivity to increased fertilizer usage in the country is a matter of concern. To ensure balanced application of fertilizers, the Government intends to move towards a nutrient based subsidy regime instead of the current product pricing regime. It will lead to availability of innovative fertilizer products in the market at reasonable prices. This unshackling of the fertilizer manufacturing sector is expected to attract fresh investments in this sector. In due course it is also intended to move to a system of direct transfer of subsidy to the farmers."

49. The Committee have time and again emphasized the need for direct payment of subsidy to the farmers. They have now been informed that an Inter Ministerial Group with Secretary (Fertilizers) as Chairman and Secretaries of Department of Expenditure, Agriculture and Planning Commission as members, was constituted in November 2008 to look into all aspects of fertilizer subsidy regime. The Committee note that the IMG recommended to implement a nutrient based subsidy regime wherein the farmgate prices of fertilizers are decontrolled and subsidy is fixed for each fertilizer based on nutrient content therein. According to the IMG, the new regime can be carried on till such time when authenticity of land records allows them to move towards disbursement of fertilizer subsidy as direct cash transfer to the farmers' bank account based on land record details. The Committee have also been informed that a Group of Ministers (GoM) has been constituted on 31 July 2009 to look into the nutrient based subsidy policy and measures for rationalization of fertilizer subsidy disbursement with the objective to promote balanced fertilization. According to the Department of Fertilizers, the GoM is expected to look into all options of release of subsidy including direct subsidy to farmers. The Committee hope that the whole exercise will be expeditiously completed and would like to be informed of the progress made in the matter.

(Recommendation Sl. No.8)

X. FERTILIZER BONDS

50. The Committee have been informed that fertilizers bonds are issued by the Ministry of Finance in lieu of cash release of fertilizer subsidy. The Committee pointed out that there is no provision in the Budget for reimbursement of losses made if any, in the course of sale of fertilizer bonds to individual units. Due to this provision, various fertilizer units are stated to be suffering losses on the sale of fertilizer bonds.

51. When the Committee asked about the comments of the Department over such losses on fertilizer bonds and the remedial measures being taken by the Department in this regard, the Department of Fertilizers in their written reply stated as follows:-

> "The Government is required to release the fertilizer subsidy in cash to the fertilizer companies on sale of subsidized fertilizer at notified Maximum Retail Prices (MRPs). The fertilizer subsidy comprised approximately 80% of the cost of production and delivery of subsidized fertilizers at the farm gate level during the year 2008-09. Since the normative delivered costs of these subsidized fertilizers are finalized by Department of Fertilizers based on notified policy parameters, profitability of fertilizer companies is limited by the norms approved under the subsidy regime. In such a scenario, issue of fertilizer bonds which has led to losses to the companies does not seem to be appropriate. Moreover, the subsidy/concession does not account for any loss incurred on discount of bonds. Thus, Department is of the view that there is a need to insulate the companies from losses on fertilizer bonds.
>
> The Department of Fertilizers have proposed five different alternatives for consideration by Ministry of Finance to provide adequate support to fertilizer companies and minimise losses to them due to fertilizer bonds. The proposal has been sent on 21st July, 2009."

52. Further when the Committee desired to know the latest position in this regard, the Department of Fertilizers in their post evidence reply stated as follows:-

> "The Finance Ministry has not concurred with the various options provided by Department of Fertilizers to provide adequate support to fertilizer companies and minimize losses to them due to fertilizer bonds. The issue was discussed in a meeting of Committee of Secretaries wherein it was decided that the issue relating to reimbursement of losses on sale of fertilizer bonds to fertilizer companies be placed before the recently constituted Group of Ministers(GoM) on fertilizer issues for its consideration. The same is now proposed to be placed before the GoM."

53. The Committee note that fertilizer bonds are issued by the Ministry of Finance in lieu of cash release of fertilizer subsidy. 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 have maintained that issue of bonds which has led to losses to the companies does not seem to be appropriate. According to them, the subsidy/concession does not account for any loss incurred on discount of bonds. The Committee have been informed that to insulate the companies from losses on fertilizer bonds the Department have proposed five different alternatives for consideration by the Ministry of Finance. The Committee have been given to understand that the proposal has not been concurred to by the Ministry of Finance and the issue is now proposed to be placed before the GoM. The Committee desire that the proposals made by the Department of Fertilizers should be examined in all their implications so as to provide adequate support to fertilizer companies and minimize losses to them due to fertilizer bonds.

(Recommendation Sl. No.9)

XI. PROMOTION OF DECONTROLLED FERTILIZERS

54. The Government of India had decontrolled Phosphatic and Potassic (P&K) fertilizers with effect from 25 August 1992 on the recommendations of the Joint Parliamentary Committee. Thereafter, there has been no control on their movement, distribution and import. No allocation of these fertilizers is made as has been in the case of urea. However, season-wise assessment of the requirement of the major decontrolled fertilizers namely Di-Ammonia Phosphate (DAP) NPKS complex and Muriate of Potash (MOP) is being made by the Department of Agriculture & Cooperation (DAC) so that adequate availability of these fertilizers as per demand is ensured at the State level with the help of the fertilizer industry. Corrective steps are also planned and taken for buffer stocking of these fertilizers.

55. When the Committee desired to know about the specific action taken by the Government in the recent past to make available P&K fertilizes at reasonable prices and thereby to ensure balanced use of NPK nutrients, the Department of Fertilizers in their post evidence reply stated as under:-

> "Phosphatic and Potassic fertilizers (P&K) are presently decontrolled, which means their production, import and sale is not controlled by the Government. However, various P&K fertilizers such as DAP, MAP, TSP, MOP, Ammonium sulphate and 12 grades of complex fertilizers are covered under the concession scheme of the Government. Since the Government has the responsibility of making fertilizers available as per the assessed requirements by the States, producers and importers are required to make fertilizers available accordingly in case they have to claim concession. Government has also announced indicative Maximum Retail Price (MRP) of these fertilizers at which they are available to the farmer. MRP is much below the total delivered cost of these fertilizers and the gap is borne by the Government as subsidy/ concession. Given the fact that MRP is lower than total delivered cost, sale of P&K fertilizers outside the concession scheme is not competitive. Hence, invariably, indigenously produced and imported P&K fertilizers are sold at MRP under the concession scheme. Under the Concession Scheme, concession claimed by the producers/importers of P&K fertilizers is payable only when the fertilizer is received in the district and sold to the farmer. The nutrient price (MRP) of Nitrogen (N), Phosphate (P), Potash (K) and Sulphur (S) in all the fertilizers is uniform. As such, price at which nutrients are available to the farmer is indicated by the Government."

56. When the Committee asked whether the concession schemes for the decontrolled fertilizers have achieved the desired abjectives, the Department of Fertilizers in their post evidence reply stated as under:-

> "The primary objective of the Concession Scheme for decontrolled P&K fertilizers is to make fertilizers available to the farmer at affordable price. Since MRPs at which fertilizers are to be sold under the concession scheme are indicated by the Government, farmers are obtaining fertilizers at affordable prices. The gap between total delivered cost of fertilizers and MRP

is provided as concession by the Government. The concession scheme also provides methodology for computing the admissible concession /subsidy over the MRP which is payable to the producer/importer. Concession is provided to the producers and importers as per the policy under the concession scheme. As such, the concession schemes for the decontrolled fertilizers have achieved the desired objective. Government carry out necessary changes, if required, in the concession scheme to ensure that fertilizer is available at affordable prices to the farmer.”

57. The Committee have been informed that the primary objective of the Concession Scheme for decontrolled Phosphatic and Potassic (P&K) fertilizers is to make fertilizers available to the farmers at affordable prices. The concession scheme also provides the methodology for computing the admissible concession/subsidy over the MRP which is payable to the producer/importer. While appreciating the steps taken by the Government in this regard, the Committee desire that the Government should ensure timely and sufficient availability of the decontrolled fertilizers in the remote and the inaccessible areas particularly where the fertilizer consumption level is presently very low. In order to keep a check on the availability of decontrolled fertilizers, the Committee recommend that the Department should keep a watch and monitor the movement of these fertilizers. Considering the essentiality of P&K fertilizers for continuous augmented foodgrain production and to achieve self sufficiency, the Committee recommend the continuance of this scheme so that the costly fertilizer remain within the reach of the small and marginal farmers.

(Recommendation Sl. No.10)

XII. CONCESSION SCHEME FOR SINGLE SUPER PHOSPHATE (SSP)

58. Single Super Phosphate (SSP) a popular Phosphatic fertilizer, is a source of not only phosphate and sulphur but also calcium. SSP contains 16% (Phosphate) P_2O_5, 11% Sulphur (S) and 16% Calcium (Ca). SSP is agronomically suitable for dryland oil seeds crop. From the very beginning, there have been ad hoc subsidy for SSP. The MRP of SSP was fixed by the State Governments. The Concession Scheme for SSP was revised w.e.f. 1 May 2008 based on the report of the Cost Accounts Branch (CAB) 2004. The revised concession scheme for SSP was implemented w.e.f. 1 May 2008 to 30 September 2009, which inter alia includes all India uniform MRP against the earlier practice of MRP being announced by respective States, concession for SSP based on the input cost of rock and sulphur, monthly escalation/de-escalation in the price of inputs to account for the rise and decline in the prices of these raw materials.

59. When the Committee asked about the measures being taken to make available Single Super Phosphate (SSP) which is the common man's fertilizer, easily at affordable prices the Department of Fertilizers in their post evidence reply stated as under:-

> "Department of Fertilizers is implementing Concession Scheme for decontrolled P & K fertilizers including SSP, the purpose of which is to make available the fertilizers to the farmers at the subsidized rates. SSP has remained in the subsidy scheme since May 1982, when it was included in the Retention Pricing Scheme. Up to 30 April 2008, ad hoc subsidy was provided for SSP. Due to high input prices, delivered cost of SSP increased and w.e.f. 1 March 2008, Government announced scheme for concession for SSP based on input (rock and sulphur) costs. Prices of these inputs have now declined manifold. On expiry of the existing policy effective up to 30 September 2009, Government has announced a fresh policy for subsidy for SSP w.e.f 1 October 2009. An ad hoc subsidy of Rs.2000 per MT will be provided for SSP sold to the farmer."

60. On being asked to state the factors that are considered for implementation of revised concession scheme for SSP, the Department of Fertilizers in their written reply stated as under:-

> "Prior to 1 May 2008, the MRP of SSP varied in different states. The SSP industry was provided ad hoc subsidy of Rs. 975 per MT.
>
> In early 2008, the cost of the raw material i.e. Rock Phosphate and sulphur registered a sharp increase in the international market. It rendered most of the SSP units economically unviable, as ad hoc subsidy with close MRP was inadequate to recover the cost of production and delivery of SSP. The State Governments were reluctant to increase the MRP to compensate for cost

escalation. As such, several SSP units closed down their production. Under these circumstances, a revised Concession Scheme for SSP was introduced w.e.f 1 May 2008 upto 30 June 2009. An all India MRP was introduced to make fertilizers available to all parts of the country. The cost of SSP was adjusted on monthly basis to compensate change in price of raw material."

61. On being enquired by the Committee about the present status of the scheme, the Department of Fertilizers in their post evidence reply stated as under:-

> "Prices of inputs like sulphur and rock phosphate have now declined in the international market and production of SSP has become relatively cheaper. Government has continued the earlier policy for concession for SSP from 1 July 2009 to 30 September 2009. W.e.f 1 October 2009, Government has announced a fresh policy for providing an ad hoc subsidy of Rs.2000 per MT for sale of SSP to the farmer. Since production of SSP is limited in a few States only, fixed MRP has been found to be a constraint in its availability in various parts of the country. Accordingly, selling price of SSP has been left open w.e.f 1 October 2009 to enable sale of SSP in all parts of the country."

62. As regards the success of implementation of the revised concession scheme for SSP Fertilizers, the Department of Fertilizers informed the Committee as follows:-

> "Department of fertilizers reviewed the Single Super Phosphate (SSP) policy which has been in operation from 1 May 2008 to 30 September 2009. It was found that uniform MRP for SSP is not encouraging movement of SSP to those States in which SSP units are not located, as there would be cost of freight. This has been reflected in the sale figures in different States. Further, production of SSP has not increased over last years, as the total capacity utilization has been low. This could be due to localized nature of consumption of SSP. As such, to enable wider reach of SSP in the country based on movement and distance, selling price has been left open. Accordingly a revised policy has been announced on 13 August 2009 w.e.f 1 October 2009 with open selling price and ad hoc subsidy of Rs.2000 per MT."

63. The Committee have been informed that the Government announced a scheme for concession for Single Super Phosphate (SSP) based on input (rock and sulphur) cost w.e.f. 1 May 2008. A fresh policy for subsidy for SSP has been announced w.e.f. 1 October 2009 under which an ad hoc subsidy of Rs.2,000 per MT will be provided for SSP sold to the farmers. According to the Department of Fertilizers, the new policy seeks to enable wider reach of SSP in the country based on movement and distance and its selling price has been left open. The Committee hope that this open ended policy will not adversely affect the interests of the farmers in terms of availability and price. This is all the more important in the case of SSP, which is considered to be the fertilizer of the poor farmers. The Committee, therefore, recommend that the Department should keep a close watch over the impact of the new policy and take such action as deemed necessary to safeguard the interests of the poor and the marginal farmers. The Committee should also be kept informed.

(Recommendation Sl. No.11)

XIII. FERTILIZER PRICING POLICY

64. The New Pricing Scheme (NPS) for urea was introduced w.e.f. 1 April 2003. The scheme is aimed at inducing the urea units to achieve internationally competitive levels of efficiency, besides bringing in greater transparency and simplification in subsidy administration.

65. When the Committee desired to know the present status of the Scheme the Department of Fertilizers in their post evidence reply stated as follows:-

> "The New Pricing Scheme (NPS) is being implemented with effect from 1 April 2003. The stage – I of the NPS was implemented from 1 April 2003 to 31 March 2004. The Second stage was implemented with effect from 1 April 2004 to 30 September 2006. Currently, the third phase is under implementation with effect from 1 October 2006. The third phase ends on 31 March 2010."

66. Further, when the Committee asked whether the scheme was able to achieve the underlying objectives, the Department of Fertilizers in their post evidence reply stated as under :-

> "Under the NPS, energy efficiency of individual units have been updated leading to better energy efficiency in production of urea. Further, the fixed cost allowed under the pricing scheme has also been rationalized to reduce the average cost of production and consequently lead to savings in subsidy. Thus, during the NPS, there has been significant increase in energy efficiency in production of urea and significant reduction in conversion cost of production of urea by various units within the country.
>
> Since the subsidy disbursement under NPS is based on group average pricing regime, the same is more transparent vis-à-vis the earlier Retention Price Scheme (RPS), wherein the cost of production of each unit was independent of other units. The policy has definitely achieved the goal of leveling of group price and reducing the prices of high cost units in each group to that of group average retention price."

67. On being enquired about the future strategy in this regard, the Department of Fertilizers in their post evidence reply, stated as under:-

> "The Government intends to move towards Nutrient Based Subsidy Regime (NBS). Under the proposed nutrient based subsidy regime, the subsidy on fertilizer will remain fixed based on nutrient content therein and the MRPs will be free. In the event of nutrient based subsidy being implemented, the same will be applicable in case of indigenous urea units also with suitable modifications as deemed necessary to remove the existing inequities in the cost of production of individual urea units in the country.
>
> Alternatively, the Department is also exploring the possibility of a new pricing scheme for indigenous urea units based on normative energy efficiency and

conversion costs without getting into the actual cost of production of each unit as being done in the current cost plus pricing regime. A study in this regard has already been conducted by M/s Projects & Development India Limited along with M/s Pricewaterhouse Cooper, which has submitted its report on the options for gradual movement towards a subsidy regime based on normative parameters. The report is under examination in the Department."

68. The Committee have been informed that Stage-III of the New Pricing Scheme (NPS) is under implementation with effect from 1 October 2006 which will end on 31 March 2010. The Committee are happy to note that under the NPS, results of individual units have been updated leading to better results in production of urea. As regards the future strategy, the Committee have been informed that apart from the proposed Nutrient Based Subsidy Regime (NBSR), the Department of Fertilizers are also contemplating the possibility of a new pricing scheme for indigenous urea units as an alternative measure. A report on a study conducted by Projects & Development India Ltd. along with Pricewaterhouse Cooper in this regard is under examination in the Department. Since the third phase of NPS ends on 31 March, 2010 the Committee recommend that all the available options should be worked out and an appropriate decision taken expeditiously so as to facilitate the energy efficient units to produce urea at reduced conversion cost, thus resulting in augmented production. The Committee would like to be intimated about the progress made in this regard.

(Recommendation Sl. No.12)

XIV. FEEDSTOCK POLICY/ ALLOCATION OF GAS TO FERTILIZER INDUSTRY

69. Natural Gas is the main feedstock for fertilizer industry. Gas is also essential for revamp, conversion and expansion of existing units including revival of closed urea units. A policy to expedite conversion of naphtha based units to gas has already been notified by the Government. A policy for conversion of FO/LSHS based units to gas is also under active consideration of the Government.

70. Natural gas is considered to be more cost effective in urea production. However, about 34% of urea production in the country is still based on other feedstocks like naphtha, fuel oil, low sulphur heavy stock, etc. Under the New Pricing Scheme, Stage-III, non-gas based units are required to convert to gas by March 2010.

71. When the Committee desired to know the latest status in this regard and the time by which the policies regarding conversion of naphtha based units to gas and FO/LSHS based units to gas will be implemented, the Department of Fertilizers in their written reply stated as under:-

> "The policy for enabling conversion of FO/LSHS based units to gas has already been notified 06.03.2009.
>
> The process of conversion of naphtha and FO/LSHS based plants to gas based has already been started. The naphtha based units where the gas pipeline connectivity is available, viz. SFC, Kota and IFFCO, Phulpur have already converted to gas. However, the remaining naphtha based units have not been able to convert to gas due to lack of gas pipeline connectivity and gas availability.
>
> As regards conversion of FO/LSHS based plants to gas is concerned, the units have initiated the process of conversion after notification of policy on 06.03.2009. The whole conversion process is likely to take 36 months after Government approval on the same."

72. Further when the Committee enquired about the latest status of nominating Gas Authority of India Ltd. (GAIL) as the nodal authority for supply of gas to the fertilizer industry the Department of Fertilizer in their written reply stated as follows:-

> "During the meeting of Empowered Group of Ministers (EGoM) on commercial utilization of natural gas held on 08.01.2009, it was inter-alia decided that GAIL and Fertilizer companies should finalise the term sheets early so that the projects for conversion/ expansion/ de-bottlenecking/ revival are taken up for implementation. Further, no specific decision has been taken by the Government on nominating GAIL (India) Ltd., as the nodal authority for supply of gas to fertilizer industry."

73. On being asked to state the steps being taken by the Department for enabling production units to convert the feedstock to natural gas the Department of Fertilizer in their post evidence reply submitted as follows :-

> **"**Under the New Pricing Scheme Stage-III, to incentivise the conversion of non-gas based units to gas, it has been provided that the units will be allowed to retain the energy savings achieved due to conversion for first five years of commercial production after conversion of non-gas based units to gas. Further, to cover the cost of conversion in case of FO/LSHS units, where the energy savings is expected to be inadequate to cover the cost of investments towards conversion, it has been provided that a scheme for capital assistance towards conversion of FO/LSHS units to gas will be separately notified by the Department. Accordingly, a policy for reimbursement of cost of conversion of FO/LSHS units through conversion subsidy has been notified by the Department in March, 2009.

74. According to the Department they have regularly pursued with the Ministry of Petroleum & Natural Gas for an early pipeline connectivity to the non-gas based units in the country and a firm gas allocation towards their conversion projects.

The Pipeline connectivity schedule for the non-gas based units indicated by the Ministry of Petroleum & Natural gas is as below:-

S. No.	Plant	Connectivity	Targeted date of completion
1.	MFL Chennai	Kakinada-Chennai Pipeline RGTIL)	December, 2011
2.	SPIC Tuticorin	Chennai –Tuticorin Pipeline RGTIL)	December, 2012
3.	MCFL Mangalore	Chennai-Bangalore-Mangalore pipeline (RGTIL)	December, 2012
4.	FACT Udyog Mandalam, Kochi	Kochi-Kanjirkkod-Bangalore-Mangalore (GAIL)	2012
5.	Zuari Industries Ltd. (ZIL), Goa	Dabhol-Gogak-Bangalore pipeline (GAIL)	2012
6.	National Fertilizers Limited – Nangal, Panoipat, Bhatinda	Dadrai-Bawana-Nangal	2009-10

75. Further, the Government has accorded highest priority in allocation of gas for fertilizer sector including for the conversion projects.

76. On being enquired about the further steps that are contemplated to fine tune the feedstock policy for increasing production / productivity of fertilizers, the Department of Fertilizers in their post evidence reply stated that they have been regularly pursuing for a firm commitment towards allocation of gas for the new fertilizer projects in the country, as the investments for the new projects can be initiated only if there is a firm long term commitment towards supply of natural gas. The fertilizer projects are capital intensive projects and without commitment for future supply of gas towards the new projects, the financial closure of these projects cannot be achieved. Thus, there is a need to further operationalise the highest priority in allocation of gas for fertilizer sector through provision of firm long term gas allocation towards new fertilizer projects to enable capacity additions within the country.

77. Natural gas is considered to be more cost effective in the production of urea. However, about 34% of urea production in the country is still based on other feedstocks like naphtha, Fuel Oil (FO), Low Sulphur Heavy Stock (LSHS), etc. Under the New pricing Scheme-Stage-III, all non-gas based units are required to convert to gas by March 2010. The Committee observe that the policy for enabling conversion of FO/LSHS based units to gas has already been notified on 6 March 2009. The policy envisages reimbursement of cost of conversion of FO/LSHS units through subsidy. Some of the naphtha based units where the gas pipeline connectivity is available have already converted to gas. The remaining naphtha based units have not been able to convert to gas due to lack of gas pipeline connectivity and gas availability. However, according to the Department of Fertilizers, the Ministry of Petroleum and Natural Gas have indicated the targeted dates of completion for the pipeline connectivity. The Committee desire that the Department of Fertilizers should vigorously pursue the matter with the Ministry of Petroleum & Natural Gas and ensure that the connectivity schedule is properly honoured.

The Department of Fertilizers should also impress upon the Ministry of Petroleum and Natural Gas for a firm commitment towards allocation of gas for the new fertilizer projects in the country to enable capacity additions.

The Committee regret to observe that their earlier recommendation for nominating a nodal authority in the Ministry of Petroleum and Natural Gas for allocation of gas to the fertilizer industry is yet to be acted upon. The Committee desire that the decision in the matter be expedited and would like to be informed of the outcome.

(Recommendation Sl. No.13)

XV. ASSESSED REQUIREMENT AND AVAILABILITY OF FERTILIZERS

78. Presently, urea is the only fertilizer which is under price control. The assessed requirement, availability and sales of urea in the last three crop seasons have been as under:-

(Figures in lakh metric tonnes)

Season	Assessed requirement	Availability	Sales
Rabi 2007-08	140.02	151.36	137.09
Kharif 2008	137.11	137.64	127.92
Rabi 2008-09	144.22	141.60	138.55

The availability of urea under the NPS, during Kharif 2008 and Rabi 2008-09 was adequate to support the sales at state level in all the States/UTs. The sales of 138.55 lakh MTs of urea during Rabi 2008-09 were higher by about 1.06% over 137.09 lakh MTs of sales in Rabi 2007-08. During Rabi 2008-09, 32.37 lakh MTs of urea was imported.

79. When the Committee desired to know the steps taken by the Department of Fertilizers to ensure timely and sufficient availability of quality fertilizers in remote, inaccessible and low consuming areas, the Department of Fertilizers in their written replies stated as follows:-

> "Adequate quantity of fertilizer have been supplied to the States to match with the assessed requirement/sales. As such there has been no scarcity of fertilizer at state level. The distribution of fertilizer within the state rests into the state government.

The steps taken for smooth distribution of fertilizer are as under:-

i) The movement of fertilizers is monitored throughout the country by an on-line web based monitoring system (www.urvarak.co.in) also called as Fertilizer Monitoring System(FMS);

ii) The subsidy on fertilizer is being paid only when it reaches the district;

iii) Department of Fertilizers has notified uniform freight subsidy scheme to transport fertilizers upto block level;

iv) The gap between requirement and indigenous availability of Urea is met through imports.

v) Buffer stocking of about 6.25 LMT of Urea 3.50 LMT of DAP and 1.00 LMT of MOP is being maintained by the Department of Fertilizer in various states to meet out emergent demand of farmers/state governments.

vi) The availability of all the major fertilizers has been over and above the sale requirement. At times, the availability of complex fertilizers may be tight due to its low production in the country and these can not be imported due to number of grades of these fertilizers used by the farmers which are not available in the International Market. Sufficient supplies of Nutrients N, P and K are ensured through adequate supply of straight fertilizers like Urea, DAP/MAP and MOP to the States."

80. On being asked how the Central Government ensured fulfilment of the requirements of States in respect of decontrolled fertilizers, the Department in a note stated as follows:-

> "The availability of the de-controlled fertilizer is decided by the market forces of demand and supply. However, the monthly Supply Plan of the decontrolled fertilizers like DAP, MOP and NPK as indicated by the manufacturers / importers is reviewed by the DOF with the Suppliers. Suppliers are persuaded to make supplies to the deficit states. DOF uses the instrument of subsidy to ensure that Supply Plan is followed. However, State Governments have been requested time and again to tie up supplies of the de-controlled fertilizers with manufacturers/importer well in advance so that the farmers in their States get the fertilizers at the time of need."

81. The Committee enquired from the Department about the way they ensure equitable and need based distribution of fertilizers in all parts of the country. The Department of Fertilizers in their post evidence reply submitted:-

> "Urea is the only fertilizer which is under partial movement and distribution control of the Government of India. 50% of the indigenous production of Urea is regulated by issue of movement orders to the manufacturers for dispatch of urea to the States on month to month basis keeping in view the assessed requirement. Balance indigenous production is left to the discretion of the manufacturers for dispatch to the place of their choice.
>
> The gap between the assessed requirement and the indigenous availability of Urea is bridged through Essential Commodities Act (ECA) allocations from Urea imported on Government account.
>
> All other fertilizers like DAP, MOP, SSP and NPK complex fertilizers are de-controlled / de-canalized since August, 1992. The availability of these fertilizers is decided by the market forces of demand and supply.
>
> Department of Fertilizers monitors the availability of major fertilizers like Urea, DAP, MOP and NPK (complex fertilizers) at State level through Web-based Fertilizer Monitoring System (FMS).
>
> The distribution of fertilizers within the State rests with the State Government. State Agriculture Department gives district-wise supply plan to the suppliers of the fertilizers to the State and is responsible for distribution within the State.
>
> State Governments, under FCO, are empowered to check adulteration / Black marketing etc. of fertilizers and deal with the offenders."

82. Equitable and need based distribution of fertilizers in all parts of the country is the *sine qua non* for facilitating increased production and productivity in the agriculture sector. At present, the Department of Fertilizers are required to ensure availability of urea, which is the only fertilizer under price control, as per the requirement assessed by the Department of Agriculture and Co-operation. The availability of the de-controlled fertilizer is decided by the market forces of demand and supply. However, the monthly supply plan of the decontrolled fertilizers are also required to be reviewed by the Department of Fertilizers with the suppliers. The Committee are surprised that the Department of Fertilizers have maintained that the State Agriculture Departments give District-wise supply plan to the suppliers of the fertilizers to the State and that the States are responsible for distribution within the areas of their respective jurisdiction. The Committee feel that the Department cannot altogether exonerate themselves from their responsibility in the matter. The Committee desire that with the technological assistance now available, the Department should make their Fertilizer Monitoring System more effective and should ensure proper coordination with State Agriculture Departments with a view to ensuring proper and equitable distribution of fertilizers in all parts of the country.

(Recommendation Sl. No.14)

XVI. SHORTAGE / SCARCITY OF FERTILIZERS

83. According to the Department of Fertilizers, they ensure availability of fertilizers at State level to match with the requirement of the States on a month to month basis. The distribution of fertilizers within the State rests with the State Government. It may also be mentioned that the movement of fertilizers is a function of sale . When sale of fertilizers decline, movement of fertilizers slows down in that particular region / state.

84. When the Committee desired to know whether efforts have been made by the Department to control the artificial scarcity of fertilizers, the Department of Fertilizers in their written reply stated as follows:-

> "Adequate quantity of fertilizers have been supplied to the States to match with the assessed requirement/sales. As such there has been no scarcity of fertilizer at state level. There is some tightness in availability of NPK because of low production and also that these cannot be imported as these are not covered under Concession Scheme. The distribution of fertilizers within the state rest with the state government.
>
> Under the Fertilizer (Control) Order, State governments have been empowered to take action against the offenders / hoarders / dealers involved in black marketing etc."

85. Further, on being enquired by the Committee regarding the steps being taken by the Government to ensure adequate and timely availability and to control the artificial scarcity of fertilizers particularly in remote, inaccessible and low consuming areas, the Department of Fertilizers informed the Committee that they have undertaken a number of steps to improve the availability of fertilizers which are as follows:-

- Since the district and not the State is the basis of planning for fertilizer availability, the subsidy will now be paid to fertilizer companies only on receipts of fertilizes in each district in conformity with the agreed supply plan;

- The supply of fertilizers by manufacturers/suppliers in accordance with the agreed supply plan is being monitored through a web-based Fertilizer Monitoring System(FMS) – www.urvarak.co.in, which is capable of tracking dispatch, arrival and sales up to the district level and also production and imports;

- The State Governments have been advised to :-

(a) strengthen the State Institutional Agencies which will coordinate with manufacturers and importers of fertilizers for streamlining the supplies;

(b) undertake assessment of demand at the block level;

(c) review the dealer network in their respective States to ensure sufficient availability of dealers up to 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.

- Policy on promotion of the production and availability of Fortified and Coated fertilizers has also been announced vide Notification No.12012/20/2007-FPP dated 02.06.2008

- Maximum Retail Prices of subsidized Complex Fertilizers were reduced by an average of 19% from 18.06.2008. Now, nutrients across all subsidized fertilizers cost the same to promote balanced fertilization and increased agricultural productivity;

- Policy for uniform freight subsidy on all fertilizers under subsidy regime has been announced vide Notification No.12012/2/2008-FPP dated the 17.07 2008;

- Buffer Stocking of Urea- 6.25 LMT, DAP- 3.5 LMT and MOP-1 LMT; has been created in order to meet any exigency.

86. The Committee have been informed that there has been no scarcity of fertilizer at the State level, however, there is some tightness in availability in some States because of low production. In this connection, the Committee note that the web-based Fertilizer Monitoring System available with the Department of Fertilizers now is capable of monitoring the supply of fertilizers by manufacturers/ suppliers in accordance with the agreed supply plan. The Committee are of the view that the system should be modified/ upgraded to take care of the scarcity of fertilizers occurring at State levels also so that necessary corrective action could be initiated well in time by the authorities concerned. The Committee would like to be informed of the action taken in the matter.

The Committee further desire that strict action should be taken by the authorities against the offenders/ hoarders/ dealers and others involved in creating artificial scarcity/ black-marketing, etc. The Committee would like a list of offenders/ hoarders etc., should be furnished to them and the action taken against each of them.

(Recommendation Sl. No.15)

XVII. JOINT VENTURES ABROAD

87. In the recent years, the Government has been encouraging Indian companies to establish joint venture production facilities, with buy back arrangement, in other countries which had rich resources of raw materials / feedstock. When the Committee desired to know as to what extent this policy has been helpful in achieving fertilizer availability in the country, the Department of Fertilizers in their post evidence reply stated as follows:-

> "India is by and large import dependent for meeting its requirements of P&K fertilizers either by import of fertilizers or fertilizer inputs. In Urea sector also, the country has certain level of gap between indigenous production and annual requirements, which is met through imports. Since fertilizer resources such as rock phosphate, gas and potash are owned by only a limited number of countries, Government is encouraging Indian companies to establish joint venture production facilities, with buy back arrangement, in other countries which had rich resources of raw materials /feedstock. Oman India Fertilizer Company (OMIFCO) is a joint venture between Indian Cooperatives, IFFCO and KRIBHCO (50% equity) and Oman Oil Company S.A.O.C., Oman (50% equity) in Oman. Government of India has an off take arrangement, called Urea Off Take Agreement (UOTA) for off-take of about 16.52 lakh MT of urea annually at a predetermined price on long term basis. This arrangement has helped the country in securing urea at a cheaper price than the price prevailing in the international market and has resulted in subsidy saving. Discussion for other joint venture arrangements by the Indian companies in various countries is in progress. In Jordan, Indian company, SPIC has a joint venture with JPMC of Jordan for production of 2.24 lakh MT of Phosphoric acid and off take to India. Similarly, IFFCO, Indian Cooperative has joint venture with ICS Senegal in Senegal for production of 5.5 lakh MT of phosphoric acid and off take to India. Indian companies, Tata Chemicals and Chambal-Zuari have a joint venture with Office Cherifian des Phosphates (OCP) of Morocco for production of 4.30 lakh MT of Phosphoric acid and off-take to India. Since India imports nearly 50-55% of globally traded phosphoric acid, off-take of phosphoric acid through joint venture arrangements have provided security of supply. Similar joint venture arrangements have been finalized by the Indian companies, Coromandel and GSFC with Tunisian company, Groupe Chemique Tunisian (GCT) in Tunisia and IFFCO with JPMC of Jordan for production and off-take of phosphoric acid. The offtake arrangements have helped in securing supply of fertilizers and also fertilizer inputs for indigenous production."

The following table shows the Joint Venture initiatives in fertilizer sectors:-

JV INITIATIVES IN FERTILIZER SECTORS Indian Fertilizer Joint Ventures Abroad			
JV - Project Country	Entities	Product	Offtake arrangement
OMIFCO, Oman	Oman Oil Co. (OOC-50%), IFFCO (25%) & KRIBHCO (25%)	16.52 Lakh MT Urea & 2.48 Lakh MT Ammonia	Urea - GOI

JV INITIATIVES IN FERTILIZER SECTORS Indian Fertilizer Joint Ventures Abroad			
JV - Project Country	Entities	Product	Offtake arrangement
			Ammonia - IFFCO
ICS Senegal, Senegal	ICS Senegal and IFFCO Consortium	5.5 Lakh MT Phosphoric Acid	Phos. Acid - IFFCO
Indp-Jordan Chemical Company (IJC), Jordan	JPMC (Jordan) and SPIC (India)	2.24 Lakh MT Phosphoric Acid	Phos. Acid - SPIC
JPMC - IFFCO JV, Jordan	JPMC & IFFCO	4.8 Lakh MT Phos Acid to be commissioned by 2010	Phos Acid - IFFCO
IMACID, Morocco	OCP (50%) - Morocco, Chambal (25%) & TCL (25%) - India	4.30 Lakh MT Phos Acid	Phos. Acid - CFCL & TCL
Tunisia - India Fertilizer Company (TIFERT), Tunisia	GCT (Tunisia), CFL & GSFC (India)	3.60 Lakh MT of Phosphoric acid to be commissioned by 2010	Phos. Acid - CFCL & GSFC

JV INITIATIVES IN FERTILIZER SECTORS

Indian Fertilizer Joint Ventures Abroad - Being Pursued			
S.No.	**Ammonia- Urea**	**Phosphate**	**Potash**
1	**OMIFCO Expansion in Oman (IFFCO / KRIBHCO)**	Syria (PPL/ RCF/ KRIBHCO/ FAGMIL)	Canada (MMTC/ RCF/ IFFCO/ IPL)
2	**JV in Mozambique (RCF)**	Mozambique (RCF)	Argentina (MMTC/ IPL/ NMDC)
3	**JV in Australia based on coal gasification (KRIBHCO)**	Algeria (RCF)	Ethiopia
4	**JV in Qatar (IFFCO)**	Togo	Jordon (IFFCO)

88. The Committee have been informed that India is by and large import dependent for meeting its requirement of P&K fertilizers either by import of fertilizers or the fertilizer inputs. The Committee are happy to note that the Government have been encouraging Indian companies to establish joint venture projects in other countries which have rich resources of natural gas and rock phosphate as this would definitely help in augmenting the supply of fertilizers ultimately leading to increase in food production. The Committee however, observe that only a token amount of Rs.1 lakh has been provided in the BE 2009-10 as there is no firm proposal in the hands of the Department right now. The Committee, desire that Government should continue and encourage this practice and explore the possibilities of new JVs which could help in making available assured sources of supply of fertilizers. The Committee feel that certain incentives could also be offered to Indian companies to set up joint ventures abroad.

(Recommendation Sl. No.16)

XVIII. CONSUMPTION OF FERTILIZERS

89. According to the Department of Fertilizers, keeping in view the self-reliance in food-grain production, the Government of India has been consistently pursuing policies conducive to increased availability and consumption of fertilizers in the country. As a result, the annual consumption of fertilizers in nutrient terms (N,P&K) has increased from 0.7 lakh MT in 1951-52 to 225.70 lakh MT in 2007-08, while per hectare consumption of fertilizers which was less than 1 kg. in 1951-52 has risen to the level of 116.51 kg. (estimated) in 2007-08. The following table furnished by the Department of Fertilizers shows the Nitrogenous (N), Phosphatic (P) and Potassic (K) fertilizers from the year 2003-04 to 2007-08:-

Year	Consumption			
	N	P	K	Total
2003-04	110.76	41.24	15.98	167.98
2004-05	117.14	46.24	20.61	183.99
2005-06	127.23	52.04	24.13	203.40
2006-07	137.74	55.43	23.34	216.51
2007-08	144.19	55.15	26.36	225.70

90. In reply to a question of the Committee, the Department of Fertilizers furnished the following table indicating the average consumption of fertilizers (kg. per ha.) in various countries including India :-

Country	Nutrient Consumption
	Kg / Ha
India	113.42
Bangladesh	197.6
Brazil	147.9
China	289.1
France	210.5
USA	113.5
World (Avg)	101
World (Max)	

The Committee pointed that the present average consumption of the fertilizers in India is 113.42 kg per hectare which is less than that of even Bangladesh (197.6 kg per hectare) and even much less than that of China (289.1 kg per hectare). When the Committee asked about the reasons for the same, the Department of Fertilizers in their post evidence reply, stated as under:-

> "The application of fertilizers in India which was at 113.42 Kg per hectare (provisional) in 2006-07 has risen to 117.07 Kg per hectare in 2007-08. There has been a steady increase in consumption of fertilizers in India and it has risen from 0.49 Kg per hectare in 1951-52 to 117.07 Kg per hectare in 2007-08. Further, there has been a rising trend in consumption of fertilizers in the country as can be seen from the table below:

Year	NPK Consumption (Kg/Hectare)
1951-52	0.49
1961-62	2.17
1971-72	16.08
1981-82	34.33
1991-92	69.84
2001-02	91.51
2002-03	91.64
2003-04	88.32
2004-05	96.62
2005-06	105.50
2006-07	112.30
2007-08	117.07

(Note : NPK consumption in 2006-07 was provisionally estimated at 113.42 kg/ha)

Though, average consumption of fertilizers in India is low as compared to other agriculturally developed countries, it is expected that the future growth in consumption of fertilizers within the country will further reduce the difference in consumption levels. Moreover, the fertilizer consumption is also dependent upon the original soil conditions including nutrient contents therein and the cropping pattern followed within the country."

91. When the Committee desired to know how the Department propose to improve the position, the Department of Fertilizers in their post evidence reply, stated as under:-

"The Government has been encouraging increase in consumption of fertilizers within the country through administration of subsidy regime on a basket of fertilizer products. The retail prices of subsidized fertilizers have been notified at a level much below their actual cost of production and delivery at farm gate level, to encourage its consumption within the country. There is no cap on the quantum of subsidized fertilizers that can be consumed by the farmers. It is expected that the current trend of increasing consumption of fertilizers will carry on and will help improve the overall consumption levels in the country."

92. The Committee note that the annual consumption of fertilizers in nutrient terms (N,P&K) has increased from 0.7 lakh MT in 1951-52 to 225.70 MT in 2007-08. Similarly, the per hectare consumption of fertilizers has increased from 0.49 kg per hectare in 1951-52 to 117.07 kg per hectare in 2007-08. While this increase has indeed been steady over the years, it is somewhat surprising that the average consumption of fertilizers in our country at 117.07 kg per hectare is much below than the agriculturally developed countries (China 289.10 hectare, Egypt 555.10 kg per hectare) and even that of Bangladesh (197.6 kg per hectare). The Committee, therefore, recommend that the issue of low average consumption of fertilizers should be thoroughly looked into including the factors arising out of soil conditions, nutrient content, cropping pattern, etc. and appropriate measure be taken to enhance the consumption level and thereby agricultural production and productivity.

(Recommendation Sl. No.17)

XIX. PROMOTION OF BALANCED USE OF FERTILIZERS AND PRODUCTIVITY RESPONSE TO FERTILIZER USAGE.

93. It is imperative that a balanced nutrient application of fertilizers (NPK) is ensured for sustained agricultural growth. Presently, 4:2:1 is considered to be the optimum NPK ratio.

94. As against the preferred NPK ratio of 4:2:1 as informed by the Department in a note furnished to the Committee, the aggregated application of N, P&K nutrients in Indian agriculture is currently 4.6:2.1. In this connection, the Department in a note stated as follows:-

> "The subsidy regime has led to increased fertilizer application in the country, which in turn has played a major role in increased agricultural productivity and production within the country. However, recent trends in agricultural productivity show that the marginal productivity of soil in relation to the application of fertilizers is declining and in some cases, it has also become negative. As can be seen from the table below, the productivity response to fertilizer usage has reduced from 13.45 in years 1960-61 to 1970-71 to 3.92 in years 2001-02 to 2007-08.

Productivity Response to Fertilizer Usage

Period	Av. Rate of Increase of Foodgrain Production Per Year in 000' Mt	Av. Rate of Increase of NPK Consumption Per Year in 000' MT	Av. Rate of response of Foodgrain Production on increased fertiliser usage
1960-61 to 1970-71	2400.4	178.5	13.45
1971-72 to 1981- 82	2557.0	310.0	8.25
1982-83 to 1991-92	3885.4	632.6	6.14
1992-93 to 2000-01	1925.7	505.2	3.81
2001-02 to 2007-08	3164.1	807.1	3.92
Assumption- Linear variation taken to work out avg. increase per year, based on the data for two extreme year			

The Department of Fertilizers have attributed this decline to following factors:-

i) The highly subsidized price of urea which contains 'N' as compared to that of Di-ammonia Phosphate (DAP) which contains 'P' has been one of the reasons behind the unbalanced application of N,PK nutrient in favour of 'N' i.e. 5.3:2.2:1 as against the preferred ratio of 4:2:1 or 2:2:1.

ii) Nutrient based pricing has been adopted w.e.f. 18 June, 2008 wherein price of nutrients across all subsidized fertilizers is uniform. Prior to that the farm gate price of nutrients (NP&K) was much lower in case of straight fertilizers (Urea, DAP & MOP) as compared to complex fertilizers. This resulted in comparatively high usage of straight fertilizers as against the complex fertilizers ultimately contributing towards slowdown in growth of productivity.

iii) Plants for their effective growth require 16 nutrients which have been classified in four categories viz. natural, primary, secondary and micro. Due to lack of application of proper nutrients based on soil analysis, since the subsidy policy did not allow for recognition of cost of secondary (except sulphur) and micro-nutrients, the manufacturers/ importers were not willing to fortify the subsidized fertilizers with these secondary and micro-nutrients. Thus there has been a progressive increase in deficiency of various secondary (Ca, Mg, S) and micro nutrients (Nz, Mn, B, Cu, Mo, Fe) in Indian soils.

iv) The low efficiency of fertilizers viz. the efficiency of 'N' in the form of urea ranges between 30-35% in upload crops and below 30% in paddy field / crop not only leads to low productivity and wastage of subsidy, but also adds to environment pollution and ground water pollution.

There is a need to further increase consumption of fertilizers in order to increase the agricultural productivity which is also currently much below the best intentional benchmarks."

95. During evidence the Committee were informed that lack of any nutrient in requisite amount does have a significant impact on productivity of soil. 98% of the fertilizer available and consumed in India contain only major nutrients. The following table furnished by the Department of Fertilizers shows the response ratio of micronutrients for different crop groups:-

RESEARCH EXPERIMENTAL DATA

RESPONSE RATIO OF MICRONUTRIENTS FOR DIFFERENT CROP GROUPS (ALL INDIA)

Crop type	% Increase in Yield of different crops by Application of Micro Nutrients					
	Sulphur	Zinc	Gypsum	FYM	Copper Sulphate	Iron Sulphate
Cereals	25	23	42	20	2.45	8
Pulses	25	30	29			
Oilseeds	32	10	17-49	13	9	
Forages	31	69				
Vegetables	30					
Other	37					

96. When the Committee desired to know the precise steps taken by the Department in this regard, the Department of Fertilizers in their post evidence reply submitted as under:-

"The Government have taken various measures to bring the NPK ratio near the preferred ratio. The measures taken by the Government of India are as under:-

(i) Introduction of the concession scheme on sale of P&K fertilizers in 1992 which has helped to bring down the NPK ratio from 9.5:3.2:1 in 1992 to 4.6:2.1 during the current year 2008-09.

(ii) Government of India are promoting the concept of Balanced Use of Fertilizers and also advocating the concept of soil test based fertilizer use. During the 11th plan a new scheme titled "National Project on Soil Health and Fertility" has been introduced with total outlay of Rs.429 crores. Under the Scheme, it is proposed to create 500 new soil testing (static) laboratories and 250 (mobile) soil testing laboratories and also strengthen the existing soil testing laboratories.

(iii) Government of India are encouraging the use of complex fertilizers and have incorporated many new complex fertilizer in the Fertilizer(Control) Order, 1985 for the purpose.

(iv) To ensure balanced application of fertilizers, the Government has moved towards a nutrient based pricing regime w.e.f. 18.06.2008 wherein the price of nutrients N,P&K is same for farmers across all subsidized fertilizer products. This is expected to enable farmers to use nutrients in accordance with the requirement of the soil."

97. Further, on being enquired by the Committee regarding steps taken by the Department of Fertilizers to make available micro-nutrients for balanced use of fertilizers, the Department of Fertilizers in their post evidence information have informed that the Department of Fertilizers have announced a policy for encouraging production and availability of subsidized fertilizers fortified with micro nutrients in June 2008. Under the above policy, fertilizer manufacturers are allowed to fortify their fertilizers with various micro nutrients as approved under FCO and charge upto maximum 5% above MRP in case of these fortified fertilizers. The limit is 10% above MRP in case of zincated urea.

98. The Committee note with concern that as per certain recent trends in agricultural productivity in the country, the marginal productivity of soil in relation to the application of fertilizers is declining and in some cases it has also become negative. The productivity response to fertilizer usage has reduced from 13.45 in the year 1960-61 to 1970-71 to 3.92 in the years 2001-02 to 2007-08. Some of the factors which have contributed to the decline in marginal productivity inter alia were; the aggregated application of NP&K nutrients in Indian agriculture is currently 4.6:2.1 as against the preferred ratio of 4:2:1; the comparatively high usage of straight fertilizers (Urea, DAP and MOP) as against the complex fertilizers (NPKs); the lack of application of proper nutrients based on soil analysis; the declining fertilizers use efficiency; low average consumption of fertilizers in the country, etc. The Department of Fertilizers recounted some of the steps being taken by the Government in this regard include moving towards nutrient based pricing regime w.e.f. 18 June 2008, introduction of a scheme entitled "National Project on Soil Health and Fertility" during the 11th Plan, encouraging use of Complex fertilizers, etc. The Committee cannot remain satisfied with this. They are of the view that there is an imperative need to study the factors which have contributed to the declining marginal productivity in a greater length and take concrete measures towards efficient fertilizers management at farm levels with a view to improving higher agricultural productivity and production for better food security.

(Recommendation Sl. No.18)

XX. FERTILIZER EDUCATION PROJECTS

99. The Committee pointed out that the Department of Fertilizers are not actively involved in Fertilizer Education Project especially when a huge amount of subsidy is provided on Fertilizers production and desired to know the brief account of the major fertilizer education projects undertaken by the Department and specific steps taken by the Department to create farmers awareness for the newly developing source of nutrients. The Department of Fertilizers in their post evidence reply stated as under:-

> "Department of Fertilizers do not implement Fertilizer Education Projects and such projects are administered by the State Governments and agricultural universities. Some fertilizer Companies including public sector undertakings do undertake such projects as part of their extension and marketing activities. The PSUs/Cooperatives under the administrative control of Department of Fertilizers are encouraged to launch fertilizer education programmes for the benefit of the farming community and to improve the fertilizer use efficiency.

100. The Committee note that presently the Department of Fertilizers do not undertake Fertilizer Education Projects. The Committee feel that balanced use of fertilizers is essential for improving the foodgrain production and in order to encourage the balanced use of fertilizers as well as use of new developing source of nutrients, awareness among farmers is required to be created. The Committee, therefore, recommend that the Department should encourage the PSUs/Cooperatives under the administrative control of Department of Fertilizers to launch and implement Fertilizer Education Programmes for the benefit of the farmers community. The Committee further desire that there should be a systemic coordination between the Department of Fertilizers and the Department of Agriculture and Cooperation in regard to the Fertilizer Education Projects. The Committee may be apprised of the action taken in this regard.

(Recommendation Sl. No.19)

XXI. PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS/COOPERATIVES

101. As stated in the introductory portion, the Department of Fertilizers have under its administrative control, nine public sector undertakings (PSUs), one multi-State, co-operative society (KRIBHCO) and one Joint Sector Company (Indian Potash Ltd.). The following table shows the PSUs/Cooperatives – wise details of fertilizer production, units and their installed capacity:-

PSUs & Cooperative Fertilizers Manufactured & their Installed Capacities			
PSUs/ Cooperatives	Fertilizer Product	Units	Installed Capacity (LMT)
NFL	Urea	Nangal	478.5
		Bathinda	511.5
		Panipat	511.5
		Vijaipur	1729.2
RCF	Urea	Thal	1706.8
	Urea	Trombay	
	Complex	Trombay	661.0
KRIBHCO	Urea	Hazira	1729.2
BVFCL	Urea	Namrup	555.0
MFL	Urea	Chennai	486.8
	Complex	Chennai	840.0
FAGMIL	Agriclture grade Gypsum	Mines in Rajasthan	
Fact	Complex	Udyogmandal	148.5
		Kochi	485.0
	Urea	Kochi	Closed
FCIL	Urea	All three units closed	
HFCL	Urea	All three units closed	
PDIL	Engineering Consultancy PSU under DOF		

102. The financial performance of the above organizations is as under:-

S. No	PSU/ Coop	Unit	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 (Provisiona)
1	NFL	PBT	119.11	214.55	179.3	264	156	150
2	RCF	PBT	275.13	212.59	215.67	241.46	242.07	329.03
3	MFL	PBT	(63.74)	(58.39)	(131.74)	(114.65)	(134.73)	(155.75)
4	FACT	PBT	(167.22)	(167.76)	236.20	(122.65)	9.18	46.19
5	BVFCL	PBT	(44.17)	22.54@	(99.77)	(62.37)	(105.84)	(218.49)
6	FAGMIL	PBT	2.83	6.58	9.87	11.51	12.94	13.99
7	PDIL	PBT	8.69	10.06	10.64	11.20	12.26	18.17
8	KRIBHCO	PBT	219.51	185.83	280.20	231.53	272.14	269.34

@ Net profit after adjustment of extra ordinary item of Rs.40.20 crore.

103. The following table shows the performance of the Department in respect of the utilization of funds for the schemes under the Eleventh plan during 2007-08, 2008-09 and 2009-10 (till August, 2009) **:-**

(in Rs. Crores)

Sl. No.	PSU	2007-08		2008-09		2009-10	
		Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure (upto August, 2009)
1	RCF	253.24	118.57	469.06	241.83	988.05	54.58
2	FAGMIL	3.20	0.69	22.4	0.61	29.01	0.14
3	PDIL	6.74	4.77	4.65	3.88	5.35	2.65
4	NFL	25	22.04	48.05	27.56	550.15	13.91
5	KRIBHCO	106.00	79.73	105.00	58.52	497.00	76.59
6	Revial of Sick CPSEs						
6(i)	BVFCL	7.47	7.47	20.00	20.00	65.00	10.00
6(ii)	FACT	15.00	15.00	13.00	8.69	34.00	11.33
6(iii)	MFL	9.00	9.00	13.00	13.00	96.99	32.34
6(iv)	Misc Schemes*	8.50	6.99	4.00	3.38	4.00	
7	Capital Subsidy for conversion	5.00	0.00	0.01	0.01	0.00	
8	Investments for JVs abroad		0.00			0.01	
9	Revival of Closed Units					0.00	
9(i)	FCI	0.01				0.00	
9(ii)	HFC	0.01				0.00	
9(iii)	PPCL	0.01				0.00	
	TOTAL:	439.18	264.26	699.17	377.48	2269.56	201.54

104. BVFCL, MFL and FACT, the three PSUs under the administrative control of the Department suffered losses during last two years due to the reasons, viz. below minimum economic size plant capacity, poor energy efficiency, condition of assets and technologies, limited availability of natural gas, high investment in revamp of ammonia and urea plants between 1993 and 1998 and technology related problems. The other reasons for losses were non-implementation of the recommendations of the Tariff Commission for pricing of complex fertilizers from April 2002, leading to non-recovery of even material cost fully under the Price Concession Scheme (PCS), reduction in subsidy income due to introduction of New Pricing Scheme (NPS) for Urea and liquidity crisis affecting procurement of raw materials for Urea and NPK and spares for normal maintenance of Plants etc.

105. The Department of Fertilizers in a note stated that natural gas is considered to be more cost effective in urea production and under the New Pricing Scheme, Stage-III, non-gas based units are required to convert to gas by March 2010. To cover the cost of conversion in case of FO/LSHS units, where the energy savings are expected to be inadequate to cover the cost of investments towards conversion, it has been provided that a scheme for capital assistance towards conversion of FO/LSHS units to gas will be separately notified by the Department. Accordingly, a policy for reimbursement of cost of conversion of Fuel Oil (FO)/ Low Sulphur Heavy Stock (LSHS) units through conversion subsidy has been notified by the Department in March 2009.

106. **There are nine public sector undertakings (PSUs), one multi-State co-operative 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 Fertilizer 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 would, therefore, recommend that the Department should expeditiously complete all the revival formalities at the earliest. This is all the more necessary since there has been negligible growth of the fertilizer sector during the last decade. Besides, the Department should also make earnest efforts to overcome all the constraints of losses suffered by PSUs. Needless to emphasize, each PSU should make its own efforts towards improving capacity utilization, energy conservation methods and also to bring down manpower and administrative expenditure.**

(Recommendation Sl. No.20)

107 The Committee's examination also revealed that the performance of certain PSUs in relation to the implementation of schemes/ programmes during the first two years of the 11^{th} Plan has not been satisfactory. The shortfalls have *__inter alia__* been attributed to delay in finalization of feasibility/ project report, non-finalisation of proposals, impact of global meltdown, etc. The Committee desire that the reasons for the poor performance should be analysed thoroughly and necessary corrective action taken to achieve the plan targets in the remaining years of the 11^{th} Plan.

(Recommendation Sl. No.21)

XXII CLOSED PUBLIC SECTOR UNDERTAKINGS

108. Hindustan Fertilizers Corporation Ltd. (HFCL) and Fertilizers Corporation of India Ltd. (FCIL) both are sick PSUs having closed fertilizer units about which the Government have already decided to explore all options for their revival.

109. Pursuant to the decision taken by the Government on 12 April 2007, the feasibility of reviving the various closed units of Fertilizers Corporation of India Limited (FCIL) and Hindustan Fertilizers Corporation Limited (HFCL) was examined by the Government, subject to the confirmed availability of gas. The revival of closed units, based on gas have been found to be economically feasible, under the New Investment policy, as per the Techno-Economic feasibility reports for revival of closed units. The pricing policy for New Investments in urea sector was recently announced on 4 September 2008.

110. According to the Department of Fertilizers they have reviewed the success of New Investment policy in regard to availability of gas for revival of closed fertilizer units. The New Investment Policy provides for pricing dispensation based on Import Parity Price (IPP) for revival of closed units in Public Sector. For revival in private sector, the bidding route has to be followed. All options for revival of these closed units are being explored and looked into by an Empowered Committee of Secretaries (ECOS). The issue of availability of gas and pipeline connectivity for revival of these closed units will also be looked into by the ECOS.

111. As regards Fertilizers Corporation of India Limited (FCIL) and Hindustan Fertilizers Corporation Limited (HFCL), the Department informed the Committee that considering the demand-supply gap in respect of Fertilizers in the country and to augment production of Urea, the Government had taken a decision on 12 April 2007, in principle to examine the feasibility of reviving the closed units of FCIL and HFCL subject to the confirmed availability of gas. Finding the revival of the closed units technically and economically feasible, the Government had on 30 October 2008 taken the following decisions :-

1. To revive the Barauni Unit of HFCL through a Special Purpose Vehicle (SPV).

2. Constitution of an Empowered Committee of Secretaries (ECoS)with the mandate to evaluate all options for revival of the closed units and to make suitable recommendations for consideration of the Cabinet Committee on Economic Affairs.

3. In principle approval to consider write-off of Government of India loans and interest liabilities of FCIL and HFCL subject to submission of fully tied up proposals by these companies to the Government for final decision on waiver.

112 Pursuant to the above, M/s Urvarak Videsh Limited (UVL) a Joint Venture formed by RCF, NFL and KRIBHCO has been entrusted with the responsibility of Revival of Barauni Unit of HFCL. An Empowered Committee of Secretaries (ECoS) has been constituted on 7 November 2008 with the mandate to evaluate the various financial models for revival of the closed units; to decide upon the options to be pursued; facilitate various linkages including gas and to make suitable recommendations to the Government for approval. The Committee in its first meeting on 5 December 2008 had approved the terms of reference (TOR) for consultants and that FCIL and HFCL should finalize appointment of consultants as per the TOR already approved.

113. The second meeting of the ECoS was held on 24 August 2009 in which various financial models for revival were considered and it was decided to recommend the Revenue Sharing Model, for approval of the CCEA.

114. When the Committee asked about the latest position regarding availability of gas for revival of the plants, the representative of the Department, during the course of evidence, apprised the Committee as under :-

> “The biggest problem for the revival of these plants is the availability of gas. They are all urea plants. Now, none of these plants are connected today by any gas pipeline. The Ramagundam will come on RTL, the Kakinada, Chennai, Tuticorin pipeline which is being constructed by Reliance Gas Transportation Company. All other plants will come on the GAIL pipeline which will go from Jagdishpur to Haldia. Now, GAIL has to construct a pipeline. GAIL says that they will construct a pipeline if you have got a plant to receive gas on the other side. Plants are finding it difficult to have a financial closure because there is no firm allocation of gas in favour of these plants because today gas is given to those who are ready to receive it. I will be ready to receive it only if I get a financial closure. I have addressed it to the Petroleum Ministry and we have asked to GOM for allocation of gas and we have also raised this issue with the Cabinet Secretary which was incidentally reported in the newspapers that we want a via media so that we can get a gas commitment and GAIL can commence construction of pipeline.“

115. The Committee have been informed that revival of closed fertilizer units in the public sector based on gas have been found to be economically feasible, under the New Investment Policy, as per the Techno-Economical feasibility reports for revival of closed units. In pursuance of a decision taken by the Government on 30 October 2009, Urvarak Videsh Limited (UVL), a joint venture formed by RCF, NFL and KRIBHCO has been entrusted with the responsibility of revival of Barauni Unit of HFCL and an Empowered Committee of Secretaries (ECoS) has been constituted with the mandate to evaluate all options for revival of closed units and to make suitable recommendations for consideration of Cabinet Committee on Economic Affairs (CCEA). The Committee observe that the ECoS has recommended the Revenue Sharing Model for revival of Hindustan Fertilizer Corporation Limited (HFCL) and Fertilizer Corporation of India Limited (FCIL) for approval of CCEA. The Committee recommend that the revival process should be expedited and a time frame should be fixed for its completion. The Committee would like to be informed of the latest status of the revival process.

(Recommendation Sl. No.22)

XXIII. <u>Madras Fertilizers Limited (MFL)</u>

116. Madras Fertilizers Limited (MFL) is engaged in the manufacture of Ammonia, Urea and Complex Fertilizers (NPK) at Manali, near Chennai. The Company was incorporated in 1966 as a joint venture between the Govt. of India (GOI) and Amoco India Incorporated (AMOCO) of USA with equity contributions of 51% and 49%. During the period 1972 to 1985, the shareholding of AMOCO was partly acquired by the National Iranian Oil Company (NIOC). The total paid up capital of the Company is Rs.161.10 cr. At present, GOI holds Rs.95.85 cr. (59.50%), NICO holds Rs.41.52 cr. (25.77%) and others hold Rs.23.73 cr. (14.73%) of equity.

117. MFL incurred losses of Rs 114.78 Cr in 2006-07, Rs 134.85 Cr in 2007-08 and Rs.155.91 Cr (Provisional) in 2008-09. The accumulated loss as on 31 March 2009 is Rs 804.46 Cr against paid up Capital plus reserves of Rs.174.53 Cr. giving a negative net worth of Rs.629.93 Cr. The company has been declared sick by the BIFR in the hearing dated 2 April 2009 and State Bank of India has been appointed as the operating agency. The major reasons for the losses are

a. High investment in revamp of Ammonia and Urea Plants between 1993 and 1998 and technology related problems thereafter.
b. Non-implementation of the recommendations of the Tariff Commission for Pricing of Complex Fertilizers from April 2002, leading to non-recovery of even material cost fully under the Price Concession Scheme (PCS).
c. Reduction in subsidy income due to introduction of New Pricing Scheme (NPS) for Urea from 1/4/2003 and withdrawal of outlier benefit from 1 October 2006.
d. Reduction in credit limits by Commercial Banks due to poor financials.
e. Liquidity crisis affecting procurement of raw materials for Urea and NPK and spares for normal maintenance of Plants.

118. A provision of Rs.13.00 crore was made in BE and RE(2008-09) and the amount of Rs.13.00 crore was fully utilized by MFL. The amount has been increased to Rs.96.99 crore in BE(2009-10).

119. A proposal for financial restructuring of Madras Fertilizers Ltd. is under active consideration of the Government. The company had appointed M/S. Deloitte Consultants for financial revival of the company.

120. On being enquired by the Committee regarding specific efforts made towards revival/restricting of MFL, the Department of Fertilizers in their post evidence reply stated as follows:-

"A Financial Restructuring Proposal was formulated by DOF for consideration of the Government to make the future operations of MFL viable, with the following features:

a. Continuation of outlier benefits of 50% from October 2006 to March 2008, 45% for 2008-09 and at 35% from 2009-10 till LNG is made available.

b. Adoption of existing recommendations of Tariff Commission on MFL's Complex Fertilizers from 2007-08 as a special dispensation till a new policy is announced.

c. Waiver of GOI loan and interest (including penal interest) amounting to Rs 348.18 Cr as of 31/03/2007.

d. Government subscription in 2007-08, of 5% non-cumulative preferential shares for Rs 175 Cr, redeemable in five instalments from 6th year, to compensate the Company for under-recoveries due to anomalies in Pricing Policy of Urea from 2003-04 and complex Fertilizers from 2002-03.

The above said proposals were sent for Inter-Ministerial consultations in April 2007 and after obtaining the comments of the Planning Commission, DoE and MPONG, the Note was moved in August 2007 by DOF. The said Note was received back with the observations that as the Department of Expenditure and Planning Commission have expressed objections/reservations on the proposals in the financial restructuring package, further consultations are required with these Departments.

In this regard, inter-ministerial meetings were held on 10/10/2007, 19/10/2007, 1/11/2007 and 28/11/2007 with DOE, Department of Banking and PC by DOF. In pursuance thereof, in February, 2008, MFL entrusted a study to M/s. DTT to suggest financial restructuring/dispensation package to ensure long term viability of MFL, who submitted its report in July, 08. MFL submitted a revised proposal for financial restructuring/ dispensation based upon option-I recommended by M/s DTT entailing a one time grant of Rs.190 crores; Waiver of GOI loan and interest; Equity subscription by GOI amounting to Rs.134.43 crores; Subscription to 5% non-cumulative preference shares to the tune of Rs.150.60 crores by GOI.

However, the view in DoF was to consider the option-II suggested in the report of M/s DTT which envisages amendments in NPS III policy for restricting reduction in fixed cost by 12% as proposed by DOF, resulting in increased subsidy for MFL by Rs.3361/MT of Urea. Alongwith this, it is proposed to reduce the present Equity Capital (Rs.161 Cr.) of MFL, to bring down the accumulated losses correspondingly.

DoF moved the Note for amendment to NPS-III Policy for restricting reduction in fixed costs to 10%, in April, 2009 after consultation with Deptt. of Expenditure. The Government has approved the proposal in its meeting on 25.06.2009.

Based on the amended NPS III policy restricting the reduction in fixed cost to 10% w.e.f. 01/04/2009 (as against 12% from 01/10/09 recommended by M/s Deloitte), additional compensation due to change in policy is Rs 3,073/MT of Urea, to MFL. With the said implementation of change in NPS policy, the original projected loss of Rs 160.98 Cr. for the year 2009-10 may come down by Rs 122.92 Cr (4,00,000 MT x Rs 3,073/MT) and may be revised to Rs 38.06 Cr. The company is also exploring production of NP 20-20-0-13, which is a viable proposition under the current Concession Scheme for Complex Fertilizers.

However, financial restructuring is required to wipe out the accumulated losses and to keep the operations of MFL commercially viable till availability of gas around 2011-12, with minor modifications to Plants. The matter is being pursued by MFL with Reliance and GAIL with the support of MoPNG and DOF. To support the revival from technical point of view, M/s PDIL has been entrusted with the job of providing the methodology for reviving MFL.

After receipt and consideration of reports from PDIL/MFL on equity reduction and long term plan, a comprehensive financial restructuring/ dispensation proposal for MFL will be finalized. "

121. The Committee on Chemicals and Fertilizers (2008-09) had visited MFL plant at Chennai on 25 November 2008. The following suggestions were made by MFL Officers Association:-

(i) Exploring the possibility of procuring Mono Ammonium Phosphate (MAP) and phosphoric acid from sterelite to produce complex fertilizer at lesser cost.
(ii) Using the synthesis gas from Chennai Petroleum Corporation Limited (CPCL).
(iii) Procurement of feedstock from coal gasification.
(iv) Waiving of Government of India loan and interest amounting to Rs.385.18 crore as on 31 March, 2008.
(v) 5% non-cumulative shares of Rs.175 crore by Government of India to compensate the company for the past period under recoveries.

122. On being enquired about the comments of the Department of Fertilizers on the above points raised by officers of MFL, the Department of Fertilizers in their written reply stated as under:-

"(i) Procuring MAP and Phos Acid from Sterlite

To produce complex fertilizers, MFL is exploring the feasibility for procurement of Phos Acid from leading suppliers.

MFL is not buying Mono Ammonium Phosphate.

(ii) Using the Synthesis Gas from CPCL

CPCL is having a Hydrogen Plant only with a capacity of 84000 Nm^3/hr at 99.9% purity, which is derived from tail gas refining. CPCL is not having Synthesis Gas (H_2 & N_2) for supply but only Hydrogen gas.

Hence, the proposal is not economically viable and feasible.

(i) Procurement of Feed stock from Coal Gasification

The above proposal was studied by M/s Shriram EPC Ltd., Chennai and after due consideration, the proposal for procurement of feed stock from Coal Gasification is not feasible for MFL, both technically and economically.

(IV) & (V) To make the future operations of MFL viable, a study had been entrusted by MFL in March, 2008 to M/s. Deloitte Touche Tohmatsu India Pvt. Ltd. (DTT), an internationally reputed Consultative agency, to go into all the financial, physical, operational and other relevant aspects for revival of the Company."

123. The Committee are deeply concerned over the general condition of Madras Fertilizers Ltd. (MFL) resulting in losses continuously over a period of time. The Committee note that the Government have approved the proposal regarding amendment to the New Pricing Scheme (NPS)-III policy on 25 June 2009 which provides for restricting the reduction in fixed cost to 10% w.e.f 1 April 2009. The Committee have been given to understand that Project and Development (India) Ltd. (PDIL) has been entrusted with the task of preparing a comprehensive financial restructuring proposal for revival of MFL. The Committee have also been informed that the amendments made to the New Pricing Scheme-III from 1 April 2009 will also be to the advantage of the operations of MFL. In the circumstances, the Committee feel that there is an urgent need to finalize the financial restructuring of MFL at the earliest and desire that it should be expedited. The Committee would like to be apprised of the action taken in the matter.

(Recommendation Sl. No.23)

XXIV. BRAHMAPUTRA VALLEY FERTILIZER CORPORATION LTD (BVFCL)

124. BVFCL is a public sector undertaking under the administrative control of the Department of Fertilizers (DOF) formed after segregation of Namrup units in Assam from Hindustan Fertilizer Corporation Limited (HFCL) w.e.f. 1.4.2002. The Namrup Complex of BVFCL comprises three separate units designated as Namrup-I, Namrup-II and Namrup-III. The raw material for all the three units is natural gas, both as feed stock and as fuel. Namrup-I has only Ammonia plant whereas Namrup-II & Namrup-III have Ammonia & Urea plants.

125. The performance of the Namrup unit has been unsatisfactory in past many years mainly due to continuing hardware/equipment problems leading to very frequent production outages and losses. BVFCL incurred losses of Rs.99.77 Cr in 2006-07, Rs 104.49 Cr in 2007-08 and Rs.218.49 Cr (Provisional) in 2008-09. The accumulated loss as on March 31, 2009 is Rs.536.48 Cr. against paid up Capital of Rs.365.83 Cr. giving a negative net worth of Rs.170.65 Cr.

The major reasons for the losses are :

Plant capacity is below minimum economic size : The combined capacity of BVFCL's plants at present is 5.1 Lakh MT of Urea per annum against the standard minimum economic size of 10 Lakh MT of Urea per annum.

Poor energy efficiency : Both the plants produce urea at an energy consumption of more than 12 gcal per MT of urea as compared to industry average of approximately 6 gcal per MT for gas based units.

Condition of assets and Technologies : The company's plant and machinery is almost fully depreciated. Although Capital expenditure were undertaken to revamp the plants, remaining operating life of the plants is critical for future profitability and it is assessed that being below minimum economic size, the company shall not be able to maintain these plants in the long run with its own resource generation.

Limited availability of Natural Gas : As against minimum requirement of 1.95 mmscmd, BVFCL receives only 1.72 mmscmd of gas. This issue has been repeatedly taken up with M/o Petroleum & Natural Gas but the matter remains unresolved.

There is a provision of Rs.20.00 crore in BE and RE (2008-09) and a further provision of Rs.65.00 crore is required as budgetary allocation for Brahmaputra Valley Fertilizer Corporation Ltd. to undertake its various activities.

When the Committee desired to know the reasons for the losses suffered by the company regularly the Department of Fertilizers in their written reply stated as follows:-

"BVFCL is incurring financial losses regularly due to following reasons:-

i) Lower capacity utilization & higher energy consumption due to obsolete machinery.

ii) Namrup-II plants are operated at 50% capacity due to Natural Gas Limitation. The total requirement of Natural Gas is 1.95 MMSCMD for operating both the plants at full load. However, only 1.72 MMSCMD gas is available.

iii) The capacity of BVFCL's plants is much below the present day minimum economic size of urea producing plants.

iv) The company could not take up preventive maintenance/ replacement of critical machineries/ parts due to non-availability of surplus fund. This had led to lower capacity utilization due to machine breakdown.

At the instance of the Committee, the Department stated that the Namrup Complex of BVFCL comprises three separate units designated as Namrup-I, Namrup-II and Namrup-III. The raw material for all the three units is natural gas, both as feed stock and as fuel. Namrup-I has only Ammonia plant whereas Namrup-II & Namrup-III have Ammonia & Urea plants.

The revamp of Namrup-I, II and III was carried out during the period 1997-2002 at an initial sanctioned cost of Rs. 350 crores. Due to increase in the project cost on account of modification in the scope of work consequent upon a health study undertaken by PDIL as well as factors like price escalation, exchange rate fluctuation etc., the Revised Cost Estimates-I (RCE-I) of project cost of Rs. 525.47 crores and a revised time schedule of 39 months reckoned from the zero date was approved by Government on 27 August 2001.

Namrup-III plant could be revamped and restarted by 25 March 2002 respectively. Namrup-II (which was lying closed since 1994) plant was finally commissioned on 22 November 2005. The final completion cost of the project stands at Rs. 635.53 crores.

After a comprehensive study by M/s Projects Development India Ltd. (PDIL) for ensuring viability of BVFCL, the following proposal was put up to Board for Reconstruction of Public Sector Enterprises (BRPSE) by DOF for consideration & approval.

a. Conversion of loan portion (Rs.317.77 crores) of total revamp project cost (Rs.635.53 crores) to equity from the date of completion of the project i.e. 22.11.2005.

b. Continuation of special dispensation in pricing mechanism under New Pricing Scheme Stage-III (NPS-III) for Namrup-III as provided in NPS-II and recognition of effect of capitalization made beyond 2002-03 under Namrup Revamp Scheme.

c. Pricing of Namrup-II as per the erstwhile Retention Price Scheme (RPS).

d. Waiver of loan taken for sustenance and renewal & replacement along with interest (Rs.248.30 crores).

e. De-rating of production capacity for Namrup-II to at least 50% of rated capacity due to non-availability of gas presently."

After consideration the recommendations of the BRPSE are given as under.

(i) The Board recommended conversion of GoI loan of Rs. 317.77 crores taken for revamp of the project into equity from the date of completion of the project i.e. 22.11.2005. The Board also recommended conversion of the GoI loan of Rs. 78.18 crores and interest outstanding of Rs. 170.12 crores into equity.

(ii) The Board further recommended that the issues which relate to pricing matters may be further examined by Department of Fertilizers in consultation with Department of Expenditure. The Board also advised the DOF to explore the possibility of handing over the management of BVFCL to any other fertilizer PSE who can provide their expertise for improving the performance of the company

126. Accordingly, a note for consideration of CCEA was put up for approval of final revamp cost of Rs.635.53 crore separately along with requisite dispensation under NPS to enable sustainable operation of Namrup units of BVFCL. The Government was requested to consider & approve the following:

(i) Approval of the RCE-II of Namrup Revamp Project of BVFCL at Rs.635.53 crore and a revised time schedule of 85 months from the zero date of 2 November 1998 i.e., by 22 November 2005**.**

(ii) Provision of special dispensation to Namrup-III under NPS-III in the form of Capital Cost Recognition, energy efficiency at 12.78 Gcal/MT and updation of recognition of increase in salary and wages in August, 2003.

(iii) The Pricing of urea from Namrup-II unit to be based on RPS updated from the date of restart of production.

(iv) The financial restructure of the Company by converting GoI loan of Rs.317.77 crore towards revamp project to equity from the date of completion of the project and also conversion of the GoI loan of Rs. 78.18 crores taken for sustenance and renewal & replacement and interest outstanding of Rs.170.12 crores into equity as recommended by BRPSE**.**

(v) De-rating of production capacity for Namrup-II to at least 50% of rated capacity due to non-availability of gas presently.

CCEA in their meeting held on 26 February 2009 considered the Note submitted by DoF and decided that appropriate support continue to be provided to the Project till such time a comprehensive proposal is brought up before the Committee after requisite appraisals & consultations.

In the meanwhile, BVFCL has signed MoU with M/s. National Fertilizers Ltd. (NFL) in order to provide the requisite technical expertise for sustainable operations of the Namrup units of BVFCL and its turnaround into a profitable entity.

BVFCL has also instituted a study by inviting tenders from the original process licensors for examining the technical and economic feasibility of either future revamping the Namrup plants of BVFCL to achieve energy consumption levels which are comparable to that of other gas based units within the country or to completely scrapping of the current units and setting up of a new Brownfield project to effectively utilize the natural gas available at Namrup. The study will approximately cost Rs.8 crores.

BVFCL is in discussion with M/s Oil India Ltd (OIL) for setting up of a Brownfield Ammonia-urea project at Namrup. A detailed feasibility report of the Project has been separately prepared by BVFCL and presentation has been given to M/s OIL.

127. The Committee note the that Government have decided to continue to provide appropriate support to BVFCL till a comprehensive proposal for its revival is framed. According to the Department of Fertilizers, necessary consultations/ processing are under way. The Committee desire that the matter be expeditiously completed for the revival of the sick public sector company. The Committee would like to be informed of the status.

(Recommendations Sl. No.24)

XXV. Fertilizers and Chemicals Travancore Ltd. (FACT):

128. The Fertilizers And Chemicals Travancore Limited (FACT) was incorporated in the year 1943. Initially promoted by the Seshasayee Brothers, FACT later became a Public Sector company in 1960. At present, 97.38% of the shares are held by the Government of India. The State Governments hold 0.73% of the shares and the remaining shares are being held by Institutional Investors, Private Corporate Bodies and the Public.

129. FACT Engineering and Design Organization (FEDO), an engineering consultancy division, was established in 1965. An engineering fabrication unit, FACT Engineering Works (FEW) was started in 1966.

130. A second fertilizer production unit, the Cochin Division of FACT, was established in the 1970s. Phase-I of the unit was commissioned in 1973 and Phase-II in 1977. With the objective of diversification, the Petrochemical Division of FACT was started at Udyogamandal and the unit was commissioned in 1990. The latest facility established by FACT was the New Ammonia Complex at Udyogamandal, which was commissioned in 1998. The various divisions of FACT at present and the products and services offered by these divisions are as below:-

Sl. No.	Division	End Products / Services
1	Udyogamandal Division	Installed Capacity
		Ammonium Sulphate : 225,000 MTPA
		Factamfos (NP 20:20) : 148,500 MTPA
2	Cochin Division	Urea : 330,000 MTPA *****
		Factamfos (NP 20:20) : 485,000 MTPA
3	Petrochemical Division	Caprolactam : 50,000 MTPA
4	Marketing Division	Marketing of (Fertilisers and Caprolactam)
5	FEDO	Engineering Consultancy
6	FEW	Engineering Fabrication

** Production of Urea at Cochin Division has been suspended as the operation has become unviable under the present Group Pricing Scenario, which became effective from 1 April 2003. The Production loss due to closure of Urea Plant is around 3.3 LMT.*

131. A provision of Rs.13.00 crore was made in BE and RE (2008-09) for FACT. Against this, FACT has actually incurred an expenditure of Rs.4.17 crore only. The provision has been increased to a level of Rs.34.00 crore in BE (2009-10)

132. On being enquired by the Committee regarding initiatives taken by the FACT to examine the economic viability and feasibility of Joint venture, diversification schemes and expansion projects undertaken during the current financial year the Department of Fertilizers in their written reply stated as under:-

“With regard to the proposal for setting up a Urea plant at Udyogamandal (with a capacity of 5 Lakh MT per Annum), a pre feasibility report has been prepared for the same by (Fact Engineering and Design Organisation (FEDO), the design wing of FACT which is under examination. Similarly a detailed project report including a business model has been prepared for the JV between Fact Engineering and Design Organisation (FEDO) and Indian Oil Corporation (IOC), by M/s Deloitte Consultants.

Further, FACT has formed a joint venture company with Rashtriya Chemicals and Fertilisers Limited (RCF) called FRBL. A project for the production of gypsum based building products like load bearing panels is being set up at Ambalmedu near Cochin division of FACT. The work on this project was started in October 2008 and it is expected to be completed and commissioned by October 2009.”

133. The Committee note that the Fertilizers and Chemicals Travancore Ltd. (FACT) has been able to generate profits to the tune of Rs. 9.18 crore and Rs. 46.19 crore(provisional) in the years 2007-08 and 2008-09 respectively in comparison to the loss of Rs. 122.65 crore in the year 2006-07. The Committee are surprised that the FACT has actually utilized only Rs. 4.17 crore against the allocation of Rs. 13 crore(BE& RE) in 2008-09 and the BE (2009-10) for the company is Rs. 34 crore. The Committee recommend that all the pending proposals of the Company should be expedited so as to ensure the methodical utilization of funds and thus improving the performance of FACT.

(Recommendation Sl. No.25)

XXVI **National Fertilizers Limited (NFL)**

134. The National Fertilizers Limited (NFL) is a Schedule 'A' and a Mini Ratna Category-1 Company, which was incorporated on 23 August, 1974 for implementation of two fertilizer plants, based on gasification technology of Feed Stock / LSHS at Bathinda (Punjab) and Panipat (Haryana) having an installed capacity of 5.11 lakh tonnes of Urea each. In April' 1978, the Nangal Group of Plants of Fertilizer Corporation of India (FCI) were transferred to NFL consequent upon reorganization of NFL - FCI. The Govt. of India, in 1984, entrusted the Company to execute the country's first inland gas based fertilizer project of 7.26 lakh tonnes Urea capacity in District Guna in Madhya Pradesh. This project was completed well within time & approved cost and received the First prize for "Excellence in Project Management" from the Ministry of Programme Implementation, Govt. of India. `The Vijaipur Plant commenced commercial production with effect from 1 July 1988. Subsequently, Expansion of Vijaipur Plant was taken up in the year 1993 for doubling its annual production capacity. The commercial production from Vijaipur Expansion Plant commenced with effect from 31 March 1997. The Department of Fertilizers subsequently revised the annual installed capacity of Vijaipur Plants from 7.26 lakh tonnes of Urea to 8.64 lakh tonnes (each) with effect from 1 April 2000.

135. The NFL successfully revamped the Urea Plant at Nangal with commencement of commercial production from 1 February 2001. With this revamp, the annual installed capacity of Nangal Plant increased from 3.30 lakh tonnes to 4.78 lakh tonnes of Urea. Consequent upon the re-rating of installed capacities of Vijaipur Plants and revamping of Urea Plant at Nangal, the total annual installed capacity of Urea at NFL has reached to 32.31 lakh tonnes. In order to enhance further production level, Company is already in the process of augmenting the production capacities of its gas-based plants at Vijaipur-I & II by 16% and 23% respectively.

The Company, apart from producing Nitrogenous Fertilizers, also produces and markets Industrial Products, like Nitric Acid, Ammonium Nitrate, Sodium Nitrite, Sodium Nitrate, Sulphur, Methanol, Liquid Nitrogen, Liquid Oxygen, Carbon Dioxide, Argon Gas, etc.

136. Accordingly, to the Department of Fertilizers production and financial performance of NFL has been good and company has achieved capacity utilization of above 100% during the last three financial years.

137. It was observed that as against the plan allocations of Rs.477.91 crore in 2007-08 (BE) and 154.25 crore in 2008-09 (BE) for NFL, the actual expenditure was 22.04 crore and Rs.27.56 crore respectively. On being asked to state as to how NFL would ensure to spend the allocated amount judiciously to complete the ongoing schemes/projects in the current financial year, i.e. 2009-10 the Department of Fertilizers in their written reply stated as under:-

> During 2007-08, the Schemes of Revamp of Vijaipur-I and Feedstock Changeover from FO to NG in respect of Panipat, Bathinda and Nangal Plants, had been initiated. However, the scheme of Revamp of Vijaipur-I has been modified by including capacity enhancement of Urea-I has been taken up for execution after notification of New Investment Policy in Urea Sector on 4 September 2008. Since the Policy for conversion of feedstock in respect of four FO/LSHS based units, was announced on 6 March 2009, Feedstock Changeover Scheme is being pursued vigorously during 2009-10 and draft PIB Note alongwith Detailed Project Report is under examination of the Department for submission to PIB.
>
> During 2008-09, the Changeover of Feedstock Project, again, and the Energy Saving Project, could not be implemented. The company is taking up the Feedstock changeover project vigorously, as mentioned above, in respect of Panipat, Bathinda and Nangal Plants at an estimated cost of Rs.4,100 crore. NFL has submitted the draft PIB Note alongwith Detailed Project Report prepared by PDIL and other study reports in respect of the Conversion project, to the Department in August, 2009. The same is being examined in the Department. The Energy Saving Project, modified by including capacity enhancement of Urea-I and Urea-II projects at Vijaipur has been taken up for execution in view of the New Investment Policy in Urea Sector dated 4 September 2008 and shall be commissioned in the financial year 2011-12.

138. **The Committee are happy to note that the overall performance of National Fertilizers Limited (NFL) has been satisfactory. However, they are constrained to point out that their performance in relation to the planned schemes during the years 2007-2008 and 2008-2009 left much to be desired. The Committee hope that necessary steps will be taken to make improvements in this regard so that the performance shown by the company over the years may convert into bigger results for the benefit of public at large.**

(Recommendation Sl. No.26)

XXVII. Rashtriya Chemicals and Fertilizers Ltd.

139. Rashtriya Chemicals and Fertilizers Limited (RCF) was incorporated on 6 March 1978 and it came into being as a result of the re organization of the erstwhile Fertilizer Corporation of India Limited. At the time of its formation, the company had one operating unit, viz. Trombay (old plants) and two major projects under implementation, viz. Trombay IV expansion and Trombay V expansion, besides the West, South Marketing Zones and the Bombay Purchase and Liaison office. RCF was the first fertilizer company in India to commission a green field, mega fertilizer complex at Thal-Vaishet in the State of Maharashtra.

140. The Trombay IV Expansion Project with an annual capacity of 75,000 tonnes each of Nitrogen and Phosphate (P_2O_5) went into commercial production on 1 January 1979. Trombay V Expansion also started commercial production w.e.f. 1 July 1982 with an annual capacity of 1,51,800 tonnes of Nitrogen. The Thal Fertilizer Plant of annual installed capacity of 6,83,000 tonnes of Nitrogen started commercial production w.e.f. 1 June 1985.

141. RCF has a total installed capacity of about 10.54 lakh tonnes of Nitrogen and 1.17 lakh tonnes of P_2O_5 and 0.45 lakh tonnes of K_2O.Besides fertilizers, the Company also produces a number of industrial chemicals such as Methanol, Concentrated Nitric Acid, Methylamines, Ammonium Bicarbonate, Sodium Nitrate/Nitrite, DMF, DMAC, etc.

The capital structure of the company is as follows:

Authorised Capital	Rs. 800.00 crores
Paid up Capital	Rs. 551.69 crores.

142. In the 11th Five year plan an amount of Rs.6,880.37 crore as IEBR was proposed for continuing projects/ schemes and new schemes/ projects for Rashtriya Chemicals and Fertilizers Ltd. (RCF). The BE (2008-09) is Rs.812.43 crore and RE (2008-09) is Rs.469.06 crore. The actual expenditure is only Rs.241.83 crore.

143. When the Committee asked about the reasons for less utilization of funds for the year 2008-09 the Department of Fertilizers in their written reply stated as under:-

> "A number of schemes, scheduled during 2008-09, could not be taken up in view of various factors such as global price scenario, revision of cost of raw materials, revision of scope and scale of the schemes. The current status of such important schemes is as under :

(i) The viability of the Thal-III expansion scheme, at the estimated cost of Rs.4200 crore, is being re-examined based on prevalent Import parity Price of Urea, Long Term availability / Pricing of Gas etc.

(ii) The Revamp of Mathanol Plant, at the estimated cost of Rs. 135 crore, is scheduled to be commissioned in August, 2009.

(iii) Work Orders have been placed on HTAS and PDIL for Basic and detailed Engineering respectively in respect of Thal Ammonia Revamp. The design work is in progress.

(iv) The Rapidwall Project is under commissioning at an estimated cost of Rs.75 crores.

Work Orders have been placed in respect of ANP Modification Scheme and expected to be commissioned in August, 2009."

144. On being enquired by the Committee about the efforts that have been made by the Company for proper utilization of amount allocated to them during the remaining years of 11th Five Year Plan, the Department of Fertilizers in their written reply stated as under:-

"The company has made adequate allocations for the schemes to be taken up during the remaining years of the 11th Five Years Plan. The schemes which have been rescheduled during 2009-10, will be completed by the company during the 11th Five Year Plan itself."

145. When the Committee asked about the efforts made by RCF for revival of closed plants of Barauni Unit of HFCL, the Department of Fertilizers in their written reply stated as under:-

"RCF has indicated that pre-feasibility study activities have been undertaken by M/s Urvarak Videsh Ltd., the joint venture company, for revival of the closed fertilizer unit at Barauni. According to RCF, a fully tied up proposal is being prepared for submission to the Government."

146. **The Committee note that though the overall performance of Rashtriya Chemicals and Fertilizers Ltd. (RCF) has been satisfactory, the fact that the Company could utilize only Rs.241.83 crore out of the allocated funds of Rs.812.43 crore(BE) Rs.469.06 crore(RE) for the year 2008-09 for the 11th plan scheme is disappointing. The Committee have been informed that a number of schemes could not be taken up in 2008-09 due to reasons such as global price scenario, revision of cost of raw materials, revision of scope, etc. resulting in lesser utilization of resources. The Committee hope that all out efforts will be made for implementation of all plan schemes so that the Company is able to achieve the desired objectives of 11th Five Year Plan. The Committee would like to be apprised of the updated status in this regard.**

(Recommendation Sl. No. 27)

New Delhi;

7 December 2009
16 Agrahayana, 1931 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on
Chemicals and Fertilizers.

APPENDIX -I

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2009-10)

THIRD SITTING

(24.09.2009)

The Committee sat from 1500 hours to 1700 hours.

Present

Shri Ananth Kumar - Chairman

Members

Lok Sabha

2. Smt. Sushmita Bauri
3. Shri K. D. Deshmukh
4. Shri Ganeshrao Nagorao Dudhgaonkar
5. Shri N. Peethambara Kurup
6. Shri Ponnam Prabhakar
7. Shri Ashok Kumar Rawat
8. Shri Tufani Saroj
9. Shri Suresh Kumar Shetkar
10. Shri Narendra Singh Tomar

Rajya Sabha

11. Shri Raghunandan Sharma
12. Dr. C. P. Thakur
13. Shri Mahendra Sahni
14. Shri A. A. Jinnah
15. Shri Raj Mohinder Singh Majitha
16. Shri Biswajit Daimary

SECRETARIAT

3.	Shri N. K. Sapra	-	Additional Secretary
4.	Shri P. Sreedharan	-	Joint Secretary
5.	Shri C. S. Joon	-	Director
6.	Shri A.K. Srivastava	-	Deputy Secretary
7.	Smt. Archna Pathania	-	Under Secretary

I. *MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)*

1.	Sh. Atul Chaturvedi	Secretary (Fertilizers)
2.	Sh. Mathew C. Kunnumkal	Additional Secretary & FA
3.	Shri Sudhir Bhargava	Joint Secretary
4.	Shri Deepak Singhal	Joint Secretary
5.	Shri Satish Chandra	Joint Secretary
6.	Shri A.K. Prashar	E.A. (Fertilizers)

II. *REPRESENTATIVES OF PSUs*

1.	Shri B.D. Sinha	MD (KRIBHCO)
2.	Shri U.S. Jha	CMD (RCFL)
3.	Shri V.K. Sharma	CMD (NFL)
4.	Dr. George Sleeba	CMD (FACT)
5.	Shri S. Muralidharan	CMD (MFL)
6.	Shri R.G. Rajan	CMD (PDIL)
7.	Shri Sunil Dayal	CMD (FAGMIL)
8.	Shri V.K. Sharma	CMD (BVFCL)
9.	Shri Deepak Singal	CMD (HCFL)

2. At the outset, Hon'ble Chairman welcomed the members of the Committee.

3. Thereafter, he called the officials of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and the Public Sector Undertakings and invited their attention to the provisions contained in Direction 55(1) of the Directions by the Speaker, Lok Sabha regarding confidentiality of the Committee's proceedings.

4. Then the officials of the Department and the PSUs introduced themselves. Thereafter, the officials of the Department of Fertilizers briefed the Committee about the subject 'Demands for Grants of the Department for the year 2009-10' and also gave an audio-visual presentation.

5. During the evidence, the following issues were discussed:-

(i) Investment in Fertilizer Sector
(ii) Non-availability of Rock phosphate in the country
(iii) Fertilizer subsidy
(iv) Direct subsidy to Farmers
(v) Nutrient-based subsidy
(vi) Increased Consumption of Fertilizers
(vii) Stagnated production of Fertilizers
(viii) Increased International prices

(ix) Capacity Utilization
(x) New Pricing Scheme for urea
(xi) Movement and Distribution of Fertilizers
(xii) Online monitoring system.
(xiii) Availability of gas
(xiv) Revival of Sick/ Loss making PSUs
(xv) Deficiency of micronutrients in Indian soil
(xvi) Balanced use of Fertilizers
(xvii) Setting up of Joint Venture Projects

6. During the discussion, the Chairman and members of the Committee raised some queries which were replied to by the Secretary (Fertilizers) and other senior officials of the Department and they also assured to send the requisite information in writing which was not readily available with them.

7. The Committee also decided to hold their next sitting on 7 October 2009 for taking oral evidence of the representatives of the Department of Chemicals and Petrochemicals in connection with examination of Demands for Grants (2009-10).

8. 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 (2009-10)

NINTH SITTING

(03.12.2009)

The Committee sat from 1500 hours to 1700 hours.

Shri Ananth Kumar - in the Chair

Members

Lok Sabha

2. Smt. Sushmita Bauri
3 Shri K. D. Deshmukh
4 Shri Ganeshrao Nagorao Dudhgaonkar
5 Shri N. Peethambara Kurup
6 Shri Ajit Singh

Rajya Sabha

7. Shri A.A. Jinnah

SECRETARIAT

1.	Shri N. K. Sapra	-	Additional Secretary
2.	Shri Ashok Sarin	-	Joint Secretary
3.	Shri C. S. Joon	-	Director

2. At the outset, Chairman apprised about the sad demise of Shri Mahendra Sahni, a member of the Committee. The Committee placed on record the active prticipation of Shri Sahni in the deliberations of the Committee and appreciated his valuable contribution. The Committee then passed a condolence resolution and stood in silence for a while in memory of the departed soul.

3. The Committee thereafter took up for consideration the following draft Reports on:

(i) XXXXXXXXXXXXXXXXXX

(ii) Demands for Grants (2009-10) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers), and

(iii) XXXXXXXXXXXXXXXXX

4. The draft Reports were adopted by the Committee with minor amendments.

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 (XXXXXXXXXXXX) and (Department of Fertilizers) and present the same to both the Houses of Parliament.

The Committee then adjourned.

………………..

XX Matters not related to this Report.

APPENDIX III

STATEMENT OF RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Reco. No.	Para No.	Recommendations/Observations
1	7	**The 26th Report of the Committee on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) was presented to Lok Sabha on 16 April 2008 and Rajya Sabha on 23 April 2008. The 29th Report of the Committee on Action Taken by the Government on the recommendations contained in the 26th Report was presented to Lok Sabha on 16 December 2008.** **The analysis of the Committee on implementation of recommendations by the Government has revealed that out of the total eighteen recommendations, the Department of Fertilizers have implemented only six recommendations, viz. recommendations Sl. No. (2, 3, 7, 8, 9 & 13) so far, whereas the implementation process with regard to nine recommendations, viz. recommendations Sl. No. (1, 5, 10, 12, 14, 15, 16, 17 & 18) relating to investment in fertilizer sector, exploring the feasibility of pricing policy, giving priority for allocation of natural gas to fertilizer sector, etc. as per latest information submitted to the Committee, are at various stages of implementation. The Committee, therefore, desire that the Government should implement the remaining recommendations expeditiously. They would also like to be apprised of the conclusive action taken in regard to such recommendations.**
2	11	**The major fertilizers consumed in India have nitrogenous, phosphatic and potassic based nutrients. Presently, India is the third largest fertilizer producer in the world with the installed capacity as on 31 March 2009 reaching a level of 120.61 lakh MT of nitrogenous and 56.59 lakh MT of phosphatic nutrients. However, the growth of the fertilizer industry has not kept pace with the growing requirement of the fertilizer in the country due to the absence of potassic resources, paucity of raw materials and intermediates in the phosphatic sector and energy deficiency in the nitrogenous sector. This is a matter of serious concern. According to the Department of Fertilizers, with the current finding of natural gas in the country and the projected increase in its availability, the production of nitrogenous fertilizers in India is expected to increase significantly to achieve self sufficiency in the nitrogenous sector by the country. However, keeping in view the vital role played by chemical fertilizers as one of the key inputs for the success of agriculture in the country, the Committee feel that there is an urgent need for suitable steps to be taken by the Department to ensure a sustained growth of the fertilizer industry as a whole. The Committee, in this regard, desire that the Department should vigorously pursue the issues regarding suitable and uninterrupted allocation of natural gas and laying of gas pipeline with the Ministry of Petroleum and Natural Gas. The Committee are of the view that with the increased allocations of gas to the fertilizer sector, the manufacturing cost of the fertilizer will also go down and the amount thus saved can be better utilized for the growth of the fertilizer industry. At the same time a balanced use of fertilizers is also essential for increasing foodgrain production in the country. Therefore, considering the feedstock/ raw materials constraints and also the need to have a balanced fertilizer availability in the country, the Committee recommend that the Government should further explore the possibilities for establishing joint venture production facilities with buy back arrangement, in other countries, which have rich resources of feedstock / raw materials like natural gas, rock phosphate, etc.**

3	18	**The Committee are deeply concerned to note that there has been negligible major investment in the fertilizer sector for over a decade. The last major investment in nitrogenous sector was in the year 1999 and that in the phosphatic sector was in the year 2002. Fresh investments have eluded this sector mainly due to raw materials / inputs constraints which, in turn, have made the country more dependent on imports to meet its growing requirements. Adding to the woes, the capacity utilization, both in nitrogenous as well as phosphate segments, has reached an all time low in the last two years. Undoubtedly, there is an urgent need not only to ensure maximum capacity utilization, but also to augment the existing capacity build-up. In this connection, the Committee note that the Government have announced a new investment policy for the fertilizer sector (urea) on 4 September 2008. The Department of Fertilizers have stated that the fertilizer industry has responded positively towards the new investment policy. According to them, the existing fertilizer companies have initiated revamp of their present units and some of them have expressed their interest towards expansion of their existing plants subject to assured availability of gas. The Committee recommend that the Department of Fertilizers should make all out efforts to extend possible assistance in co-ordination with other Ministeries / Departments with a view to ensuring not only higher indigenous production of fertilizers but also to reduce our dependence on imports.**
4	29	**The Committee note that for the Eleventh Five Year Plan (2007-12), Planning Commission has approved an outlay of Rs.20,627.87 crore consisting of Rs.1,492.00 crore as Domestic Budgetary support and Rs.19,135.87 as Internal and Extra Budgetary Resources (IEBR). The present allocation of funds by the Planning Commission will be utilized for taking up the approved schemes of underperforming fertilizer PSUs and research activities by renowned technical/research institutes. The Committee have been informed that three major projects, viz. revival of sick and closed fertilizer units, capital subsidy for conversion of feedstock changeover projects and S&T schemes have been taken up by the Department during the Eleventh plan period. The Committee's examination, however, revealed that out of the total outlay of Rs.20,627.87 crore during the 11th Plan, the allocation during the BE stage of the first three years, viz. 2007-2008, 2008-2009 and 2009-10 amounted to Rs.1,037,96 crore, Rs.1,924.93 crore and Rs.2,269.56 crore, respectively making a total of Rs.5,232.45 crore. The allocations at RE stage during 2007-08 and 2008-09 were further brought down to Rs.436.71 crore and Rs.728.67 crore respectively. In other words, more than 80% of the plan outlay is yet to be allocated and will have to be sanctioned and utilized in the remaining two years of the plan. The Committee are dismayed over such an unrealistic approach which would jeopardize the whole planning process in a vital sector of the economy. They desire that necessary steps should be taken at least in future with a view to ensuring appropriate and methodical allocation of approved outlays so that the Department can and implement the targeted programme/activities in a scientific manner.** **What has further caused concern to the Committee is that the actual utilization of funds by the Department of Fertilizers had also been equally unsatisfactory. The Committee find that as against Rs.1,037.96 crore (BE) sanctioned in 2007-08 and Rs.1,924.93 crore (BE) sanctioned in 2008-09, the utilization was only Rs.263.34 crore and 587.76 crore, respectively. The Committee also observe that the major allocation of funds in the year 2009-10, i.e. Rs.988.05 crore (approximately 43%) has been made for Rashtriya Chemicals and Fertilizers Limited (RCF) against which the actual expenditure till August 2009 is Rs.54.58 crore**

		only. Similarly, against the allocation of Rs.550.15 crore for National Fertilizers Limited (NFL), the actual expenditure till August 2009 is Rs.13.91 crore only. Pertinently, the utilization of funds allocated to these two organizations in the first two years of the 11th plan had been around 50% only. This clearly speaks about the poor performance of Department in the utilization of plan allocation which is unfortunate, to say the least. The Committee feel that there is an imperative need for planned and progressive utilization of the sanctioned outlays so that the set objectives are fully achieved. To ensure this, the Committee recommend that the Department should review the progress of all plan projects on a regular basis for their timely completion in a more effective manner and submit a status report to the Committee.
5	32	**The Committee note that Parliament has since voted an amount of Rs.53,800.50 crore (gross) to defray the expenditure for the Department of Fertilizers for the year 2009-10. Out of this, Rs.200 crore are meant for the plan and Rs.53,600.50 crore for the non- plan expenditure. During the preceding financial year, i.e. 2008-09, the provision of Rs.34,381.55 crore during BE stage had to be revised to Rs.1,00,541.17 crore at RE stage. This was because of the unprecedented rise in the international prices of fertilizers which the Department could not foresee. Explaining the reasons for reduced allocation during the year 2009-10, the Department of Fertilizers stated that this situation has since changed. However, the Department have maintained that the allocation in the current year would be about Rs.24,000 crore less than what they had asked for on account of the requirement of subsidy. The Committee hope that Government will take a realistic view in the matter particularly keeping into account the need for ensuring that the carry over liability on account of subsidy does not go on increasing year after year. On their part, the Department of Fertilizers should also keep a strict watch and control over factors impacting budgetary allocations and expenditure thereon.**
6	35	**The Committee note that the provision for the Secretarial Services have almost been double that of the actual expenditure for the year 2007-08. The Department of Fertilizers have attributed the rise on this score inter-alia to the implementation of the recommendations of the Sixth Pay Commission, foreign tour expenses, increase in charges of inspection of Single Super Phosphate (SSP) units, etc. The Committee hope that the Department would be strictly observing the Government's austerity measures and desire that a continuous watch be kept over the expenditure on this account so that such non-plan expenditures are subjected to proper control and also ensuring at the same time that the production programmes of the fertilizer sector are not hampered.**
7	44	**The Committee note that the total subsidy disbursed on fertilizers has increased from Rs.12,808 crore in 2001-02 to Rs.99,456 crore in 2008-09. The total subsidy released on urea has increased from Rs.8,304 crore in the year 2001-02 to Rs.33,901 crore in the year 2008-09. Similarly, on P&K fertilizers, the fertilizer subsidy has increased from Rs.4,504 crore in the year 2001-02 to Rs.65,555 crore in the year 2008-09. The Committee's examination revealed that only 6% of the increase in subsidy bill is due to higher consumption of fertilizers while the rest, 94% rise was due to the increase in international prices. It was also revealed that between 2001 and 2008, while foodgrain production increased by 8.37%, and productivity by 6.92%, the subsidy bill went up by 214%. All these facts point towards the grave situation arising out of the galloping subsidy bill which now warrants some concrete solution. The Committee are of the view that to cut the subsidy bill, there is an imperative need for technological innovation, optimum energy**

		consumption, manpower and capacity utilization so as to increase the indigenous production as well to cut down the production cost of fertilizers.
8	49	**The Committee have time and again emphasized the need for direct payment of subsidy to the farmers. They have now been informed that an Inter Ministerial Group with Secretary (Fertilizers) as Chairman and Secretaries of Department of Expenditure, Agriculture and Planning Commission as members, was constituted in November 2008 to look into all aspects of fertilizer subsidy regime. The Committee note that the IMG recommended to implement a nutrient based subsidy regime wherein the farmgate prices of fertilizers are decontrolled and subsidy is fixed for each fertilizer based on nutrient content therein. According to the IMG, the new regime can be carried on till such time when authenticity of land records allows them to move towards disbursement of fertilizer subsidy as direct cash transfer to the farmers' bank account based on land record details. The Committee have also been informed that a Group of Ministers (GoM) has been constituted on 31 July 2009 to look into the nutrient based subsidy policy and measures for rationalization of fertilizer subsidy disbursement with the objective to promote balanced fertilization. According to the Department of Fertilizers, the GoM is expected to look into all options of release of subsidy including direct subsidy to farmers. The Committee hope that the whole exercise will be expeditiously completed and would like to be informed of the progress made in the matter**
9	53	**The Committee note that fertilizer bonds are issued by the Ministry of Finance in lieu of cash release of fertilizer subsidy. 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 have maintained that issue of bonds which has led to losses to the companies does not seem to be appropriate. According to them, the subsidy/concession does not account for any loss incurred on discount of bonds. The Committee have been informed that to insulate the companies from losses on fertilizer bonds the Department have proposed five different alternatives for consideration by the Ministry of Finance. The Committee have been given to understand that the proposal has not been concurred to by the Ministry of Finance and the issue is now proposed to be placed before the GoM. The Committee desire that the proposals made by the Department of Fertilizers should be examined in all their implications so as to provide adequate support to fertilizer companies and minimize losses to them due to fertilizer bonds.**
10	57	**The Committee have been informed that the primary objective of the Concession Scheme for decontrolled Phosphatic and Potassic (P&K) fertilizers is to make fertilizers available to the farmers at affordable prices. The concession scheme also provides the methodology for computing the admissible concession/subsidy over the MRP which is payable to the producer/importer. While appreciating the steps taken by the Government in this regard, the Committee desire that the Government should ensure timely and sufficient availability of the decontrolled fertilizers in the remote and the inaccessible areas particularly where the fertilizer consumption level is presently very low. In order to keep a check on the availability of decontrolled fertilizers, the Committee recommend that the Department should keep a watch and monitor the movement of these fertilizers. Considering the essentiality of P&K fertilizers for continuous augmented foodgrain production and to achieve self sufficiency, the Committee recommend the continuance of this scheme so that the costly fertilizer remain within the reach of the**

		small and marginal farmers.
11	63	**The Committee have been informed that the Government announced a scheme for concession for Single Super Phosphate (SSP) based on input (rock and sulphur) cost w.e.f. 1 May 2008. A fresh policy for subsidy for SSP has been announced w.e.f. 1 October 2009 under which an ad hoc subsidy of Rs.2,000 per MT will be provided for SSP sold to the farmers. According to the Department of Fertilizers, the new policy seeks to enable wider reach of SSP in the country based on movement and distance and its selling price has been left open. The Committee hope that this open ended policy will not adversely affect the interests of the farmers in terms of availability and price. This is all the more important in the case of SSP, which is considered to be the fertilizer of the poor farmers. The Committee, therefore, recommend that the Department should keep a close watch over the impact of the new policy and take such action as deemed necessary to safeguard the interests of the poor and the marginal farmers. The Committee should also be kept informed.**
12	68	**The Committee have been informed that Stage-III of the New Pricing Scheme (NPS) is under implementation with effect from 1 October 2006 which will end on 31 March 2010. The Committee are happy to note that under the NPS, results of individual units have been updated leading to better results in production of urea. As regards the future strategy, the Committee have been informed that apart from the proposed Nutrient Based Subsidy Regime (NBSR), the Department of Fertilizers are also contemplating the possibility of a new pricing scheme for indigenous urea units as an alternative measure. A report on a study conducted by Projects & Development India Ltd. along with Pricewaterhouse Cooper in this regard is under examination in the Department. Since the third phase of NPS ends on 31 March, 2010 the Committee recommend that all the available options should be worked out and an appropriate decision taken expeditiously so as to facilitate the energy efficient units to produce urea at reduced conversion cost, thus resulting in augmented production. The Committee would like to be intimated about the progress made in this regard.**
13	77	**Natural gas is considered to be more cost effective in the production of urea. However, about 34% of urea production in the country is still based on other feedstocks like naphtha, Fuel Oil (FO), Low Sulphur Heavy Stock (LSHS), etc. Under the New pricing Scheme-Stage-III, all non-gas based units are required to convert to gas by March 2010. The Committee observe that the policy for enabling conversion of FO/LSHS based units to gas has already been notified on 6 March 2009. The policy envisages reimbursement of cost of conversion of FO/LSHS units through subsidy. Some of the naphtha based units where the gas pipeline connectivity is available have already converted to gas. The remaining naphtha based units have not been able to convert to gas due to lack of gas pipeline connectivity and gas availability. However, according to the Department of Fertilizers, the Ministry of Petroleum and Natural Gas have indicated the targeted dates of completion for the pipeline connectivity. The Committee desire that the Department of Fertilizers should vigorously pursue the matter with the Ministry of Petroleum & Natural Gas and ensure that the connectivity schedule is properly honoured.** **The Department of Fertilizers should also impress upon the Ministry of Petroleum and Natural Gas for a firm commitment towards allocation of gas for the new fertilizer projects in the country to enable capacity additions.** **The Committee regret to observe that their earlier recommendation for**

		nominating a nodal authority in the Ministry of Petroleum and Natural Gas for allocation of gas to the fertilizer industry is yet to be acted upon. The Committee desire that the decision in the matter be expedited and would like to be informed of the outcome.
14	82	**Equitable and need based distribution of fertilizers in all parts of the country is the *sine qua non* for facilitating increased production and productivity in the agriculture sector. At present, the Department of Fertilizers are required to ensure availability of urea, which is the only fertilizer under price control, as per the requirement assessed by the Department of Agriculture and Co-operation. The availability of the de-controlled fertilizer is decided by the market forces of demand and supply. However, the monthly supply plan of the decontrolled fertilizers are also required to be reviewed by the Department of Fertilizers with the suppliers. The Committee are surprised that the Department of Fertilizers have maintained that the State Agriculture Departments give District-wise supply plan to the suppliers of the fertilizers to the State and that the States are responsible for distribution within the areas of their respective jurisdiction. The Committee feel that the Department cannot altogether exonerate themselves from their responsibility in the matter. The Committee desire that with the technological assistance now available, the Department should make their Fertilizer Monitoring System more effective and should ensure proper coordination with State Agriculture Departments with a view to ensuring proper and equitable distribution of fertilizers in all parts of the country.**
15	86	**The Committee have been informed that there has been no scarcity of fertilizer at the State level, however, there is some tightness in availability in some States because of low production. In this connection, the Committee note that the web-based Fertilizer Monitoring System available with the Department of Fertilizers now is capable of monitoring the supply of fertilizers by manufacturers/ suppliers in accordance with the agreed supply plan. The Committee are of the view that the system should be modified/ upgraded to take care of the scarcity of fertilizers occurring at State levels also so that necessary corrective action could be initiated well in time by the authorities concerned. The Committee would like to be informed of the action taken in the matter.** **The Committee further desire that strict action should be taken by the authorities against the offenders/ hoarders/ dealers and others involved in creating artificial scarcity/ black-marketing, etc. The Committee would like a list of offenders/ hoarders etc., should be furnished to them and the action taken against each of them.**
16	88	**The Committee have been informed that India is by and large import dependent for meeting its requirement of P&K fertilizers either by import of fertilizers or the fertilizer inputs. The Committee are happy to note that the Government have been encouraging Indian companies to establish joint venture projects in other countries which have rich resources of natural gas and rock phosphate as this would definitely help in augmenting the supply of fertilizers ultimately leading to increase in food production. The Committee however, observe that only a token amount of Rs.1 lakh has been provided in the BE 2009-10 as there is no firm proposal in the hands of the Department right now. The Committee, desire that Government should continue and encourage this practice and explore the possibilities of new JVs which could help in making available assured sources of supply of fertilizers. The Committee feel that certain incentives could also be offered to Indian companies to set up joint ventures abroad.**

17	92	**The Committee note that the annual consumption of fertilizers in nutrient terms (N,P&K) has increased from 0.7 lakh MT in 1951-52 to 225.70 MT in 2007-08. Similarly, the per hectare consumption of fertilizers has increased from 0.49 kg per hectare in 1951-52 to 117.07 kg per hectare in 2007-08. While this increase has indeed been steady over the years, it is somewhat surprising that the average consumption of fertilizers in our country at 117.07 kg per hectare is much below than the agriculturally developed countries (China 289.10 hectare, Egypt 555.10 kg per hectare) and even that of Bangladesh (197.6 kg per hectare). The Committee, therefore, recommend that the issue of low average consumption of fertilizers should be thoroughly looked into including the factors arising out of soil conditions, nutrient content, cropping pattern, etc. and appropriate measure be taken to enhance the consumption level and thereby agricultural production and productivity.**
18	98	**The Committee note with concern that as per certain recent trends in agricultural productivity in the country, the marginal productivity of soil in relation to the application of fertilizers is declining and in some cases it has also become negative. The productivity response to fertilizer usage has reduced from 13.45 in the year 1960-61 to 1970-71 to 3.92 in the years 2001-02 to 2007-08. Some of the factors which have contributed to the decline in marginal productivity inter alia were; the aggregated application of NP&K nutrients in Indian agriculture is currently 5.3:2.2:1 as against the preferred ratio of 4:2:1; the comparatively high usage of straight fertilizers (Urea, DAP and MOP) as against the complex fertilizers (NPKs); the lack of application of proper nutrients based on soil analysis; the declining fertilizers use efficiency; low average consumption of fertilizers in the country, etc. The Department of Fertilizers recounted some of the steps being taken by the Government in this regard include moving towards nutrient based pricing regime w.e.f. 18 June 2008, introduction of a scheme entitled "National Project on Soil Health and Fertility" during the 11th Plan, encouraging use of Complex fertilizers, etc. The Committee cannot remain satisfied with this. They are of the view that there is an imperative need to study the factors which have contributed to the declining marginal productivity in a greater length and take concrete measures towards efficient fertilizers management at farm levels with a view to improving higher agricultural productivity and production for better food security.**
19	100	**The Committee note that presently the Department of Fertilizers do not undertake Fertilizer Education Projects. The Committee feel that balanced use of fertilizers is essential for improving the foodgrain production and in order to encourage the balanced use of fertilizers as well as use of new developing source of nutrients, awareness among farmers is required to be created. The Committee, therefore, recommend that the Department should encourage the PSUs/Cooperatives under the administrative control of Department of Fertilizers to launch and implement Fertilizer Education Programmes for the benefit of the farmers community. The Committee further desire that there should be a systemic coordination between the Department of Fertilizers and the Department of Agriculture and Cooperation in regard to the Fertilizer Education Projects. The Committee may be apprised of the action taken in this regard.**
20	106	**There are nine public sector undertakings (PSUs), one multi-State co-operative 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 Fertilizer 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 would, therefore, recommend that the Department should expeditiously complete all the revival formalities at the earliest. This is all the more necessary since there has been negligible growth of the fertilizer sector during the last decade. Besides, the Department should also make earnest efforts to overcome all the constraints of losses suffered by PSUs. Needless to emphasize, each PSU should make its own efforts towards improving capacity utilization, energy conservation methods and also to bring down manpower and administrative expenditure.
21	107	**The Committee's examination also revealed that the performance of certain PSUs in relation to the implementation of schemes/ programmes during the first two years of the 11th Plan has not been satisfactory. The shortfalls have *inter alia* been attributed to delay in finalization of feasibility/ project report, non-finalisation of proposals, impact of global meltdown, etc. The Committee desire that the reasons for the poor performance should be analysed thoroughly and necessary corrective action taken to achieve the plan targets in the remaining years of the 11th Plan.**
22	115	**The Committee have been informed that revival of closed fertilizer units in the public sector based on gas have been found to be economically feasible, under the New Investment Policy, as per the Techno-Economical feasibility reports for revival of closed units. In pursuance of a decision taken by the Government on 30 October 2009, Urvarak Videsh Limited (UVL), a joint venture formed by RCF, NFL and KRIBHCO has been entrusted with the responsibility of revival of Barauni Unit of HFCL and an Empowered Committee of Secretaries (ECoS) has been constituted with the mandate to evaluate all options for revival of closed units and to make suitable recommendations for consideration of Cabinet Committee on Economic Affairs (CCEA). The Committee observe that the ECoS has recommended the Revenue Sharing Model for revival of Hindustan Fertilizer Corporation Limited (HFCL) and Fertilizer Corporation of India Limited (FCIL) for approval of CCEA. The Committee recommend that the revival process should be expedited and a time frame should be fixed for its completion. The Committee would like to be informed of the latest status of the revival process.**
23	123	**The Committee are deeply concerned over the general condition of Madras Fertilizers Ltd. (MFL) resulting in losses continuously over a period of time. The Committee note that the Government have approved the proposal regarding amendment to the New Pricing Scheme (NPS)-III policy on 25 June 2009 which provides for restricting the reduction in fixed cost to 10% w.e.f 1 April 2009. The Committee have been given to understand that Project and Development (India) Ltd. (PDIL) has been**

		entrusted with the task of preparing a comprehensive financial restructuring proposal for revival of MFL. The Committee have also been informed that the amendments made to the New Pricing Scheme-III from 1 April 2009 will also be to the advantage of the operations of MFL. In the circumstances, the Committee feel that there is an urgent need to finalize the financial restructuring of MFL at the earliest and desire that it should be expedited. The Committee would like to be apprised of the action taken in the matter.
24	**127**	**The Committee note the that Government have decided to continue to provide appropriate support to BVFCL till a comprehensive proposal for its revival is framed. According to the Department of Fertilizers, necessary consultations/ processing are under way. The Committee desire that the matter be expeditiously completed for the revival of the sick public sector company. The Committee would like to be informed of the status.**
25	**133**	**The Committee note that the Fertilizers and Chemicals Travancore Ltd. (FACT) has been able to generate profits to the tune of Rs. 9.18 crore and Rs. 46.19 crore(provisional) in the years 2007-08 and 2008-09 respectively in comparison to the loss of Rs. 122.65 crore in the year 2006-07. The Committee are surprised that the FACT has actually utilized only Rs. 4.17 crore against the allocation of Rs. 13 crore(BE& RE) in 2008-09 and the BE (2009-10) for the company is Rs. 34 crore. The Committee recommend that all the pending proposals of the Company should be expedited so as to ensure the methodical utilization of funds and thus improving the performance of FACT.**
26	**138**	**The Committee are happy to note that the overall performance of National Fertilizers Limited (NFL) has been satisfactory. However, they are constrained to point out that their performance in relation to the planned schemes during the years 2007-2008 and 2008-2009 left much to be desired. The Committee hope that necessary steps will be taken to make improvements in this regard so that the performance shown by the company over the years may convert into bigger results for the benefit of public at large.**
27	**146**	**The Committee note that though the overall performance of Rashtriya Chemicals and Fertilizers Ltd. (RCF) has been satisfactory, the fact that the Company could utilize only Rs.241.83 crore out of the allocated funds of Rs.812.43 crore(BE) Rs.469.06 crore(RE) for the year 2008-09 for the 11th plan scheme is disappointing. The Committee have been informed that a number of schemes could not be taken up in 2008-09 due to reasons such as global price scenario, revision of cost of raw materials, revision of scope, etc. resulting in lesser utilization of resources. The Committee hope that all out efforts will be made for implementation of all plan schemes so that the Company is able to achieve the desired objectives of 11th Five Year Plan. The Committee would like to be apprised of the updated status in this regard.**

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