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FERTILIZER SUBSIDY

MINISTRY OF CHEMICALS AND FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

PUBLIC ACCOUNTS COMMITTEE (2012-13)

EIGHTY-FIRST REPORT

FIFTEENTH LOK SABHA

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

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MINISTRY OF CHEMICALS AND FERTILIZERS
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Presented to Lok Sabha on 30.04.2013

Laid in Rajya Sabha on 30.04.2013

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

April, 2013/*Vaisakha*, 1935 (*Saka*)

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2. Shri Anandrao Vithoba Adsul
3. Dr. Baliram
4. Shri Sandeep Dikshit
5. Dr. M. Thambidurai
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SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri D.R. Mohanty — *Deputy Secretary*
3. Ms. Miranda Ingudam — *Under Secretary*

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* Elected *w.e.f.* 6th December, 2012 *vice* Shri Sarvey Sathyanarayana appointed as Minister on 28th October, 2012.

† Elected *w.e.f.* 6th December, 2012 *vice* Dr. Shashi Tharoor appointed as Minister on 28th October, 2012.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2011-2012)

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

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7. Shri Shripad Yesso Naik
8. Shri Sanjay Nirupam
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14. Dr. M. Thambidurai
15. Dr. Girija Vyas

Rajya Sabha

16. Shri Tariq Anwar
17. Shri Prasanta Chatterjee
18. Shri Naresh Gujral
19. Shri Prakash Javadekar
20. Shri Satish Chandra Misra

*21. Shri J.D. Seelam

22. Prof. Saif-ud-Din Soz

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* Elected *w.e.f.* 29th August, 2011 *vide* the vacancy occurred *vice* Smt. Jayanti Natarajan appointed Minister *w.e.f.* 12th July, 2011.

INTRODUCTION

I, the Chairman, Public Accounts Committee, having been authorised by the Committee, do present this Eighty-first Report (Fifteenth Lok Sabha) on "Fertilizer Subsidy" based on C&AG Report No. 8 of 2011-12 (Performance Audit) Union Government (Civil) relating to the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Report of the Comptroller and Auditor General of India was laid on the Table of the House on 5th August, 2011.

3. The Public Accounts Committee (2011-12) selected the subject for detailed examination and report and procured written information from the Ministry of Chemicals and Fertilizers. As the examination of the subject could not be completed due to paucity of time, the Public Accounts Committee (2012-13) re-selected the subject for examination. The Committee took evidence of the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and the Department of Agriculture and Co-operation on the subject at their sitting held on 11th June, 2012. The Committee adopted this Report at their sitting held on 29th April, 2013. The Minutes of the Sittings form Appendices to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type and form Part-II of the Report.

5. The Committee thank their predecessor Committee for the work done on the subject.

6. The Committee would also like to express their thanks to the representatives of the Department of Fertilizers (DoF), Ministry of Chemicals and Fertilizers and the Department of Agriculture and Co-operation for tendering evidence before the Committee and furnishing the requisite information to the Committee in connection with the examination of the subject.

7. The Committee place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

NEW DELHI;
29 *April*, 2013
9 *Vaisakha*, 1935 (*Saka*)

DR. MURLI MANOHAR JOSHI
Chairman,
Public Accounts Committee.

REPORT

PART I

I. INTRODUCTORY

The fertilizer subsidy/concessions regime in India has had a long and chequered history dating back to 1957. Currently, urea is the only controlled fertilizer, which is subject to price distribution and movement control under the Fertilizer Control Order and Fertilizer Movement Control Order to the extent of 50 per cent of production. Other fertilizers like Di-Ammonium Phosphate (DAP), Mono-Ammonium Phosphate (MAP), Single Super Phosphate (SSP), Triple Super Phosphate (TSP), Muriate of Potash (MOP) and Nitrogen-Phosphate-Potassium (NPK), complexes are decontrolled fertilizers, whose use for agricultural purposes is subsidised. However, in practice, fertilizers, where controlled or decontrolled, which are subsidised for agricultural consumption are, in effect, subject to explicit/implicit control by the Government of India (GoI), either through formal allocation orders or through supply plans and the State Governments, primarily to ensure proper targeting of fertiliser subsidy and minimise diversion of subsidised fertiliser for non-agricultural purposes. Also, 'farm-gate' prices of all major fertilisers subject to subsidy are controlled by the Government to ensure a uniform sale price throughout the Country, which is substantially lower than the cost of production/import.

2. A brief evolution of the fertilizer subsidy/concession regime over the year is as under:—

Year	Event
1	2
1957	Fixing of Maximum Retail Prices (MRP) of urea through Fertilizers Control Order, 1957
1973	Fertilizer (Movement) Control Order issued for Government control of fertilizer distribution and its inter-state movement
November 1977	Retention Price Scheme (RPS) for nitorgenous fertilizers introduced
February 1979	RPS for complex fertilizers introduced
May 1982	Single Super Phosphate (SSP) brought under RPS
August 1992	Phosphatic (P) and Potassic (K) fertilizers decontrolled, based on the recommendations of JPC
October 1992	Concession on decontrolled P and K fertilizers introduced
April 2003	Replacement of RPS by single wise New Pricing Scheme (Stage I)
April 2004	NPS Stage II-1.04.2001 to 30.09.2006

1	2
October 2006	NPS Stage III-01.10.2006 onwards
April 2010	Nutrient Based Subsidy (NBS) for decontrolled fertilizers in replacement of existing concession scheme

3. The vast majority of India's population is still dependent on agriculture for their livelihood. Increased agricultural productivity is essential not only for ensuring and maintaining food security, but also for ensuring equitable and high rates of income growth for all sections of society. A kep component of the strategy for increased agricultural production is the optimal use of chemical fertilizers for increased yields, while maintaining soil fertility and avoiding adverse impact on soil and water. In spite of massive amounts of expenditure by GoI on fertilizer subsidy/concession, annual production of fertilizers increased only marginally from 284 Lakh MT in 2003-04 to 298 Lakh MT in 2008-09. Changes in the subsidy regime, have failed to incentivize significant increase in domestic production of fertilizer. Overall, the increased consumption of fertilizer is, thus, largely met through increased fertilizer import.

4. The nodal Ministry in the Government of India (GoI) for fertilizer susbisy is the Department of Fertilizers under the Ministry of Chemicals and Fertilizers. At the Central level, the Department of Agriculture and Cooperation through Seasonal Zonal Meetings of State Directorates of Agriculture along with the Department of Fertilizers which involves the Fertilizer Industry Coordination Commiottee (FICC) for urea subsidy, broadly form the organizational set up whereas at the State level, the Director of Agriculture, District Level Agricultural Officer and Block Level Agricultural Officer are involved.

5. The C&AG carried out a Performance Audit covering the fertilizer subsidy payments for the period from 2006-07 to 2008-09 (3 years) involving scrutiny of 979 claims amounting to Rs. 54,358 crore, as well as imports at one port (Kandla). Further, verification of the distribution of fertilizers convering the period from May, 2008 to December, 2008 was conducted in 24 States, covering 94 districts and 188 blocks . In addition, records of 44 fertilizer quality control laboratories were scrutinised, and surveys of 5498 farmers and 1092 dealers in 24 States were conducted.

6. Audit criteria of the evaluation of performance were derived from instruction/ circulars/orders issued by DoF/FICC governing the grant of subsidy/concession; supply plants and ECA allocations issued by DoF; and sanctions for payment of subsidy concession. The performance audit commenced with a presentation at an entry conference held with the Department of Fertilizers in April 2009, wherein the audit methodology, scope, objectives and criteria were explained. Field audit, including scrutiny of records and surveys was conducted between June 2009 and March 2010. In addition, a meeting with the Fertilizer Association of India was also held in January 2010. The Audit Report was laid in Parliament on 5th August, 2011.

7. The Main findings of the Audit Report are as under:—

(i) **Assessment of Fertilizer Requirement**

- The process of detailed assessment of fertilizer requirements was flawed.
- No minutes of the deliberations of the seasonal Agriculture Zonal Input Conferences were maintained by the Department of Agricultural and Co-operation, in the absence of which the justification for the State-wise and month-wise requirement of major fertilizers could not be ascertained.
- Requirements of fertilizers were generally projected by an increase of 5 to 10 per cent over the previous season's/year's requirements, indicating that no scientific method was followed for assessing the requirement.
- In most States, the requirement of various types of fertilizers were projected at the level of the State Directorate of Agriculture only (without input from the District and lower levels) and not based on the availability of irrigation facilities, soil health and other local factors.
- Further, in most States, testing of soil health, which would facilitate determination of the Correct dosage of fertilizer nutrients, covered only a fractions of the agricultural land holdings.

(ii) Fertilizer Production, Import and Consumption

- The assessed requirement of fertilizers went up by more than 70 per cent during the 11 year period from 1998-99 to 2008-09, total production went up by just 11 per cent, while imports went up by nearly, 236 per cent.
- Despite the huge amount of subsidy (increasing from Rs. 11,387 crore in 1998-99 to Rs. 96,603 crore in 2008-09), the production of fertilizers increased only marginally from 269 lakh MT to 298 lakh MT.
- Changes in the subsidy, regime, including Stages I to III of the New Pricing Scheme (NPS), have failed to incentivize increase in domestic production of fertilizer, leaving the country dependent on imports, whose pricing is volatile. The subsidy/concession on imported fertilizers over 1998-99 to 2008-09 increased from 3 per cent to 47 per cent of the total subsidy.
- The production of urea during the 11 year period from 1998-99 to 2008-09 registered a negligible increase of just 3 per cent and the shift in urea subsidy policy from individual unit-based pricing under the Retention Price Scheme (RPS) to group based pricing under the New Pricing Scheme (NPS) did not result in a sigificant increase in either capacity or production of urea, as a result of which increased consumption of urea was met primarily through imports.
- As regards phosphatic fertilizers, although the capacity nearly doubled from 1998-99 to 2008-09, actual production of DAP and NPK complexes increased by only 30 per cent. In fact, the production of DAP came down substantially and the increase in consumption of DAP/MAP/NPK complexes was met primarily through imports at very high prices, which led to multi-fold increase in the subsidy burden.

- As regards potassic fertilizers, the Country's requirement is met fully through imports and instead of curbing further imports and drawing down on available stock as of March 2008, the Ministry imported an additional 57 lakh MT of MOP (43 lakh MT as per expenditue figures), with an avoidable additional to the subsidy burden of about Rs. 10,000 crore.
- On the consumption front, while there was a consistent gap between consumption and assessed requirements, the consumption figures broadly tracked the total availablity of fertilizers (production + import), indicating that whatever fertilizer was availabile was readily consumed. While this is most likely on account of the highly subsidized price, this also confirms the lack of assessment of requirement on a scientific basis.
- While fertilizer consumption increased by 46 per cent from 2003-04 to 2008-09, the major components of agricultural production (foodgrains, oilseeds and sugarcane) increased by just 16 per cent over the same period, indicating a relatively week correlation.
- The pattern of fertilizer consumption across different States was highly skewed, with States like Andhra Pradesh, Punjab, Haryana and Bihar having high consumption rates while Madhya Pradesh, Odisha, Assam and Jharkhand had very low consumption rates. There was a fairly high degree of correlation between the consumption rates and the proportion of irrigated area; the higher the proportion of irrigated area, the higher the rate of consumption of fertilizers. For example, Punjab with 98 per cent irrigated area consumed 221 kg/ha in 2008-09, while Jharkhand with 10 per cent irrigated area consumed only 56 kg/ha.
- Data on fertilizer consumption is based only on first point sales at the district levels and does not take note of actual consumption (let alone purchases) by individual farmers for agricultural purpose; to that extent, the fertiliser consumption data is unreliable.
- Despite huge amounts of subsidy/concession, numerious instances of non-avilability/shortage of fertilizers as well as instances of overstocking/excess availability of fertilizers, confirming a mismatch between supply and requirement at the grassroot level was detected.
- Several instances of diversion of fertilizers for non-agricultural purposes, as well as smuggling of fertilizers in border districts in the Eastern/North-eastern States were also pointed out.

(iii) Payment of Subsidy Claims

- Fertilizer units/importers are eligible for subsidy payments when fertilizers are despatched to the first stocking points in the district, and details of despatch are uploaded onto the web-based Fertilizer Management System (FMS). However, there is no mechanism for reconciliation of unit-wise and district-wise despatch data with corresponding data on receipts at the first stocking point in the districts.

- Scrutiny of limited sample for 2008-09 (Apil 2008 to December 2008) revealed that 48624 MT of fertilizers valuing Rs. 83 crore stated to have been despatched by the manufacturing units were not recorded as received at the 1st stocking points in various States.
- Linking certification in Proforma 'B' by the State Governments of sales of decontrolled fertilizers for agricultural purposes (notwithstanding the inadequacies in the certification process), the only major control over end-use of fertilizers, with release of balance payment of 10/15 per cent (with the penal clause providing for bank guarantee for 100 per cent of unadjusted concession) provided clear incentives/disincentives for ensuirng timely submission of Proforma 'B'. The removal of such a linkage from June 2007, resulted in accumulation of outstanding Proforma 'B' for the year 2007-08 to 2009-10 amounting to Rs. 50,587 crore.
- In most of the States, verification of sales for agricultural purposes (which would provide assurance of proper, end-use of subsidy) was non-existent or inadequate, as it did not involve physical veritification of stocks or sales beyond the 1st period sales, and in many cases not even verification of receipts, invoices etc. Further, although the subsidy was released on the basis of the receipt of fertilizers at district level and the freight subsidy was paid upto block level, there was no State level mechanism for physical verification of the confirmation of receipt at district, block and consumer levels. Deficiencies in licensing and other arrangements for sale of fertilizers were also detected.
- Recrods relating to the import of urea on Government account for the period 2005-06 to 2008-09 from the Department of Fertilizers and import of DAP by IPL on Government instructions during 2007-08 from IPL were not provided to Audit. Based on the records relating to fertilizer imports provided to them. certain irregularities in import of DAP by IPL, as well as certain discrepancies between imports and corresponding supply of DAP by IPL were detected.
- A disturbing trend of increasing consumption of subsidized fertilizers (urea, DAP, MOP etc.) by mixing units in several States resulting in breaking of the subsidy chain, was also at the expense of the ordinary farmer. Control over quality of fertilizer mixtures was also minimal, exposing unsuspecting farmers to the risk of substandard quality mixtures.

(iv) Quality Control

- Fertilizer quality testing infrastructure in the country was grossly inadequate. The annual capacity of the existing quality control laboratories was only 25 per cent of the required capacity for testing of samples from all sales outlets twice a year (*i.e*. once each for Rabi and Kharif). Further, many of the laboratories were deficient in terms of both physical and human infrastructure. Consequently, there was a significant shortfall in the actual number of samples tested v*is-a-vis* both the target as well as the capacity of the laboratories.

- The stipulated time limits for sending of samples to the quality control laboratories, sending of analysis reports by the laboratories to the concerned authorities and corrective action thereon were not adhered to in most. States, with huge delays. As a result, even when sub-standard quality fertilizer was detected, by the time the analysis reports reached the concerned authorities and action was initiated, the balance stock of the fertilizer lot (pertaining to the sub-standard sample) had already been sold to unsuspecting farmers, who unknowingly used such sub-standard fertilizers.

(v) Results of Surveys of Farmers and Dealers

- The survey of 1092 fertilizer dealers revealed several significant findings. 57 per cent of the dealers indicated that they were not getting the required quantity and type of fertilizers in time. 37 per cent indicated that they were facing problems in transportation in lifting their requirement. Only 51 per cent indicated that they were able to supply fertilizers as per demand to the farmers in time. As many as 40 per cent of the dealers indicated that sample had not been selected in any of the last three years from their stock for fertilizer quality testing.
- The survey of 5498 farmers also threw up important findings, 45 per cent of the surveyed farmers indicated that they had bought fertilizers at prices higher than the MRPs, while 56 per cent indicated that they did not know the MRPs for fertilizers fixed by the Government. 59 per cent of the farmers faced problems for getting their full requirement of fertilizers in a timely fashion. 55 per cent of the surveyed farmers expressed their need for fertilizers in small quantity bags (contrarily, only 40 per cent of the surveyed dealers indicated that farmers were demanding small quantity bags); 51 per cent indicated that they did not have enough money to buy their full requirement of fertilizers. 76 per cent of the surveyed farmers had not got their soil tested for sicentifically ascertaining the requirement of fertilizers.

8. Against the above backdrop, the Public Accounts Committee (2011-12) selected the subject for detailed examination and report. However, as the subject could not be examined due to paucity of time, it was carried forward and again taken up for examination during the year 2012-13. The Committee obtained Background material and detailed Advance Information from the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and took oral evidence of the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and Ministry of Agriculture (Department of Agriculture and Cooperation) on 11th June, 2012. Post Evidence Replies were also obtained from them. Based on these written and oral depositions, the Committee examined the subject in detail and discussed some very important issues enumerated in the succeeding paragraphs.

II. RESPONSE OF THE DEPARTMENT TO THE AUDIT REPORT

9. Audit in the preface to their Report pointed out that in the course of conduct of the Performance Audit, while the Principal Director of Audit forwarded the draft Report to the Secretary, Department of Fertilizers on 1.12.2010 seeking his comments

and also seeking an Exit Conference, the letter was not replied to. Subsequently, the Principal Director of Audit addressed the Secretary, Department of Fertilizer again on 25.2.2011, stating that the comments of Department were still awaited. He also reminded the Secretary to indicate a convenient date for the Exit Conference. Unfortunately, even this letter went unheeded. They have further drawn the attention of the Parliament and the Public Accounts Committee to judge whether Governmet Departments should continue to display such low priority to Audit Reports.

10. Audit Report also pointed out instances where records were not made available inspite of requests made on this behalf. Audit Para 6.6.5 reveals that records relating to the import of urea of 193.71 Lakh MT on Government account for the period 2005-06 to 2008-09 were called for from the Department of Fetilizers but were not provided to Audit. Similarly, records relating to import of 40.70 lakh MT of urea by IPL during 2007-08 and 2008-09 on Government account was not provided. Details relating to import of 17.58 Lakh MT of DAP on Government instructions during 2007-08 were also not provided by IPL.

11. In the above context, on being asked to state the reasons for non-provision of the aforesaid records to Audit, the Department of Fertilizers clarified that on 1st July 2011, Audit was informed that all records relating to the imports of Urea/DAP were available with Fertilizer Accounts (FA) Wing of the DoF located in Udyog Bhawan and the Audit party might check the relevant records in FA Wing. It was further informed that in case of any additional query of requirement of any other document, they might contact Director (Movement) in DoF. The Audit Party was stationed in Udyog Bhawan and was checking the relevant records in FA Wing. No further query was made by them in this matter. The DoF never denied any records relating to the imports of urea/DAP made by IPL during 2005—09 or any other document asked by the Audit Party.

12. As regards the non-response of the Secretary, DoF/Department till July, 2011 to the Audit letters of December 2010 and February 2011 seeking his comments on the draft Audit Report and an Exit Conference, the Committee asked the Secretary, DoF in evidence to explain the reasons therefor. In reply, the Secretary, DoF submitted as under:—

> "..........I am not personally aware of the circumstances of the case because I was not there. I am only going by what is there on record...."

He further submitted:—

> "Sir, I should not take names but I was not the Secretary."

13. The Committee pointed out even if he was not the Secretary at that point of time, there must be some institutional mechanism to attend to the Audit Comments. In response, the Secretary, DoF stated:

> "Sir, that is certainly taken note of and henceforth, very strict instructions have gone that this should not and can not happen in future....."

14. The Committee then asked whether such mistakes should be taken cognizance of only after the Committee's intervention. In reply, the Secretary, DoF submitted:—

> "....I must place on record my deep and unqualified apology for whatever has happened and it is clearly not a thing which should have happened and we will certainly ensure that it does not happen in future. I have no explanation for it. It is clear that we have to accept that this is failure."

III. ASSESSMENT OF FERTILIZER REQUIREMENT

15. Audit scrutiny revealed that the assessment of fertilizer requirement was not carried out by following proper scientific methods and was generally projected to an increase by 5 to10 percent over the previous season's/year's consumption. Further, no minutes of the deliberations of the seasonal Zonal Conferences were maintained by the Department of Agriculture and Cooperation (DAC), in the absence of which the basis and detailed justification for the State-wise and month-wise requirement of major fertilizers could not be ascertained.

16. In the above context, the Committee were informed that the Department of Agriculture and Cooperation (DAC) finalize the requirement of fertilizers for all the States for each cropping season *viz.* Kharif and Rabi well before the start of the season after detailed deliberation in consultation with the representatives of the State Governments, Department of Fertilizers, Lead Fertilizer Suppliers, Fertilizers Association of India (FAI) and ICAR, etc. After finalizing requirement of different fertilizers for all States, statement indicating month-wise and fertilizer-wise requirement was prepared and circulated to the States as well as Department of Fertilizers (DoF). This enabled DoF to make month-wise supply plan for States. With effect from Rabi 2011-12, DAC had also started recording minutes of deliberations of Zonal Conference which had been circulated to all stakeholders. The Committee were further informed that the State Governments followed the procedure set by DAC before finalization of requirement and assessments were made under the assumption of normal season with initial projection of requirement of fertilizers for a specific cropping season on the basis of intensive study of cropping pattern, consumption pattern, cropped area, irrigated area, previous year consumption, NPK consumption ratio and per hectare consumption of fertilizer, requirement of nutrient in the soil in different parts of the State, *etc*.

17. Not satisfied with the reply of the Department, the Committee sought to know specifically as to whether there was any monitoring mechanism put in place to ensure that the assessment of requirement of fertilizers was done by the States on a scientific method. The Secretary, Department of Fertilizers submitted during the evidence as under:

> "..............C&AG has made a comment about the assessment process in the sense that we are not keeping Minutes of the Zonal Conferences and that our method of assessment is not right. Subsequent to that we have tried to improve the method of assessment."

18. Asked to state categorically whether demand and availability/supply of fertilizers were in sync, the Secretary, DoF submitted:—

> ".................In some years it is unfortunately true that there has been a shortage compared to the demand for fertilizers. Availability has been less compared to the demand. So, as I said, our prime task in the DoF is to make fertilizer available adequately on demand. Sometimes it has not happened. Whatever visibility or transparency you may have, the fertilizer physically has to be there. I would like to assure the Hon'ble Member that the fertilizer availability position at present is quite comfortable and there is no problem in this regard. We have tied up adequate fertilizers for the Kharif season. In the past it has happened and we have learnt lessons from that."

19. In response to a related specific query, the Secretary, DoF further stated:—

> ".....The fertilizer movement to any district or to any place is on the basis of the projection of requirement given by the State Governments."

20. The Committee then desired to know about the existing mechanism to ensure that the statistics of the requirement of fertilizers as projected by the State Governments were real statistics. In response, the Secretary, DoF submitted:

> "Sir, I will only say that there are two exercises that we do, one is projection and the other is actual supply."

He added:

> ".....Sir, we have the Zonal conferences. We have regular video conferences to see that the demand of the farmers as projected by them, State Governments and the Department of Agriculture is met. Sir we do not do the assessment."

21. When the Committee desired to hear the view of the Department of Agriculture and Cooperation on the same issue, a representative of that Department submitted in evidence:—

> "Sir, definitely there is a lot of scope for improvement on this aspect. The Department of Agriculture and Cooperation has been trying to do some improvement in this. We do Zonal Conferences to assess the requirements of fertilizers. For that we send a detailed proforma to each State requesting them, apart from historical fertilizers consumption, to give other data also, like the gross cropped area, what is the percentage of irrigation, what is the irrigated area etc. After this audit report we have issued instructions and requested the State Governments."

22. When asked to provide the last five years figures of the assessment of the actual need of fertilisers projected compared with the actual consumption and supply

of fertilisers in those years in all the States, the DoF furnished the following statement:—

Statement indicating assessed Requirement, Consumption of Urea, DAP, MOP and Complex Fertilizers

(*In lakh tonnes*)

Kharif+Ravi	Urea			DAP			MOP			Complex		
Year	Require-ment	Consum-ption	Supply (Avail-ability)	Require-ment	Consum-tion	Supply (Avail-ability)	Require-ment	Consum-ption	Supply (Avail-ability)	Require-ment	Consum-ption	Supply (Avail-ability)
2007-08	271.71	259.63	274.26	89.21	74.97	83.40	36.13	28.80	29.28	87.40	65.70	66.59
2008-09	281.34	266.49	270.88	94.83	92.31	99.78	37.86	40.78	43.34	92.32	68.05	72.26
2009-10	281.90	266.73	265.97	106.98	104.92	104.09	43.85	46.34	47.60	87.73	80.25	83.38
2010-11	290.79	281.12	284.62	120.92	108.70	113.09	47.80	39.31	39.83	92.00	97.64	104.39
2011-12	305.16	295.46	298.65	126.16	96.16	117.44	48.28	30.41	31.64	107.36	102.61	124.27

23. The Committee desired to know about the existing level of capacity for collection of reliable, relevant and accurate collection of statistical data for correct estimation of the need for fertiliser requirements in terms of infrastructure as well as manpower needs. In reply, the DoF submitted that the fertilizer requirement was assessed during the zonal conference of Kharif and Rabi. The State Governments were required to assess their requirement on the basis of the gross cropped area, irregation area, dosage and increase or decrease in gross cropped area incomparison to the last three years seasons. The actual consumption during the last three years season was also taken into consideration while finalizing the requirement of the States. It was also stated that the State Governments perhaps assessed their requirement on the basis of collection of data regarding requirement of fertilizers at the District level. The State Governments at the District level had the manpower for carrying out such activities.

24. Further asked to state whether there was any consideration for augmentation of this very important aspect of collection of satistical data, the DoF submitted that the Ministry was examining the issue of assessing the demand of each State by requisite augmentation.

25. The Committee then desired to know whether the skewed distribution of fertilisers appeared to indicate that the statistical data used for need assessment did not bear any semblance with the ground reality and whether there was any possibility of collaborating with the Ministry of Satistics for collection of a more informed and accurate statistical data. In reply, the DoF stated that the projection of requirement of fertilizers for specific cropping season was made by the State Governments on the basis of intensive study of cropping pattern, consumption pattern, cropped area, irrigated area, previous years' consumption, NPK consumption ratio and per hectare consumption of fertilizers, requirement of nutrient in soil in different parts of the States etc., which was then finalized in the Zonal Conference in consultation with

DoF, ICAR and representatives of the States. As regards the possibility of collaboration with the Ministry of Statistics, the Committee were apprised that the Ministry was examining the issue.

26. Asked to stated the steps initiated to correlate the need assessment of fertilizers by farmers on a scientific basis to the actual delivery mechanism proposed, the DoF submitted that for making fertilizer available, the assessment of fertilizer by Department of Agriculture & Co-operation (DAC) was being done in the presence of officials of the State Government, Lead Fertilizer Suppliers (LFS) and the Fertilizer Association of India (FAI). In addition, District wise assessment of Fertilizers, was done scientifically before every cropping season and review of availability of Fertilizers and regular supply line was conducted by the District Agriculture Officer in co-ordination with the Block Agriculture Officer for Block Level Agriculture requirement, according to the proposed cropped area for the season as per recommended dose of NPK to ensure balanced use of fertilizers.

27. The Committee then asked whether consumption pattern of the previous seasons could be considered a scientific method for assessing the requirement of fertilizers without taking into consideration the soil, health irrigation facilities etc. In reply, the DoF stated that the consumption of previous seasons was taken into consideration as one of the inputs but was not the sole criteria for fertilizer requirement assessment. The processes of plot assessment of soil health and irrigation facilities was, however, not practicable. However, partial usage of futuristic technology like remote sensing and satellite imagery was being used at some places to overcome plot to plot assessment.

28. Asked to state in no uncertain terms the specific measures contemplated to make the assessment of fertilizers requirement more scientific and realistic, especially after the C&AG findings, the DoF submitted that an attempt was being made to modify the proforma used to assess the requirement of fertilizers after incorporating the recommendations of the C&AG which would ensure a more scientific, realistic and rational assessment of fertilizers. It was further stated that the requirement was being assessed at block level taking into account the soil health reports, cropping patterns etc. as indicated in the recommendations of the C&AG Report.

IV. NEW PRICING SCHEME (NPS)

29. Audit scrutiny revealed that changes in the subsidy regime, including New Pricing Scheme (NPS) Stages I to III, have failed to incentivize increase in the domestic production of fertilizer, leaving the Country dependent on imports as can be gauged from the increase of the subsidy on imported fertilizers from 3 per cent to 47 per cent of the total subsidy over the years from 1998-99 to 2008-09.

30. In the above context, the Committee sought details of the reasons which necessitated the replacement of the Retention Price Scheme (RPS) with the New Pricing Scheme (NPS) and whether the desired objectives in terms of boosting production, encourage internationally competitive norms and parameters for the urea industry and reduction of urea subsidy had been acheved. In reply, the DoF stated

that the RPS was criticized for being cost plus in nature and not encouraging efficiency. The Government considered to replace the Scheme by a new Pricing Policy. The matter was referred to a High Powered Fertilizer Pricing Policy Review Committee (HPC) headed by Prof. C.H. Hanumantha Rao and Expenditure Reforms Commission (ERC) headed by Shri K.P. Geethakrishnan. The HPC had recommended (April 1998) for introduction of a uniform Normative Referral Price (NRP) for existing gas based urea units with provision of Feedstock Differential Cost Reimbursement (FDCR) for naphtha, FO/LSHS based units. The ERC recommended (September 2000), *inter alia,* replacement of RPS by uniform rates of concession after dividing urea units into five groups based upon feedstock and vintage and a phased decontrol of urea. The Finance Minister in his Budget Speech for 2001-02 announced that the ERC recommendations would be implemented and in the first phase commencing 1.4.2001, the unit specific RPS would be replaced by a Group Concession Scheme.

31. With a view to formulate a new pricing policy for urea units for replacing the existing Retention Price Scheme. The new pricing scheme for urea units was notified on 30.1.2003 which came into existence *w.e.f.* 1.4.2003 replacing RPS and was being implemented in stages. Stage-I was of one year duration, from 1.4.2003 to 31.3.2004. Stage-II was commenced from 1.4.2004 for two years duration *i.e.* from, 1.4.2004 to 30.09.2006. The modalities of Stage-III would be decided by the Department of Fertilizers after review of the implementation of Stage-I and Stage-II. The DoF further stated that the new scheme aimed at greater transparency, uniformity and efficiency in subsidy disbursements to urea units and at inducing the urea manufacturing units to take cost reduction measures and be competitive. The Department of Fertilizers had fixed normatively determined pre-set energy levels per tonne of urea and these norms were comparable with the best in the world and were effective from 1.4.2004. Reduction in rates of concession during Stage-II of NPS on account of reduction in capital related charges had also been announced effective from 1.4.2004.

32. As regards the achievement of the objectives of the NPS, the DoF submitted that the objectives of cost cutting and consequent reduction in subsidy had been achieved as the reduction in subsidy due to application of lower of group weighted average RP or units' own RP had accrued to the Government on recurring basis. Further, under NPS, the lower of group weighted average energy figure or individual units own energy figure in the previous pricing was adopted as per set energy norm. This has resulted in reduction in energy cost of permanent nature thereby further reducing the subsidy. Capacity addition or increase in production was not aimed at while changing the policy from RPS to NPS.

33. As regards the negligible increase of 7 per cent urea production during the NPS period and the substantial increase in group wise weighted average cost of production of urea by 81 per cent to 120 per cent, the DoF clarified that the Cost of production including manufacturer's profit margin in the NPS policy had two components, namely, (i) Variable cost comprising of cost of energy, bags, water and electricity, and (ii) Fixed cost comprising of conversion cost, employee cost, administration & marketing cost and profit margin of the manufacturers. In order to contain the cost of production and price of urea within a reasonable limit, the NPS

had frozen the fixed cost element at the level 2002-03. No increase in fixed cost had been allowed in the determination of cost of production of urea and subsidy had frozen the fixed cost element at the level of 2002-03. No increase in fixed cost had been allowed in the determination of cost of production of urea and subsidy thereon to the urea manufacturers over almost a decade. The increase in cost of production of urea was, therefore, attributable to increase in cost of energy input which was beyond the control of NPS implementing authorities.

34. When the Committee desired to hear the views of the Secretary, DoF on the matter, he deposed in evidence:—

> "The NPS-1 to NPS-3, as we changed from retention price scheme, the idea was to incentivize efficiency. Earlier it was a cost-plus approach. Now we are sort of specifying some energy norms. Any saving is really a saving by the company. But we are also incentivizing in the sense that we have given him some price incentive for production above 100 per cent. As a result there has been a marginal increase in production. But the production increase really has to be seen in the context of another thing. In 2008 there was an investment policy which was announced. After that there has been an increase of production of about 1.5 million to two million tonnes of urea. Of course we have scope of becoming more self-sufficient in urea and for that the Department is looking at tweaking the investment policy. But that is under examination and I would not like to comment on it at this stage."

35. The Secretary, DoF further clarified:—

> ".........The Retention Price Scheme was cost plus approach which did not incentivize efficiency. The NPS basically was trying to group fertilizer plants and give them energy consumption norms and give them the price based on those energy consumption norms. Now, if they save on energy, that benefit would accrue to the concerned fertilizer company. It is true that there is no direct benefit to the Government from the subsidy point of view. But there is an energy efficiency gain, which is a national gain. The other point which we need to focus on is that the NPS has allowed for production beyond 100 per cent capacity and we allowed them higher price for urea for production beyond 100 per cent. To that extent there is an incentivisation of higher production. The NPS has actually incentivized efficient working of existing plants. So, the hon. Member will appreciate that the gains in production to tweaking of efficiency of existing plans is possible only to some extent and beyond that new capacity has to be set up. So, I think, as far as saving of subsidy is concerned, NPS actually said it incentivizes the energy usage; it incentivises for production beyond 100 per cent. To that extent there is an incentivisation of higher production. The NPS has actually incentivized efficient working of existing plants."

36. On a specific query regarding the yardsticks to judge the effectiveness of the NPS Policy as neither production nor capacity showed any augmentation, the representative of the Department of Fertilisers stated during evidence as under:—

> "Sir, the NPS had this element that till 2002-03 we had what is called 'the Retention Price Scheme' (RPS) and from 2003-04, we moved on the new

pricing scheme-I, then II and then III. Under the new pricing scheme, the urea production units were grouped based on two things—one is feedstock and the second is vintage. That is why you had pre-92 gas and post-92 gas which is based on vintage. Similarly, P-92 naptha and post-92 naptha. The idea was to group units based on these two yardsticks-feedstock and technology/ vintage and see that they should be comparable. So, once having grouped them, whosoever is more energy-efficient in that particular group should gain *vis-a-vis* others. Therefore, after this grouping, there was an incentive provided to make energy efficiency improvements and gain from that. Now, what did the Government gain from that? The fixed cost as of 2002-03 was frozen. Subsequent to 2002-03, there was no increase in fixed cost. So, therefore, fixed costs were frozen. They were not allowed to go up whereas the units within the same comparable group were made to compete. The point that Secretary made beyond 100 per cent—now beyond 100 per cent, there was a gain-sharing formula. So, the IPP minus variable cost of the unit was shared between the Government and the unit in the ratio of 65:35. So, units which produced more than hundred per cent, there was gain to the units as well as to the Government. So, both benefited. Therefore, the policy encouraged production beyond 100 per cent. But there is an absolute limitation. You cannot go from 100 per cent to 200 per cent with a given technology and capacity. Therefore, the scope for improvement which you mentioned is limited."

37. When the Committee asked whether the overall capacity was below 100 per cent, the representative of DoF submitted as under:—

"It is slightly below the capacity, but it is not grossly under-utilized or so. But what was needed was that you needed to bring in a new investment policy. In 2008, we brought in a new investment policy which did not bring in new production capacity but units went in for modernisation and revamp. That is what which brought in additional two million tonnes. So, post-2008 new investment policy, there was an enhancement in capacity and additional production which came about. The additional production which came about was incentivised with respect to IPP. So, units which produced beyond a cut off level were given the benefit of 85 per cent of the IPP. So, if the Government had imported, it would have paid 100 per cent of IPP. But by encouraging these units to undertake revamped modernisation, the Government saved 15 per cent of the IPP and the units also gained. So, therefore, to that extent, this policy was beneficial."

38. Audit findings revealed that Urea production in the Country has virtually remained stagnant during the last 11 years and DAP & NPK complexes have increased by only 30%. During the last 11 years (1998-99 to 2008-09) imports went up by 236%. In this context, the Committee desired to know the reasons for the stagnation in urea production and measures taken to attrack investment in this sector. In reply, the DoF stated that various reasons led to the stagnation in production of urea during the last 11 years and also no investment in urea sector. A pricing policy was announced on 29.1.2004 for setting up new urea projects and expansion of existing urea projects for

augmenting the domestic prodution capacity of urea to meet the growing demand for enhancing the agricultural production in the Country. The policy notified on 29.1.2004 was not successful in attracting investment in this sector. The DoF further stated that the non-availability of natural gas, which was the critical feedstock for production of urea, was one of the major constraints in further addition of indigenous capacity for production of urea. Subsequently, the Government announced on 4th September 2008, a new investment policy for urea sector to attract the much required investment in this sector. The policy was based on IPP benchmark and finalized in consultation with the industry. The New Investment Policy of 2008 aimed at revamp, expansion, revival of existing urea units and setting up of Greenfield/Brownfield projects. The policy notificaiton of 2008 resulted in fructification of a few Revamp projects with an increase in Urea production of about two million tonnes per annum. However due to lack of commitment on availability of domestic natural gas by the Government at a pre-determined price formula, no Expansion/Brownfield plants could fructify. Apart from difficulty in allocation of gas at pre-determined price, the Greenfield units were supposed to go through a bidding route for determination of Urea price from these units. It was felt that to encourage investment in Greenfield urea projects; they should be given a despensation similar to that of Brownfield/Expansion units and have to be brought under the ambit of the IPP regime. The companies interested in new investments in Urea sector had been regularly requesting the Government for either firm allocation of gas at predetermined fixed prices from domestic gas sources or to protect the industry from any additional liability arising due to increase in the delivered price of gas by correspondingly providing adequate protection at the floor prices. In view of the above reasons, a strong need was felt to revise existing policy addressing various concerns of potential investors in Urea sector and to attract new Investments in Urea sector. The DoF was considering formulation of New Investment Policy 2012 for which a draft CCEA Note had been prepared and circulated by the Department of Fertilizers on 26th June 2012 for inter-ministerial consultation and comments. The MoP&NG and the Department of of Agriculture had submitted their comments and the comments from other Ministries were awaited.

39. Audit findings revealed that even after conversion of Naptha units to gas, the cost of production and subsidy burden went up. On being asked to furnish the reasons for the same, the DoF in their written reply submitted as under:—

> "The Cost of production of urea is represented by Fixed Cost represented by depreciation, interest, employee cost, administrative overhead etc. and variable cost represented energy cost (natural gas, naphtha, FO/LSHS etc.), water, purchased power, bags etc.
>
> In the variable cost, about 97% is accounted for by energy cost. Further, energy cost is constituted by various gases and fuel in the following ratio:—

Sl. No.	Energy Resource	% of energy consumption	Name of the supplier
1	2	3	4
1.	APM Gases	32%	ONGC, GAIL, OIL

1	2	3	4
2.	RIL KG D-6 Gas	28%	RIL
3.	RLNG, Spot RLNG, Non-APM Gases, coal	28%	GAIL, IOCL, BPCL, CIL
4.	Naphtha/FO/LSHS	12%	IOCL, BPCL, HPCL
	Total	100%	

Billing of above input items (excluding coal) are linked to the Rupee-Dollar exchange rate. Falling rupee value has adversely affected the cost of above inputs and resultantly increased the energy cost of urea. This factor was beyond the control of the DoF.

Further, under NPS, Fixed cost element having been frozen at 2002-2003 level, the increase in the subsidy payment is solely attributable to variable cost of urea production".

40. The DoF further stated that increase in energy cost resulted in increase in subsidy burden of the GOI. The pricing of APM and KG D-6 gas which combinedly constitute 60% of energy cost has been determined by the Ministry of Petroleum and Natural Gas *i.e.* 32% of increased energy cost was attributable to GAIL/ONGC/OIL for APM supplies and 28% was attributable to RIL for KG D-6 gas. Naphtha, FO, HSD and LSHS having been supplied mostly by the national oil companies like IOCL, BPCL and HPCL, the increase in prices of these fuels/feedstocks were attributable to these companies and indirectly to the policy of the MoP&NG. As regards the remaining 28% of energy cost which was represented mostly by RLNG, non-APM gas, the supplies were made by GAIL or national oil companies like IOCL and BPCL and coal by Coal India Limited. The pricing of such energy resources were directly or indirectly governed by the policy of the MoP&NG for RLNG/spot gas and Ministry of Coal for coal.

41. The DoF was thus of the view that the increase in the subsidy to the domestic producers of urea was mostly attributable to the pricing of gas and other petroleum products by the PSUs under the administrative control of the Ministry of Petroleum and Natural Gas and partly attributable to RIL and Coal India Limited. The amount of urea-subsidy basically was the reimbursement of payments which the urea units have already made to the PSUs under the MoP&NG (GAIL, OIL, IOCL, BPCL etc. for gas, naphtha, F.O. etc), RIL (for gas) and Coal India Ltd. (for coal). The urea units were not even allowed the whole amount of exprenses incurred by them towards these energy resources. A lot of deductions were made from the urea units while computing the energy cost as per NPS of urea subsidy.

42. As regards reduction in subsidy burden, the DoF stated that the pricing policies of the NPS could contain the urea subsidy to the extent of fixed cost only. The energy cost being a matter beyond the control of the urea units as well as of the DoF, NPS for urea could not ensure reduction of subsidy for urea production. IIlustrating the matter, the DoF submitted that during the year 2010-11, there was an increase in energy cost of the domestic urea manufacturing unit by Rs 4010 crore as

compared with 2009-10. Out of this about Rs. 978 crore was attributable to GAIL (for APM), Rs. 421 crore to RIL (for KG D-6 Gas), Rs 1527 crore to Oil PSUs (for Naphtha, FO, LSHS, HSD) and Rs. 175 crore to Sales tax. The increase in energy cost in 2011-12 (provisional) as compared to 2009-10 was Rs. 9127 crore of which about Rs. 1600 crore was accounted for by GAIL (for APM), Rs. 967 crore by RIL (for KG D-6 Gas), Rs. 3684 crore by Oil PSUs (for Naphtha, FO, LSHS, HSD) and Rs. 421 crore to Sales tax. NPS-III has no control over these suppliers of energy resources, hence could not achieve the goal of reduction in subsidy burden caused by increase in energy cost.

43. The Committee asked the measures sought to be taken to ensure reduction in the subsidy burden for domestic urea. In reply, the DoF stated that if reduction in the subsidy burden in respect of domestic urea was intended to be ensured, the MoP&NG should impress upon the pricing policy of the gas and oil companies in both government and private sectors in respect of gas, F.O., Naphtha, LSHS. They should also ensure supply of rquired quantities of gas to the urea units so that high cost fuels/feeds could be replaced by gas and thus result in lower subsidy burden to the Government.

44. Elaborating the matter, the DoF further stated that the in crease in the cost of production of urea was due to the rampant increase in price of gas, Naphtha, F.O., HSD, LSHS etc. by GAIL, RIL and other national oil marketing companies (OIL, IOCL, BPCL, HPCL) and depreciation of rupee against US dollar. The pricing of the energy resources required for urea production by the companies under the MoP&NG had negated the hope for cost cutting. If the MoP&NG did not prevail upon these comapanies and stopped frequent and rampant increase in the price of energy resources, cost cutting in the production of urea might not be possible in the foreseable period of time.

45. The Committee then desired to know whether the DoF had taken up the matter with the MoP&NG and Ministry of Coal at any point of time and the response thereto. In reply, the DoF stated that the matter was under consideration of the Department of Fertilizers in consultation with the Ministry of Petroleum & Natural Gas.

46. The Committee were then informed that the Urea (N) was the only fertilizer, the requirement of which was largely (around 75 percent) met through indigenous production which could be increased by setting up expansion units within the existing campus of the urea units, setting up of Greenfield urea units, revival of closed urea units of Fertilizer Corporation of India Ltd. (FCIL) and Hindustan Fertilizer Corporation Ltd. (HFCL).

47. Asked to specify the measures taken to augment indigenous production of Urea (N), the DoF stated that pursuant to the decision taken by the Government on 12.4.2007, the feasibility of reviving the various closed units of FCIL and HFCL was examined by the Government, subject to the confirmed availability of gas. After due examination based on technical and economic feasibility, the Government decided on 30th October, 2008, to constitute an Empowered Committee of Secretaries under the Chairmanship of Secretary (Fertilizers) and Secretaries of the Department of Expenditure, Department of disinvestment, Planning Commission, Department of Public Enterprises and Ministry of Petroleum & Natural Gas as Members to look

into all possible financial models for revival of each of the closed units. The Empowred Committee was also required to look into various linkages including gas for facilitating revival of these units and submit its recommendations including the model for revival of each of the closed units to the Government.

48. The ECOS held a series of meetings and submitted its recommendations for revival of the closed units of FCIL and HFCL. Based on the recommendations of ECOS, a note for consideration of CCEA was forwarded to Cabinet Secretariat for placing it before the Cabinet Committee on Economic Affairs. The revival proposal envisaged the revival of three units of FCIL namely Talchar, Sindri, Ramagundam through nomination basis to the consortium of PSUs *i.e.* RCF, CIL, GAIL/NFL, SAIL and NFL,EIL respectively. The remaining five units Gorakhpur, Korba of FCIL and Haldia, Barauni, Durgapur of HFCL would be revived through bidding process. The CCEA approved the proposal in its meeting held on 4th August 2011 with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited and thereafter, the matter including changes, if any, required in bid parameters, be placed before the Committee for a final decision.

49. The DoF further stated that the BIFR had takan up the proposal on priority basis and held hearings on 18.8.2011, 15.11.2011, 10.1.2012, 1.3.2012 and 29.3.2012. The BIFR considered the Draft Rehabilitations Schemes (DRSs) of FCIL and HFCL and appointed State Bank of India as Operating Agency to examine the DRSs.

50. The Government also accorded in principle approval for considering the write off of Government of India loans and interest liabilities of FCIL and HFCL subject to submission of fully tied up proposals.

51. Drawing the attention of the Secretary, DoF to the President's Address in the year 2012 wherein it was stated that the Government had decided to revive 8 urea units of Fertilizer Corporation of India and Hindustan Fertilizer Corporation to create an extra installed capcity of 9 million tonnes of urea, the Committee desired to know the action taken in this regard. In reply, the Secretary, DoF submitted in evidence:—

> "The first question relates to the revival of 8 closed units of FCI and HFC. The Cabinet, last year, decided to revive these units and it was committed in Parliament also. As per the decision, 3 units would be revived on the nomination route, through the PSU route and other units would be done on a bidding basis. But before any specific action could be initiated for revival of all these 3 units, BIFR's final hearing has to be completed and its report has to come. We are awaiting that and we are trying to get it expedited. Otherwise, all preliminary action is being undertaken. That is the stage as far as these closed units are concerned."

52. The Committee then asked about the quantum of offtake of urea from joint ventures abroad and the progress made since 2008 in terms of Indian entrepreneurs going abrad and setting up factories there. In reply, the DoF stated that a number of Indian Companies were putting efforts to establish Joint Ventures (JVs) abroad in the fertilizer sector, the detials of which were as under:—

(i) M/s. IFFCO is trying to establish its presence in Canada and Australia. The society has also signed an agreement with JPMC for setting up of a Joint

Venture Project namely Jordan-IFFCO Company (JIFCO), for production of phosphoric acid and sulphuric acid. The project is likely to be completed by the year 2013. IFFCO has also taken stake in the rock mines in Anne Basin in Australia and has entered into a 'Principles of Off-take Agreement' with Legend International Holdings of Australia to undetake joint mining of rock phosphate along with an assured three million MT annual off-take. However, it would take few years to start production from the project. IFFCO has also entered into a joint venture with M/s Grow Max Agri. Crop, Canada for potesh exploitation in Peru.

(ii) M/s Nagarjuna Fertilizers and Chemicals Ltd. has entered into an agreement with the Government of Nigeria for setting up of a Gas based Ammonia - Urea fertilizer plant in Nigeria. The company is also trying to establish a joint venture fertilizer project in Yemen.

(iii) M/s Tata Chemicals Ltd. is in process of acquiring equity stake in a Urea Fertilizer Plant in Gabon.

(iv) **Syria:** The MOU has been signed between the GECOPHAM and the DoF in May, 2009 for carrying out a Consultancy Study for assessing feasibility of upgradation in infrastructure and mining sector for production of rock phosphate and setting up of facilities for production of phosphate fertilizers in Syria. In pursuance of this MOU, a consortium of Indian entities viz. M/s. MECON, RITES and PDIL have carried out the said consultancy studies and submitted the report to GECOPHAM. But due to political un-stability in Syria the matter is still pending.

(v) **Ghana:** An MoU was signed on 6th July, 2010 between the Government of the Republic of India and the Government of the Republic of Ghana for exploring the feasibility of setting up of Gas based Ammonia - Urea Fertilizer Project in Ghana. In pursuance of the MOU, the matter has progressed a lot. The Ghanian Government has approved formation of Ghana - India Joint Venture Fertilizer Company. The work of 'Site Related Studies' and 'Topographical Studies' has been awarded to the selected firm after completing due process.

(vi) **Indonesia:** MOU between India and Indonesia for setting up a Coal Gasification based Ammonia-Urea Joint Venture Fertilizer Plant in Indonesia and agreement for off-take of surplus urea produced in the plant, and the draft terms of agreement for off-take of surplus urea from Indonesia to India were signed between India and Indonesia on 25th January, 2011. Department of Fertilizers has nominated RCF to pursue with concerned entities/authorities of Indonesia in the matter. Matter regarding availability/supply of Coal for the project is under negotiation between M/s RCF and M/s MEK of Indonesia".

53. On a specific query as to whether the State Governments were consulted and taken into confidence while adopting and implementing the Investment Policy of 2008, the DoF replied in the negative.

54. The Committee then desired to know the status of the technology upgradation and other proposals of the Government to address the existing constraints being faced for the achievement of uniform energy norms across all units in a group within a set timeline for production of urea unde the NPS regime. In reply, the DoF stated that technology upgradation at par with international standards was one of the objectives of the proposed New Investment Policy of 2012 which was under consideration. The New Policy aimed to imporve the efficiency of urea plants in energy consumption *via* expansion, revival/Brown man field and setting up new Greenfield urea plants. It was further submitted that the Government was considering to notify the new urea pricing policy *viz.* New Pricing Scheme (NPS) for urea manufacturing units beyond Stage-III, besides the New Investment Policy 2012, to create conducive and incentive based environment for new investment in urea sector and to bring uniform energy norms by conversion of all the non-gas based units to gas based.

55. As per the DoF Guidelines all the 12 existing Naptha/FO/LSHS based plants were to be converted to gas based units. But Audit pointed out that as of May 2010, only 4 units has been converted to gas. In that context, the Committee queired about the reasons for not covering all the existing Naptha/FO/LSHS based plants to gas based units and measures taken to do the needful. In reply, the DoF stated that the units in Southern India *viz.* Madras Fertilizers Limited, Chennai; Mangalore Chemicals and Fertilizers Limited, Mangalore; Zurai Industries Limited, Goa and FACT, Cochin were waiting for gas pipeline connectivity.

56. The DoF also stated that Zurai Holdings Limited (ZHL) has already been in its manufacturing processes to Gas for both its Feed and its Fuel requirements from March, 2011. ZHL has signed the agreement with GAIL (India) Limited for purchase of LNG to be supplied from 1st January, 2012. The Department of Fertilizers had intimated to the Ministry of Petroleum and Natural Gas regarding location of plants for pipeline connectivity and MoP&NG was taking action in consultation with GAIL/RGTIL.

57. The Committee then desired to know the requirement of gas for fertilizer sector and measures taken to meet the additional requirement of 34 million tonne of urea by the end of the 12th Plan period. In reply, the DoF stated that the requirement of gas for existing gas based urea units was 46.5 MMSCMD. Approximate supply of natural gas in MMSCMD from various sources was as under:—

ONGS	Joint Venture (PMT & Ravaa)	Imported LNG	RIL (KG-D6)	Others +Spot	Total
14	2.3	9	15	2.2	42.5

58. The DoF further stated that the supplies varied due to variation in the supply of APM gas and condition of various plants on day to day basis. Gas from ONGC and Joint Venture was supplied through GAIL. Imported LNG was marketed by M/s GAIL, IOC, BPCL and gas from KG-D6 was marketed by RIL as per allocation.

59. As regards the estimation of the additional requirement of Natural Gas, the DoF apprised that the Fertilizers Association of India has estimated the additional requirement of natural gas and intimated that the production of urea from existing gas and non gas plants was likely to be 22 million tonnes. In order to ensure 34 million tonnes of urea production based entirely on gas by the end of 12th Plan period, the additional requirement of domestic gas (excluding the present requirement) was about 45.44 MMSCMD as per the break up given below:—

(*All figures in MMSCMD*)

1.	Present allocation/requirement of gas excluding imported LNG	37.50
2.	Additional Requirement	
	(i) Gas requirement to make up supply in existing plants	1.18
	(ii) Gas requirement for feed stock change in 9 plants from Fuel Oil to gas	11.26
T h	(iii) Gas requirement for replacement of expensive LNG with domestic gas	9.00
e T	(iv) Gas requirement for new capacity of 12 million tonnes of urea through Brown/Green fields plants	24.00
T3	Total additional requirement [2(i)+(ii)+(iii)+(iv)]	45.44
h4.	Total Gas Requirement at the end of 12th plant (1+3)	82.94

60. The Committee were also apprised that the Ministry of Petroleum and Natural Gas had intimated to the Department of Fertilizers that considering the fact that there was no likelihood of any substantial increase in domestic production of natural gas, the additional demand of natural gas would have to be met through imported LNG.

61. Audit findings revealved that while the MRP of Urea remained stagnant at ₹ 4830/- per MT, the average subsidy per MT more than doubled from ₹ 4305/- in 2003-04 to Rs. 8880 in 2007-08. The Urea MRP and the average subsidy per MT of urea from 2003-04 to 2009-10 were as under:—

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Urea MRP	4830	4830	4830	4830	4830	4830	4830
Avg. Subsidy per MT	4305	5196	5331	6543	8880	11651	8317

62. In the above context, the Committee desired to know the reasons for huge difference in the average subsidy on imported urea *vis-a-vis* indigenous urea. In reply, the Secretary, DoF explained in evidence as under:

> "......since 2002-08, the subsidy of urea per tonne has gone up because MRP has not changed and the cost of production has gone up. As I had

> pointed out in general terms when the Chairman made his Opening Remarks that on subsidy, we are aware that MRP of urea at present is ₹ 5,310 per tonne. Now, the average cost of production for gas-based urea is ₹ 12,000 to ₹ 14,000 per tonne. These are approximate figures. The cost of import varies from time to time depending on the international dollar price as well as the rupee-dollar parity. It varies between ₹ 20,000 to ₹ 26,000 per tonne. So, the cost of imported urea at any given point of time is approximately ₹ 25,000 per tonne and then the MRP is ₹ 5,310. So, the subsidy per tonne would be ₹ 20,000 per tonne. The cost of indigenous urea which is produced with indigenous gas would be about ₹ 7,000 to ₹ 8,000 per tonne. These are indicative figures and these would vary depending on the cost of inputs. That is why, as has been pointed out, it is necessary to see that indigenous production of urea be increased. However, for increading indigenous urea, I will just give one perspective that the cost of production of urea from indigenous APM gas is about 4.2 dollars per MMBTU. The imported gas cost anywhere from 14 to 20 dollars per MMBTU. To that extent the cost can vary even from indigenous production. Of course, we can start Naptha gas in production. We are trying to bring down or convert Naptha to gas. That is the thing. So, the cost of subsidy for imported urea is much higher than the subsidy for indigenous urea."

63. When the Committee pointed out that whether continued dependence on imports created a distortion in subsidy as well as in the fertiliser pricing policy, the Secretary, DoF submitted in evidence as under:—

> "Very valid point, Sir. But as I said, we have possibilities of becoming self-sufficient only in the urea sector. You are right that we have a shortfall of six to eight million tonnes of urea to be made up. As I said, the investment policy which we are processing would hopefully create..."

64. The Committee then asked about the difference between the international price of urea and the price of urea produced in the factories in the Country. In reply, the Secretary, DoF deposed:—

> "Sir, International price varies. But let met just make an off the cuff comparison. International price would be anywhere near ₹ 20,000/- per tonne. And any gas based production, gas based using indigenous gas, would be about ₹ 12,000 to ₹ 14,000 per tonne. But the gas is indigenous gas; if it is imported gas, it would be higher."

65. Asked to state categorically whether there was any scope for becoming more self-sufficient in urea, the Secretary, DoF submitted:—

> "...In 2008, there was an investment policy which was announced. After that there has been an increase of production of about 1.5 million tonnes of urea. Of course we have scope for becoming more self-sufficient in urea and for that the Department is looking at tweaking the investment policy..."

V. NUTRIENT BASED SUBSIDY POLICY (NBS)

66. The Committee were informed that the Government of India has introduced Nutrient Based Subsidy Policy (NBS) *w.e.f.* 1.4.2010 replacing the erstwhile concession scheme for decontrolled P&K fertilizers. Under the NBS Policy, the MRPs of the P&K fertilizers had been left open to be fixed by the manufacturers/importers and the amount of subsidy was fixed in terms of the nutrients of Nitrogen 'N', Phosphate "P", Potash 'KL' and Sulphur 'S' on annual basis. Accordingly, any increase/decrease in the price of P&K fertilizers and its raw materials in the international market had a direct bearing on the MRPs of P&K fertilizers.

67. In the above context, when the Committee desired to hear the views of the Secretary, DoF, he submitted in evidence as under:

> "Hon. Member raised an issue relating to nutrient based subsidy and the issue of improved choice. It is an indisputable fact that after the introduction of nutrient based subsidy, new fertilizers have come into the market. Earlier, we said we would give subsidy only for DAP, etc. now, we are saying we would give subsidy of so much for potash and phosphate, etc. So, any fertilizer which provides for nutrient is eligible for subsidy. So, more NPK fertilizers have come into the market and farmers have a larger choice. We have also under the NBS provided for subsidy for micro nutrient such as zinc, etc. It was not there earlier and which is necessary in the interest of improved and balanced fertilization."

68. The Committee then asked whether any assessment of the NBS policy in terms of bringing about a more balanced use of fertilizers at the ground level has been done. In reply, the representative of the Department of Agriculture and Cooperation stated as under:—

> ".......The Department of Agriculture has been emphasizing on balanced use of fertilisers. We have come up with customised fertiliser use where we have requested the fertiliser companies to come out with specific recommendations for districts and similarly for fortified fertilisers because micro nutrients has been one of the major causes of this. So we are introducing fortified fertilisers.

69. On further being asked whether the DAC followed a uniform formula for the entire agro climatic zone or recommended different sets of fertilizer combinations for different agro climatic zones, the representative of the DAC submitted that they had made different recommendations depending on different agro climatic conditions.

70. Audit findings revealved that payments on account of fertiliser subsidy increased more than eight fold from 2003-04 to 2008-09, before coming down a little in 2009-10. Decontrolled fertilizers were the primary factor on this account, with a tonne of decontrolled fertilizers was ₹ 2242.00 during 2003-04 which went upto

₹ 14895.00 during 2009-10 through the MRP per MT increased substantially during this period. The details are as under:—

Product	Subsidy (Rs. in Crore)						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Urea	8509	10737	11887	15924	23056*	31,048*	22184
Decontrolled Fertilizers (range)	3326	5142	6596	10298	16934*	65,555*	39452
Total	11835	15879	18483	26222	39990	96,603	61636

* Includes payment of subsidy through issue of fertilizer bonds. These bonds are issued to the fertilizer units for outstanding subsidy claims, typically with maturity periods of 15 years of more, thus, enabling GoI to defer cash payments correspondingly.

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
MRP per Mt			3400 to 9350*			3400 to 10350	3400 10350
Avg. subsidy Per MT (₹)	2242	3044	3691	5234	8735	27842	14895

* till 17.06.2008

71. The Committee sought to know the reasons for such steep rise in subsidy towards decontrolled fertilizers. In reply, the DoF stated that when there was increase in the cost of raw material and fluctuation in the Indian curency, the delivered cost of these fertilizers was also increased. Since the MRP of these fertilizers remained unchanged from February, 2002 to March, 2010, there was increase in the subsidy amount during this period due to continued increase in the delivered cost of the fertilizers. Increase in consumption of these fertilizers has also contributed to the increase of subsidy amount during these years. The DoF further stated that after introduction of NBS Policy w.e.f. 1.4.2010 there had been no rise in the subsidy amount on P&K fertilizers.

72. Asked to state the total subsidy outgo in the P&K sector after the introduction of the NBS policy, the DoF furnished the following information:—

Year	Total subsidy outgo (₹ in Crore) in P&K sector
2010-11	41500.00
2011-12	36107.94
2012-13 (BE)	28576.12

73. The Committee then asked about the rationale of subsidizing a decontrolled item. In reply, the DoF submitted that the P&K fertilizers were once decontrolled with effect from 25.8.1992. Due to decontrol of P&K fertilizers, the prices of P&K fertilizers became open and subsidy had been lifted putting these fertilizers under Open General Licence. This had resulted in increase in the MRP of fertilizers and the marginal and small farmers, who constitute major chunk of farming community in the country, could not afford to buy fertilizers. This adversely affected the consumption of these fertilizers, leading to imbalance in the usage of NPK nutrients in the soil as Urea remained under subsidy regime. Therefore, in order to protect the marginal and small farmers, the Government had to roll back the decision and to maintain nutrient balance of soil the Government of India [Department of Agriculture and Cooperation (DAC)] introduced the *ad hoc* Concession Scheme for decontrolled P&K fertilizers from *Rabi* 1992. The Concession Scheme for decontrolled P&K fertilziers was allowed to continue upto 31.3.2010 with changed parameters/amendments therein from time to time. With the implementation of NBS Policy *w.e.f.* 1.4.2010, MRP of P&K fertilizers again became decontrolled. The DoF further stated that the Government was providing subsidy (NBS) on these fertilizers so that it might reach the farmars at affordable prices. In the absence of subsidy, the prices of fertilizers would be at international prices which would be very high.

74. The Committee then desired to know whether there was any correlation between increasing consumption of fertilizers and increase in agricultural productivity after the NBS Policy was introduced. In reply, the DoF submitted that under the erstwhile concession scheme, it was observed in the last few years that the marginal response of agricultural productivity to additional fertilizer usage in the Country had fallen sharply, leading to near stagnation in agricultural productivity and consequently agricultural production. The disproportionate NPK application, rising multi-nutrient deficiency and lack of application of organic manures leading to reduction in carbon content of the soil, was attributed to the stagnating agricultural productivity. Accordingly, in order to increase the agricultural productivity in terms of usage of fertilizers, balanced fertilization and growth of indigenous fertilizers industry, competitiveness amongst the fertilizer companies and to overcome the deficiency of concession scheme, the Government introduced Nutrient Based Subsidy (NBS) Policy for P&K fertilizers *w.e.f.* 1.4.2010.

75. On the same issue the Secretary/DoF submitted in evidence:—

> "..........As far as co-relation between fertilizer usage and agricultural productivity, it is a complex question which I will partly answer during the discussions and as you yourself have raised about balanced fertilizers, by merely increasing the use of one fertilizer may not have that much impact on productivity compared to a balanced increase in fertilizers, which is our attempt and which is primarily the Department of Agriculture's attempt. As far as otherwise correlation is concerned, maybe hon. Chairman has answered that question are we reaching the point of diminishing returns? I wouldn't know. I would request my colleague to answer. You had raised in this connection a very valid issue

> on the programme to improve or increase agricultural production in terms of right to food and other programmes of the Government and the likely surge in fertilizer demand which is likely to happen in the medium term.

As I have pointed out that it is the remit of the Fertilizers Department to meet available fertilizers. So, to the maximum extent possible, by indigenous production, and if it is not possible, we shall import. There will be its repercussion on the import, but that cannot be avoided but we will make adequate arrangements for fertilizer availability in the coming years also as demand grows. There should be no problem on that."

76. When the Committee asked whether the statement of the Secretary DoF could be taken as an assurance, he submitted:

> "Certainly. How can I say that the Department of Fertilizers is doing its job when we are not making fertilizers available in the macro sense. As the same time the increased requirement of subsidy has to be provided in the budget. We get constrained by the budget at times."

77. Asked to state whether the issue of budgetary constraint would still be relevant in the Stage IV of NPS Scheme which would more towards a beneficiary oriented fertilizer distribution pattern, the Secretary, DoF submitted as under:—

> "That is not the issue, Sir. There is a direct correlation between total fertilizer usage and total amount of subsidy. So, the moment fertilizer usage goes up, fertilizer subsidy would go up we request and we need that additional budgetary allocation be made available for provision of subsidy. Otherwise, if it is not there, then, there could be a real problem with that proviso, I can certainly say that we will make all out efforts to see that fertilizer availability is ensured, whatever may be the demand."

78. Asked to state categorically whether any study had been conducted to gauge the effectiveness of the NBS Policy, the DoF stated that as the NBS policy had completed only two years of its working, no formal study had yet been conducted about the effectiveness of the policy. However, in view of the aforesaid reasons the DoF felt that the NBS policy, once stabilized would be able to meet its desired objective.

79. Audit pointed out that although the capacity for phosphatic fertilizers nearly doubled from 1998-99 to 2008-09, actual production increased by only 30 per cent. The production of DAP actually came down substantially. The increase in consumption of DAP/MAP/NPK complexes over this period was met primarily through imports at very high prices,which led to multi-fold increases in the subsidy burden.

80. In the above context, when the Committee desired to be apprised of the annual installed capacity and annual production of Di-Ammonium Phosphate (DAP)

along with percentage growth of annual production of DAP since 1998-99, the following information was furnished by the DoF:—

Installed Capacity and Production of DAP

(*Fig. in '000MT*)

Year	Installed capacity	Production	%age Growth over the previous year
1998-99	2870	3867.5	-
1999-2000	3419	3863.0	-0.13
2000-01	4046	4888.9	26.56
2001-02	6720	5094.6	4.19
2002-03	6982	5235.5	2.77
2003.04	7199	4733.5	-9.59
2004-05	7199	5185.1	9.53
2005-06	7299	4628.3	-10.73
2006-07	7299	4852.1	4.84
2007-08	7299	4211.6	-13.19
2008-09	7299	2993.0	-28.94
2009-10	6520	4246	41.86
2010-11	6520	3537	-16.69
2011-12	6520	3963	12.04

81. It may be observed from above that there appears to be increasing negative growth in the production of DAP, falling far short of the installed capacity especially in the years 2005-06, 2007-08 and 2008-09. It is also evident that though the installed capacity of the units were increased from 2870 in 1998-99 to 7299 (154 per cent) in 2008-09, the production did not increase much, In fact it decreased from 3867.5 M T in 1998-99 to 2993 MT in 2008-09 (-22 per cent).

82. Asked to furnish the reasons for law production of DAP, the Secretary, DoF explained the position in evidence as under:

> "...........Rock phosphate is the basic raw material. That is imported. The intermediate product which is phosphoric acide that is also imported. The finished product which is di-ammonium phosphate, it is also imported. So, the total requirements of phosphate which is about 90 per cent is import dependence. So, we may say that DAP is being produced indigenously but the raw material is being imported. In some form or the other, we are dependant for 90 per cent on the imports. The other major fertilizer that is potash, for that we have no resources. And for that, we are hundred per cent dependent. So, as a result, to sum up 75 per cent urea production is indigenous, 90 per cent of our phospatic requirements are dependent on import, and for potash, we are dependent 100 per cent. So, as a result, DAP or SSP which are the phospatic fertilizers are either intermediate-wise or raw material-wise of finished product-wise dependent on import. The potash which is MoP or which is used for the complex fertilizers *i.e.* NPK is completely dependent on import. So, sir, the increase in production which

> can and should happen is really in the realm of urea but because of all these reasons, we have had only a marginal increase in urea production and the DAP capacity etc. has gone up but still the import dependant continues. Sir, the other fact which we have to remember at all times is that fertilizers consumption is growing and if we see our average fertilizer consumption in the Country, it is about 150 kg. per hectare which is much lower than international norms in fact lower than some of our neighbour like Pakistan and Sri Lanka also. So, our fertilizer consumption is growing. We have limited indigenous resources either to increase production indigenously using imported feedstock or increase import but the main work of the Department of Fertilizer, if may say so, is to make fertilizer available. Sir, all the things flow from that and that we are making all efforts to see fertilizer is available preferably by indigenous production otherwise by import so that we have to ensure that fertilizer is available on demand by any farmer at any part of the Country. That is our endeavour at any time."

83. As regards the low installed capacity of DAP, the Secretary, DoF further submitted during oral evidence that:—

> "....As I had pointed out earlier, whatever DAP capacity is installed, depending on the nature of the factory, either rock phosphate or phosphoric acid or import from abroad is done. At any time, imports would be in three forms— rock phosphate, phosphoric acid or DAP in any particular year, depending on the relative prices of this. Let us say importing DAP worked out-cost of production-wise — to be less expensive than producing DAP, then it is done, because the basic raw material is not from India. This fluctuation happens, the capacity utilization has been fluctuating in DAP where we have raw material in urea, you will see that there is no increase but it is steady; this is the reaons."

84. On being asked to elaborate the specific steps taken/contemplated to make the Country self sufficient in DAP production so as to reduce the burden of imports, the DoF stated that more than 90% raw materials for production of DAP and other Phosphatic fertilizers were met through imports. The data regarding production, import and consumption of DAP during the last 6 years were stated to be as under:

(*Fig. in LMT*)

	DAP		
Year	Production	Import	Consumption
2006-07	48.52	28.76	69.24
2007-08	42.12	29.73	75.55
2008-09	29.93	66.31	99.04
2009-10	42.46	59.75	103.92
2010-11	35.37	74.09	112.46
2011-12	39.63	68.97	111.9

85. The DoF further stated that though the anual installed capacity of DAP was 73 LMT, the Country had not been utilizing 100% capacity utilization due to shortage/ higher prices of phosphatic raw material. India has very limited amount of rock phosphate that too of very poor quality which could only be utilized for production of SSP. This indigenous availability of 'P' was grossly in-sufficient to meet the requirement of SSP industry. That is why, India was importing DAP in order to meet domestic requirement.

86. Asked to state categorically the initiatives taken to make the Country self sufficient in DAP production, the DoF replied that the Department had been exploring possibility of augmenting/acquiring fertilizer resources from both indigenous and foreign sources. Accordingly, the Department was encouraging Indian public sector as well as the private sector fertilizer companies and mining companies to explore possibility of indigenous production of rock & potash and enter into long term joint venture cooperation in fertilizer resource rich countries for acquiring fertilizers and fertilizer inputs on long term basis. The State Governments of Rajasthan and Madhya Pradesh as well as the Ministry of Mines, Govt. of India had been requested by the Development of Fertilizers to take steps to augment production of indigenous rock phosphate and carry out exploration/surveys for locating fresh deposits of rock as well as deposits of potash. Further, the Department of Fertilizers was promoting the usage of SSP (0-16-011) which was used as substitute of DAP.

87. In view of the fact that the DoF needed to import 100 per cent of potash and 90 per cent of the DAP, the Committee asked whether there was any policy initiative that could be taken to alter the mix of fertilizer use in the country to increase the use of urea and lessen the dependence on other kinds of fertilizers. In reply, the Secretary, DoF submitted in evidence as under:

> ".........the first question was if we are deficient in potash and phosphates can we reduce the use of this and increase the use of urea for which we are having a reasonable amount of capcity. The answer is 'No'. It is because these are required by the biological process. In fact, the position is that we already have a situation where nitrogen is being overused compared to the ideal situation of balance usage. So, that is not a feasible situation."

88. The Committee then asked to know whether the non corelation between the fertilizer usage and agricultural productivity was due to decrease in the carbon content in the soil. In reply, the DoF stated that fertilizer usage had direct co-relation with foodgrain prodution. However, inadequate and imbalanced fertilizer use coupled with neglect of organic manures had led to multi-nutrient deficiencies and soil quality deterioration in many areas. The limiting nutrients did not allow the full expression of other nutrients, thereby, lowering the fertilizer responses and crop productivity, necessitating more inputs to obtain similar crop yields. Accordingly, if soil organic carbon became low, it would definitely affect the fertilizer response *vis-a-vis* crop productivity. The DoF further stated that the Government was recommending Integrated Nutrient Management encompassing conjunctive use of chemical fertilizers and organic manures to maintain soil organic carbon for higher fertilizer response *vis-a-vis* crop productivity. Customised fertilizers fortified with needed micronutrients

specific to a particular district's requirement were being introduced. Different recommendations for different agro-climatic conditions had also been prescribed.

89. Under the Food Security Bill, 2011 which was under consideration of Parliament, agricultural production would be required to increase by a quantum jump entailing corresponding quantum jump in the fertilizer requirements. In this regard, the Committee enquired whether the Department had done any planning for meeting the gap of huge requirement of fertilizers to boost agriculture production in terms of the requirement of the proposed food security legislation *vis-a-vis* the huge dependence on imports. In reply, the DoF stated that as the National Food Security Bill, 2011 was under consideration of Parliament and yet to be passed by the Parliament, the Department of Fertilizers would examine the above points when the National Food Security Bill, 2011 became and Act.

VI. NON-AVAILABILITY/SHORTAGE OF FERTILIZERS

90. Audit findings revealed that despite huge amounts of subsidy/concession on controlled and de-controlled fertilizers, there were numerous instances of non-availability/shortage of fertilizers. The State-wise summary of findings tabulated in the Audit Report revealed many areas of concern which *inter-alia* included delays in supply of adequate quantities of fertilizers leading to farmers agitations; inequitable distribution of fertilizers forcing farmers to rush to Mandal Headquarters for intervention, incurring additional expenditure on travel and transportation of fertilizers; absence of norms to regulate sale of fertilizers; absence of a rationing system for sale of fertilizers resulting in excess/short supply as against the targets; variation between the assessed requirement and actual supply; skewed distribution *i.e.* lesser supply in distant and disjointed districts having no rake points in comparison to requirement; and in sharp contrast, higher supply in districts having better accessibility; etc.

91. In the above context, the Committee desired to know the corrective/punitive action taken by the DoF to make adequate fertilizers available on time to the farmers in various States. In reply, the DoF stated that the following steps were being taken to make adequate availability of fertilizers in the Country:

(i) The movement of all major subsidized fertilizers is being 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 gap between requirement and indigenous availability of Urea is met through imports;

(iii) The State Governments were advised to instruct the State Institutional agencies to coordinate with manufacturers and importers of fertilizers for streamlining the supplies;

(iv) Department of Fertilizers and Department of Agriculture and Cooperation are jointly reviewing fertilizer availability with State Agriculture Department through Video Conferences every week. The corrective actions, if required, are taken immediately to avoid any hardships to farmers;

(v) Department of Fertilisers is having constant interaction with Ministry of Petroleum & Natural Gas, GAIL and other prospective suppliers of NG/LNG so that gas requirement of the fertilizers industry is met;

(vi) Government is always encouraging production of urea in the country to achieve self-sufficiency. The Government has announced a new policy on 4th September, 2008 to attract new investments. The policy is based on Import Parity Price (IPP) benchmark with suitable floor and ceiling prices aiming to revamp, expansion, revival of existing urea units and setting up of Greenfield projects. The country is largely dependent on imports to meet the requirements of Phosphatic and Potassic (P&K) fertilizers. Government has taken initiatives to encourage indigenous production in P&K sector by allowing import parity price to the indigenous manufacturers of DAP. Government has also reduced the custom duty on phosphoric acid from 5% to 2% to enable indigenous manufacturers of P&K fertilizers to acquire this important input at reasonable price. Government is also encouraging private sector and public sector companies to explore the possibilities for joint ventures abroad to ensure uninterrupted supply of fertilizer inputs to P&K sector; and

(vii) All possible steps are taken by the Department of Fertilizers to match the availability of fertilizers with the assessed requirement.

92. When the Committee desired to hear the views of the Secretary, DoF on the matter, he submitted in evidence:

> ".......while fertiliser availability overall in the macro sense may be fine, some pockets of scarcity still arise as has been pointed out in the Audit report with the photographs, etc. Sir, as far as availability is concerned, I am also saying that our focus is much higher during the agricultural season. We are very much geared up to see that in agricultural season times it is there. Other times, let us say non-agricultural period like February-March, there could be these type of things that there is excess stock in one place and less stock in other places. Even in agricultural period there could be problems. But our endeavour is like that. And as a result of the inputs from the reports, we are taking action on that and you see that this type of thing is minimised."

93. The Secretary, DoF further stated:—

> "....... I would like to assure the hon. Member that the fertiliser availability position at present is quite comfortable and there is no problem in this regard. We have tied up adequate fertilisers for the kharif season. In the past it has happened and we have learnt lessons from that."

94. On a specific query of shortage of fertilisers in West Bengal, the Secretary, DoF clarified as under:—

> "......The hon. Member had raised an issue about shortage of fertilizer specifically in West Bengal which has been brought in the CAG Report. There have been years specifically during the period of peak season

requirement, again one thing which needs to be seen sometimes is that there are movement constraints. That is why the CAG has raised an issue of buffer stock which we have taken note of. So there have been times where there have been local shortages of fertilizer specifically in urea during the peak demand season; sometimes due to constraints on account of Railway movement and similar issues. I can only say that in past it has happened sometimes. We want to take learning from the past and to see that this does not happen. I can only say that the fertilizer situation in the current kharif is quite comfortable and if there are problems it will be only localised logistic issue problems which we will continuously monitor to see that they are not there. We have already started this weekly video conference with the States and whenever there is a problem we try to sort it out. In the overall, there is no shortage of fertilizer."

95. Audit pointed out that with a view to maintain stocks of urea in case of a shortfall in production due to disruption is supplies of feedstock or delay/disruption in imports and to tide over the sudden spurt in demand/shortages in any part of the country, the DoF was required to operate buffer stock through the State Institutional Agencies/Fertilizer Companies in major agricultural States up to a limit of 5% of their seasonal requirement. Further, in case of DAP and MoP, the DoF was required to maintain the buffer stock through IPL. Audit findings revealed that in ten States there were deficiencies in maintenance of buffer stock. In the light of this Audit revelation, the Committee asked whether any steps had been taken to ensure that the prescribed limit of Buffer stock of fertilisers was maintained. The DoF, in their written reply submitted as follows:—

"Buffer stocks of fertilizers are created during lean season to ensure availability and adequate supply of fertilizers during the peak agronomic season. During, 2006-09, DoF was required to operate and maintain buffer stocks of 5% of the seasonal requirement through State Institutional Agencies/Fertilizer Companies in major agriculture States with meticulous planning, taking into consideration availability of fertilizers and price volatility in the International Market; tie up with the Global suppliers for supply of finished fertilizers at the most economic rates and logistic advantage; tie up with Global suppliers for smooth and regular supply of raw materials and intermediates for fertilizer plants; anticipated congestion at Indian ports for accommodating fertilizer shipments; apprehension of sudden increase in demand of fertilizers in the States etc.

The requirement of fertilizer is seasonal and its demand is based on good rainfall and frequent seasonal variations. Besides this, timely availability of the materials is the essence of agronomic requirement. Timely supply and movement of fertilizers to the fertilizer consuming areas depends upon the availability of Railway rakes, labour force at the various ports and plants as well as speedy evacuation in loading, unloading of the rakes at origin and destination, occasional effects of natural calamities in movement of fertilizers etc. Thus, the above factors affect the demand and supply of the fertilizers. It is pertinent to mention that whenever the supply of fertilizers is less than the demand, whatever fertilizer is made available, it goes for direct sale since during that period, there is always demand of fertilizers by the States. Moreover, whenever the companies are able to sell fertilizers to the wholesalers and retailers during off seasons, the question of maintaining buffer stocks does not arise as the supply meets the current demand."

VII. PAYMENT OF SUBSIDY CLAIMS

96. Audit pointed out that the requirement for certification in Proforma 'B' by the State Governments for sale of decontrolled fertilisers for agricultural purposes was the only major control over end-use of fertilisers and with the removal of such a linkage from June 2007, adequate incentive to ensure certification by the competent authorities (*viz.* the State Governments) of end-use of decontrolled fertilisers for agricultural purposes no longer existed. Audit further pointed out that the outstanding Proforma 'B' for the years 2003-04 to 2006-07 amounted to ₹ 111 crore only, while the outstanding amounts for the year 2007-08 to 2009-10 stood at ₹ 50587 crore.

97. In the above context, on being asked to explain the corrective action initiated to reconcile sales figures of the outstanding Proforma 'B', the DoF stated that State Governments were supposed to submit sales certification on Proforma 'B' in a time bound manner. The DoF further stated that Proforma 'B' for only ₹ 2447.08 crore were outstanding as on 14.12.2011, for the period from 2003 to 2010. Pendency of Proforma 'B' was taken up with the State Governments to ensure that the Proforma 'B' were given in time.

98. The DoF also stated that they had initiated an IT enabled project for tracking the information on receipts of fertilizers at the last point of sale to the farmer. The existing web-enabled Fertilizer Monitoring System (FMS) was being extended to track the receipt of fertilizers at the retail point. This would assure the DoF about the receipt of fertilizers at the retail point. With this, the DoF expected that the non-reconciliation of sales figures would be resolved since real time availability of fertilizers at the retain point would be available and any person/public authority would be able to see the date w.r.t. availability of fertilizers.

99. When the Committee desired to hear the views of the Secretary, DoF on the above aspect, he submitted in evidence:—

"You have also pointed out another point on reconciliation of subsidy. The figure which you have pointed out is what has been pointed out in the audit report; it is about the pendency of Proforma 'B' report. I would like to take the hon. Member through the process of reconciliation. We have a system of payment of subsidy; we make our payment based on FMS data. This is online and available for everyone to see. But as I pointed out initially, this gives the movement up to the district level. Below the district level, it does not. So, we have another instrument in our hand, which is Proforma 'B' which is given to us by the State Governments which is a certificate that fertilizer was sold to the farmers and it was of adequate quality, etc. during the time of audit report, about Rs. 50,000 crore work of Proforma 'B' was pending from various State

Governments. That is, the fertilizer has been sold and Rs. 50,000 crore worth of Proforma 'B' was not furnished by the State Governments. After the audit objection or comments were received, we have taken a drive. At this moment the pendency is of ₹1947 crore."

100. Audit suggested that notwithstanding possible inconvenience to fertilizer manufactures, the earlier system of retaining 10-15 per cent of the subsidy till receipt of certification in Proforma 'B' of agricultural sales of decontrolled fertilizers by the State Governments should be considered for re-introduction. Asked to respond to the aforesaid suggestion of the C&AG, the Secretary, DoF submitted in evidence as under:—

"CAG has raised this issue till the receipt of Proforma 'B'. There is a major practical issue in this as has been pointed out in the CAG's report at that time about ₹50,000 crore worth of Proforma 'B' was pending because of this a substantial amount of fertilizer company subsidy gets held up. There are two facets to this issue. One is if we are to insist on this, then, there has to be some sort of a time bound limitation, otherwise, we should be ready to provide for further cost of capital, that is, the interest charge beyond a reasonable point. I will submit that the issue of Proforma 'B' is becoming perhaps less relevant as times goes on because of two or three things. I would not say about FMS which was there even then but I am only saying that we are moving on the mobile MFMS which will take us or let us know on a daily basis the fertilizer receipt and sales at the retailer level in the first stage. And this will be available on the internet and which will be available for everyone concerned that a particular retailer has so much of stock of urea, DAP, as on this date and apart from verification issues, it will be a disincentive against black marketing and hoarding because it will be available and once this system stabilises within this financial year, we would be making subsidy payment based on the MFMS. So, that will largely obviate the need for that. But, however, we continue to have the Proforma 'B' system and my only submission and which we have submitted during the audit also that Proforma 'B' we would continue to have and this 15 per cent insistent on payment may not be insisted upon is our contention."

101. Audit scrutiny further revealed that in most of the States, verification of sales for agricultural purposes (which would provide assurance of proper end-use of subsidy) was non-existent or inadequate, as it did not involve physical verification of stocks or sales beyond the first point sales, and in many cases not even certifications of receipts, invoices, etc. The State-wise findings on non-certification of fertiliser sales/stocks as brought out by Audit revealed non-conduct of verification of sales and physical verification of stock; non-adherence to the stipulated procedure for verification of sales beyond the 1st stock point; mere signing of statement received from the manufacture with no verification of sales invoices, delivery challan, etc; no procedure for verification of sales beyond the first stocking point sale upto the end users; no periodical checking of stocks due to shortage of technical field staff; no system of physical verification of stocks at any level etc.

102. In the above context, the Committee desired to know the mechanism put in place to confirm that fertilizers were sold to the genuine farmers. In reply, the DoF stated that they covered the vertification of sales upto the first point through certification as per Proforma 'B' verified by the State Governments and beyond the first point sales, the State Governments conducted verification to ascertain that the fertilizers were sold to the genuine farmers.

103. Asked to state categorically the specific measures taken to ensure that the farmer received the intended benefit of subsidy and the mechanism evolved for verification of stocks/sales/receipts/invoices, etc., the DoF submitted that the statutory auditor of the fertilizer company verified various documents (e.g. Delivery Challan, Railway Receipts, State Transfer Notes and other books) maintained by the respective fertilizer company. The subsidy was paid to the Fertilizers Companies only after this verification and certification by their respective statutory auditor. Also Proforma B from the States was an assurance to DoF, since Proforma 'B' was issued by the States after due physical verification with respect to the quantity and quality of fertilizer received in the districts for agricultural purpose.

104. When asked to spell out the measures taken to reconcile unit-wise and district-wise despatch data with corresponding data on receipts at the first stocking point in the district, the DoF stated that in Fertilizer Monitoring System (FMS), for 'Dispatch upload' and 'Show Receipts', a generic format had been devised so that data across the Unit could be captured. Further, it was mandatory to have despatch entry in the FMS in order to show receipt otherwise against nil despatch, the system did not accept receipt data.

105. On being asked to elaborate the system developed in various States for verifications of sales and stocks of fertiliser beyond the District level, the DoF stated that the Department of Fertilizers (DoF), monitored the first point sale of fertilizer by the companies and the secondary sales and the consumption (the fertilizer going to the soil) etc. was monitored by the State Agriculture Department. As of now, there was not mechanism of verification of sale and stock beyond district level. However, the DoF was implementing the Mobile Fertilizers Monitoring Systems (MFMS) in order to capture the sale of the fertilizers to the farmer's level. The implementation of the project was reportedly in an advance stage and would be rolled out during the year 2012-13.

106. When asked as to whether any detailed assessment of the adequacy of the existing mechanism at the ground level especially in the face of a number of alleged diversion of subsidised fertilisers had ever been made, the DoF submitted that there were reported diversions of fertilizer meant for agriculture purpose for non-agriculture use. The Department of Fertilizers had been sensitizing the State Governments for taking steps to prevent the diversion of fertilizer for non-agriculture use. A letter at Secretary(F)'s level had gone to all the Chief Secretaries of the State Governments and Secretary (Agriculture) for taking all possible steps to prevent the misuse of subsidized fertilizer. The DoF had also written to State Governments to make assessment to the extent of alleged diversion of fertilizer and make a full proof effort to prevent misuse of subsidized fertilizer.

107. On a pointed query as to whether any punitive action was taken against the defaulters or any initiative taken to bring forth any special rules/regulation/orders to curb the menace, the DoF replied that the State Governments under Fertilizer Control Order (FCO), 1985 were adequately empowered to take punitive/preventive action for curbing the menace of diversion of fertilizer. The Department of Fertilizers had from time to time issued instructions to various State Governments for taking all necessary actions under their jurisdiction in order to curb the menace of diversion of subsidised fertilisers.

108. The Committee then desired to hear the views of the Secretary, DoF on the issue of diversion of subsidised fertilisers and measures taken to foster a clean and transparent subsidy administration. In response, he submitted in evidence:—

> "......We are ensuring by the present system that fertilizer is made available upto the District level. Beyond that, the moment the responsibility is of the State Governments Agricultural Department and its other machinery to see that the distribution goes smoothly, and improper diversion of fertilizer for non-farming, non-agricultural purposes is not there. For this of course we have this Proforma 'B' system which we are following ....we would like to also inform that Hon'ble Committee that we are in the process of further reforming this process and going on to a system of tracking fertilizer movement up to the dealer level and at a perspective plan .... we have a pilot plan to have this subsidy transfer linked to the dealer level movement and later on to the farmer level also."

109. The Secretary, DoF further submitted:—

> "Additionally, we are also sensitising the State Governments to see that fertiliser diversion, specifically urea diversion, because of the large differential between the MRP and the open market price, is minimised for non-agricultural purposes. We are continuously taking this up with the State Governments .... I cannot at any time claim that these things are zero but we do make all efforts to see that it is minimised."

110. On the issue of subsidy payment to the retailer level and the level of consultations/coordination with the State Governments, the Secretary, DoF deposed:—

> ".......hon. Member has raised an issue of this subsidy payment to the retailer level and what is the level of consultations that we have done. Before this is operationalised or while this is being operationalised we have involved the State Government at evey level. The State Government Directors, the State Government level machinery have been involved at every level. In fact, the State level trainings are on and we have taken inputs from the State level official machinery about the implementation of this. We cannot implement this without the full and total involvement of the State Government and there is no question of taking a unilateral decision in this regard. They are very much on board in this regard and anything further which we do. In this regard will be after taking into account the field conditions which we will come to know after consultations with the State Government machinery."

111. As regards the subsidy administration in a clean and transparent manner, the Secretary, DoF submitted:—

> "....as far as subsidy administration in a clean, and transparent manner, we have this portal of Fertilizer Management System, which is here online, www.fert.com which gives the fertilizer movement. A huge amount of subsidy which is being paid in a proper manner. There have been no major issues in the mode of payment or the subsidy has reached where it was meant to reach. So, our main thing is that ₹ 80,000 crore worth of taxpayers' money in that particular year is being utilized in a proper manner. We take proper care to see that it happens; we will take proper care to see that it is done in a proper way in the future also."

112. The Committee then sought details of the intended reforms of the present tracking system for accurate and timely monitoring so as to enable positive intervention whenever needed and also to specified the level of hierarchy and nature of responsibilities of officers monitoring the online tracking system. In reply, the DoF stated as under:—

> "In order to facilitate the vision of transferring the subsidy directly to the intended beneficiaries, the Union Government had set up a Task Force on direct subsidy in the case of Fertilizers, LPG & Kerosene in the month of February, 2011, under the Chairmanship of Shri Nandan Nilekani, Chairman, Unique Identity Authority of India (UIDAI). The interim report submitted by the task force in June, 2011, recommended a phased approach for direct disbursement of fertilizer subsidy to the intended beneficiaries.
>
> The Department of Fertilizers is following a phased approach to achieve direct transfer of fertilizer subsidy. The first phase of the project focuses on the information visibility of fertilizer availability at the last point of sale. The existing Fertilizer Monitoring System (FMS-www.urvarak.co.in) that tracks availability at the district level is being extended, through the mobile Fertilizer Monitoring System (m-FMS-www.mfms.nic.in) to the last point of the retailer to track the movement and availability. With this, all stakeholders across fertilizer supply chain shall report daily despatch, receipts and stock updates. This will increase transparency across the supply chain. The implementation of Phase 1 has already started and is expected to be completed in 2012. In the subsequent phases of the project, the mechanism to transfer subsidy directly to the intended beneficiaries (farmers) will be formulated and implementation of Phase 1 is stabilized."

113. On being specifically asked to respond to the reported farmers' protests for non-avilability of fertilisers in spite of the reported transparent online tracking system, the DoF replied that the Department of Fertilisers was monitoring the availability of fertilizer at State level and the distribution within the State was the responsibility of the respective State Government. In addition, DoF also conducted weekly Video Conference along with Department of Agriculture and Cooperation (DAC) with the officials of the State Governments and take corrective action in case of any shortages. In spite of sufficient availability at State level, there could be a pocket of shortages within the

Stage because of reasons such as logistic constraints, shortage in warehousing facility, non-availability of the rake points and other distribution problems. However, the DoF tried to ensure the fertilizer was supplied in case of any shortages.

114. As regards unauthorized outlets selling subsidized fertilizers, it was submitted by DoF that as per the extent State Government policy, once dealer had applied for licence, they were allowed to sell so as to minimize delays in disbursements and the approval came later. The DoF further stated that it would be brought to the notice of the State Government to minimise the number of unlicensed/unauthorised sales outlets.

115. Audit scrutiny also revealed several deficiencies in the licences and other arrangements for sale of fetilizers which *inter alia* included retail dealers carrying out fertilizer business without valid licence from the State Agriculture Department or without any certificate of registration from the appropriate authority which was against the provisions of FCO; non-maintenance of stock registers by the dealers; engagement in sale of fertilisers without any FCO Registration Certificate but on the basis of cooperative licence for pesticide sale; report of illegal cross border transportation of fertiliser to other States; reported instances of smuggling of fertilisers to neighbouring countries; no monitoring mechanism over the performances of dealers in border areas to prevent smuggling of fertilisers across the border, etc.

116. In the above context, the Committee enquired about the steps taken by the DoF to rectify the deficiencies in the licenses and other arrangements for sale of fertilisers as pointed out by Audit. In reply, the DoF stated as under:—

> "The State Governments are responsible to issue licenses to dealers carrying wholesale/retail business of fertilizers in their States. In response to the observation of Audit that some of the States, cooperative societies etc. are carrying business without a valid licence, the State Governments have stated that they are issuing licenses for carrying the business of fertilizers strictly as per the provisions of the FCO. It is pertinent to mention that Clause (4) of the FCO provides that "Where the application for renewal of certificate of registration is made within the time specified in sub-clause (1) to sub-clause (3), the applicant shall be deemed to have held a valid certificate of registration until such date as the controller passes orders on the application for renewal." it is clear from the provisions of FCO that once dealer applies for renewal of licence, he can continue to carry business. Some of the State Governments are issuing necessary instructions to the district licensing authorities to ensure timely renewal of the licenses."

117. On being asked as to whether there was any proposal to amend/revoke the provision in the FCO which permitted sale of fertilisers before the approval of the licence which was applied for, the DoF replied in the negative.

118. The Committee then desired to know the average time lag between the submission of application for the licence and actual grant of approval and whether there was any consideration to minimise this time lag. In reply, the DoF stated that prior to January 2003 it was mandatory under the Fertilizer Control Order for the dealer to possess the certificate of registration for carying out the business of selling of fertilizers.

Later, the Ministry *vide* notification S.O. No.49 (E) dated 16th January, 2003 dispensed with registration certificate of dealers and it was replaced wtih the simple system of memorandum of intimation and its acknowledgement. The DoF further stated that the acknowledgement of the Memorandum of Intimation was the deemed authorization letter. In clause 8 of FCO, every person intending to sell or offer for sale or carrying the business of selling of fertilizers shall make Memorandum of Intimation to the notified authority in from A1 and on receipt of such Memorandum of Intimation complete in all respects the notified authority shall issue an acknowledgement of receipt in Form A2 and it shall be deemed as authorization letter. The DoF reasoned that if the Memorandum of Intimation was complete in all respect, the notified authority was required to acknowledge the receipt of MOI immediately. The authorization letter issued by notified authority would be valid for a period of 3 years from the date of its issue.

119. The Committee then desired to know the procedure followed for approval of licence and in case of disapproval, steps taken to ensure that the dealers did not continue the sale of fertilisers. In reply, the DoF submitted that under the Fertilizer Control Order, 1985 the person desirous to obtain the authorization letter for carrying on the business of selling of fertilizers was required to submit the Memorandum of Intimation in form A1 to the notified authority alongwith a fee and the certificate of source in form O. Besides various terms and conditions prescribed in form A1, it was also required to confirm that the previous certificate of registration/authorization was not under suspension or cancellation or debarred from selling of fertilizers. Under clause 31 of FCO on cancelling or debarring a person from carrying on the business of selling of fertilizers, the dealer might be allowed for a period of 30 days to dispose of the balanced stock of fertilizers held by him and in case it was found that the stock of fertilizers lying with the dealer after the expiry of 30 days, the same shall be confiscated.

120. When the Committee asked the Secretary, DoF to comment on the alleged smuggling of fertilisers to the neighbouring countries, he deposed in evidence:—

> "......This fact has also come up because there is a big differential between open market and subsidized one. It goes wherever there is an alternate use or non-agriculture use of it ......It will not go to neighbouring States; it will go to neighbouring countries. It goes for industrial uses also ..... That is why, Sir, it is a continuing struggle. We have to take it up with the State Governments."

121. Asked to explain the specific measure taken/contemplated to curb the menace of fertilisers black-marketing the Secretary, DoF submitted:—

> "......As far as black-marketing is concerned. We depend on the State Government machinery completely. It is a fact that because of specially urea being heavily subsidized, the difference between the open market and this price is so much. There are industrial usage for urea. We take up with the State Governments. Specially, where there are industrial units, like Haryana, Gujarat and some other States, we keep on sensitizing the State Governments that 'this possibility is there; please take care'. This time also we have written to the State Governments. But that possibility is always there. We have to make constant efforts".

VIII. SUBSIDY ON IMPORTS

122. Audit scrutiny revealed irregularities in import of DAP by IPL during 2007-08; excess payment on import of urea by IPL during 2008-09 and 2009-10; erroneous fixing of rates of concession of imported DAP and MOP; absence of supply plan for urea imported by IPL, etc.

123. In the above context, the Committee sought to know the reasons for the discrepancy in quantity of DAP received in various States as claimed by IPL in 2008-09 and as indicated in FMS data and whether the DoF proposed to effect recovery of payment of concession for the unexplained shortfall. In reply, the DoF stated that the FMS records of receipt during the year 2008-09 included receipts from 1.4.2008 to 30.11.2008. However, a quantity of 1.63 LMT was the closing stock (unsold quantities) as on 31.3.2008. This closing stock got sold in the month of April, 2008 and May 2008. Till November 2008, the subsidy payment was on the basis of first point sale. Therefore, the subsidy payment till 30.11.2008 would not have tallied with the receipt in FMS. From 01.12.2008, the payment procedure was switched over to payment of "On Account Subsidy" on the basis of receipt of fertilizers in the districts. The leftover quantity of 0.01 LMT of the closing stock as on 30.11.2008 was taken as receipt in the month of December 2008 and the subsidy paid accordingly. The DoF thus reasoned that there had been no discrepancy in the quantity on which subsidy was claimed and actual receipt as the closing stock (unsold quantities) as on 31.3.2008 also needed to be included as part of the receipt of 2008-09.

124. The DoF further stated that the total quantity of DAP for which subsidy was paid in 2008-09 was 30.41 LMT and was paid as per the policy in vogue in the particular month. Since there was no discrepancy and subsidy was paid for correct quantity, so there is no case of recovery of subsidy.

125. Asked to State whether IPL had submitted the monthly sales amounts of imported DAP of 17.58 lakh MT during the period June 2007 to February 2008, the DoF stated that M/s. IPL had submitted the details of monthly sales account. On the basis of the quantity sold by them vessel-wise, a due drawn statement for calculation of the amount of interest was prepared. The amount of interest calculated was Rs. 128.56 crore and had already been recovered from M/s. IPL from their July 2011 'On Account' claim.

126. Asked to State categorically as to whether IPL sold the fertilisers out of stock imported on specific instructions or on its own, the DoF replied that in the FMS, all import consignments were entered by the companies. IPL imported DAP as per the DoF's instructions *vide* letter dt. 13.6.2007 and also imported some quantity of its own. All these quantities were sold by IPL and subsidy was paid accordingly on the quantity sold. The DoF further stated that the interest portion on the advance paid was recovered after IPL had given the details of the vessel-wise quantities that were imported on Government instruction and sold by them. The quantity imported by the IPL other than this quantity of its own was paid subsidy in the ‘On Account’ bills in each month as per the existing procedure.

127. The Committee then desired to be apprised of the steps taken to notify the prices of certain mixtures manufactured by the mixing units which were produced from the subsidised fertiliser *i.e.* urea, DAP, MOP and MAP (as per its nutrient value). In reply, the DoF, stated that under the Fertilizer Control Order (FCO), 1985 manufacture and sale of mixture fertilizers was permitted and governed by the stipulations contained under clauses 12 to 18 and 38(5) of the FCO as amended from time to time. The NPK mixture fertilizer were manufactured by mixing together the above said and straight fertilizers in various ratios approved by the State Government. The respective State Governments regulated the manufacturing technical specifications as well as pricing of mixture fertilizers.

IX. SUBSIDISED FERTILISERS CONSUMED BY MIXING UNITS

128. In the context of Audit revelation that the subsidized fertilizers were being consumed by the mixing units the preparation of mixed fertilizers thereby breaking the subsidy chain, the Committee asked whether the DoF was aware of the position and whether they had made any analysis of the quantum of subsidy being diverted in such manner. The Committee also desired to know whether any remedial measures had been taken by the DoF to regulate the sale of mixed fertilizers manufactured by the mixing units by using the subsidized fertilizers at State level so as to pass on the benefit of subsidized fertilizers to the farmers. In response, the DoF stated that the work relating to the administration of the concession scheme was transferred from Department of Agriculture and Cooperation to the Department of Fertlizers *w.e.f.* October 2000. Prior to the transfer of the work, the payment of subsidy was released to the manufacturers/ importers based on the first point sale to the approved dealers as well as the State Government agencies. The Department of Fertilizers issued guidelines dated 5.8.2002 effective from 1.8.2002, whereby the payment of subsidy was also released to the manufacturers/importers for those quantities of SSP, which were sold by them as first point sale to the NPK mixture manufacturers duly registered with the State Government under the Fertilizer Control Order (FCO). The production and sale of NPK mixtures was as such allowed under the FCO.

129. The DoF further stated that NBS guidelines No. 23011/11/2010-MPR dated 4.3.2010 also provided that the manufacturers to customized fertilizers and mixture fertilizers were eligible to source subsidized fertilizers from the manufacturers/importers (after their receipt in the districts) as imputs for manufacturing customized fertilizers and mixture fertilizers for agricultural purpose. There was no separate subsidy on sale of customized fertilizers and mixture fertilizers. It was expected that the MRPs of mixture fertilizers would be kept by the mixture manufacturers keeping in view that they were sourcing subsidized imports. Accordingly, the use of the subsidized fertilizers for manufacturing NPK mixture fertilizers was as such, allowed under the erstwhile concession scheme and the present Nutrient Based Subsidy Policy for decontrolled phosphatic and potassic fertilizers. The DoF also stated that some of the fertilizer companies, had their own NPK mixture plants also. Accordingly, they were also allowed to use subsidized fertilizers for manufacturing NPK mixtures.

130. On the issue of mixing units in the States being permitted to use subsidised fertilisers, the DoF submitted that the mixing units remained very much an unorganised

sector and there was need for better control and they would try to evolve some mechanism in consultation with the State Governments. The Committee were further informed that a tighter set of guidelines for quality checking of mixed fertilisers would be prescribed.

131. Asked categorically to State whether any mechanism had been put in place/ envisaged for ensuing better quality control of mixing units, the Secretary, DoF state in evidence as under:

> "For fertiliser in general when we are getting the Proforma B from the State Government, they are also certifying the quality. But about the mixtures specifically, there needs to be a further tightening of the situation as far as quality checking, etc. is concerned."

132. The Committee asked whether the quality checking of the mixed fertilizers should be done right at the exit point from the factory. In response the Secretary, DoF submitted:—

> "Sir these are very small scale units....These mixtures are granted registration by the State Governments and the functioning of quality checking is done by the State Government."

133. Not satisfied, when the Committee pointed out that only a few people from the Agriculture Department and ICAR could easily carry out the quality checking in the Central soil testing laboratories, the Secretary, DoF submitted:—

> "Sir, that point is taken. We will prescribe a higher set of Guidelines for mixtures."

134. Regarding the justification for allowing the mixing/mixture units to use subsidized fertilizers, the Secretary, DoF submitted:—

> "....Hon. Member had raised an issue about mixing units or mixture units. As my colleague from the Department of Agriculture had pointed out that these mixing units or the issue of customised fertilizer has been permitted by the Department of Agriculture. Mixture units have been permitted because of the specific requirements and the localised areas and while permitting them we had said that they can use subsidized inputs because there is no subsidy separately on the output which is marketed by them. That was the philosophy. Now, at one stage these units were lifting their requirements from various levels including wholesalers, manufacturers and so forth. We are now in the process of clarifying that their inputs that is the subsidized urea or whatever should be lifted from the manufacturers so that we will have a better control."

135. In view of the fact that the mixture units were an unorganised sector, the Committee asked whether the DoF should have a better feedback of these units to exercise greater control/oversight. In response, the Secretary, DoF candidly admitted:—

> "...We must have a greater oversight because the fact remains that the mixture units are very much an unorganised sector and we need to have a better control."

136. Asked to state the specific measures taken/contemplated to have a better control/oversight of the mixing units, the DoF stated that the respective State Governments were regulating/monitoring the manufacturers of mixture and customized fertilizers in terms of prices and quality of mixture fertilizers. The mixture and customized fertilizer plants were using subsidized Urea and P&K fertilizers as raw material to manufacture mixture/customized fertilizers.

137. The Committee then desired to know the role and responsibility of the Ministry in this regard. In reply, the DoF stated that in order to regulate/monitor/control of the usage of subsidized fertilizers by mixing units, the following decisions have been taken in consultation with the State Governments:—

(i) Mixture/customized fertilizer manufacturers shall be allowed to source the subsidized P&K fertilizers and Urea directly from the manufacturers/importers instead of from dealers/retailers, only after they are received in the districts. In no case the mixture/customized fertilizer manufacturers shall be allowed to source subsidized fertilizers from dealers/retailers.

(ii) The Department of Fertilizers will register all mixture/customized fertilizer manufacturers in web based Fertilizer Monitoring System (FMS) as it is one in case of dealers in a time-bound manner.

(iii) Mixture/customized fertilizer manufacturers will have to send the report of receipt of subsidized fertilizers through mobile FMS (mFMS). After receipt of information from mixture/customized fertilizer manufacturers, the balance payment of subsidy shall be released to the manufacturers/importers.

138. As in the absence of any control over the prices of these mixed fertilizers, it would not be clear whether these mixing units were leveraging the subsidy into a concession to the output price to the farmer, the Committee desired to know the impediments in giving subsidy directly to the final product. In reply the DoF stated that as the prices of P&K fertilizers were open and the manufacturers of Mixture/customized fertilizers were using subsidized fertilizers it was expected that the prices of these mixture/customized fertilizers would remain at reasonable level. Accordingly, the Department of Fertilizer did not regulate the prices of mixture/customized fertilizers fixed by the companies. However, the Department has recently decided to monitor the sourcing of subsidized fertilizers by the mixture/customized units making it compulsory for the mixture/customized units to source subsidized urea and P&K fertilizers from the manufacturers directly after receipt at District level and to upload data in the FMS web based monitoring system of the Department.

139. The Committee then enquired about the concrete measures taken/contemplated by the Department to curb/prevent the incidence of alleged selling of subsidized fertilizers by the unauthorized outlets. In response, the Secretary, DoF submitted in evidence:—

> "...Another point was raised in the report that unauthorized outlets are selling fertilizers. There is one point which needs to be kept in mind and that as, as per the Fertilizer Control Order, which is administered by the Department of

Agriculture, there is a provision that once you apply for retailing licence you are allowed to sell fertilizer and the approval may come later. So, in the interim period he may not be able to show that but this is to minimize the harassment or the issues relating to delays in processing. However, this point is taken note of and we shall try to see that these Unlicensed or unauthorized sales outlets are minimized. We will be writing to the State Government in this regard."

X. QUALITY CONTROL

140. Audit pointed out that the fertilizer quality testing infrastructure in the country was grossly inadequate. The annual capacity of the existing quality control laboratories was only 25 per cent of the required capacity for testing of samples from all sales outlets twice a year. Further, many of the laboratories were deficient in terms of both physical and human infrastructure. Consequently, there was a significant shortfall in the actual number of samples tested *vis-a-vis* both the target as well as the capacity of the laboratories.

141. In the above context, when the Committee desired to know whether the DAC had taken any steps to improve the facilities for testing of fertilizers and to augment the physical and human infrastructure so as to optimally utilize atleast existing testing facilities, the DoF stated as under:—

"State Governments are primarily responsible for establishment of Fertilizer Testing Laboratories as per their requirement and notify under clause 29 of Fertilizer (Control) Order. At present there are 74 Fertilizer Testing Laboratories in the country with annual analyzing capacity of 1.29 lakh samples. With a view to make optimal use of available analyzing capacity, the States have been asked to give specific attention to those fertilizers which are prone to adulteration. DAC has already requested all the State Governments to review the quality control of fertilizers in their States."

142. As regards steps taken to deal with the deficiencies in terms of both physical and human infrastructure in many of the laboratories, a representative of the DAC apprised the Committee in evidence as under:—

"You raised the point about the physical and human infrastructure. We are taking care of the physical infrastructure through the Central Government schemes. But about the human infrastructure, we are requesting the State Governments to create sufficient posts. In fact, sometimes, posts are there but they are not filled up. There is a soil testing lab analyst and the field level worker. There can be interchanging of the post. But I am told that the workers do not want to get posted in the soil testing labs. Our own Agriculture Minister has also taken up this issue with the Chief Ministers of the States requesting them to post sufficient staff; we will take care of the funding for training of the staff. We have been funding organization of training programmes for them."

143. The Committee were then informed that the Government of India was promoting soil test based balanced and judicious use of chemical fertilizers, bio-fertilizers

and locally available organic manures like Farm Yard Manure (FYM), compost, vermicompost and green manure to maintain soil health and its productivity and the matter had been taken up by the Union Agriculture Minister with Chief Ministers of all States. The Committee were also informed that the number of soil testing labs in the country had increased to 1,049 with annual analyzing capacity of 10.7 million samples as on 31.03.2011.

144. When the Committee desired to know the measures initiated to promote use of bio-fertilizers and organic manures, the representative of the Department of Agriculture and Cooperation (DAC) submitted in evidence as under:—

> "This is very important that we should go for organic fertilizers, manure compost, etc. The first step in that is we have the Essential Commodities Act. We have the Fertilizers Control Order. Under the Fertilizers Control Order, we have issued notifications where we have said the city compost, vermicompost, enriched organic manure be declared as under the Fertilizers Control Order. So, ultimately they may become eligible for some, sort of subsidy. In the 11th Plan, the Department of Agriculture and Cooperation has been running a national project on organic farming. One major subsidy scheme was backended subsidy scheme through the NABARD where we use to fund production of manure, apart from bio-fertilizers also. We have National Centre on Organic Farming in Ghaziabad with many centres. We have been training farmers. In the 12th Plan, we are bringing this Scheme. We are formulating this scheme in a more enhanced manner, in a big way. So, the Department of Agriculture is definitely trying to do something on this."

145. When the attention of the representative of Department of Agriculture and Cooperation (DAC) was drawn to the correlation between soil testing laboratory results and customized fertilizer use, he stated as under:—

> "At the stage, it has not been correlated, we have increased the soil testing laboratories. We are trying to issue Soil Health Cards to farmers now."

146. Asked to state the number of soil testing laboratories in the country and whether the same were adequate to test the quality of fertilizers, the representatives of the DoAC, stated as under:—

> "We have 1,049 Soil Testing Laboratories in our country and during the 11th Plan, we have added 118 labs more and we have 145 mobile soil testing laboratories also."

147. The Committee then pointed out that the number of soil testing laboratories were too small and there was no proper coordination mechanism for testing the quality of fertilizers as could be corroborated from the fact that by the time the quality testing report came, the harvest season was over. In response, the representative of the DAC submitted.

> "The Indian Institute of Soil Science is trying to achieve that in the next Plan."

148. On the issue of non-adherence to the time limit prescribed for analysis and communication of results of fertilizer quality testing, the Committee were informed that the provision in clause 30 of Fertilizer Control Order which stipulated the time for analysis and communication of results had been reduced to 52 days.

149. The Committee enquired about the compliance level of the provision in the Order. In reply, the DoF submitted that it was mandatory under the FCO to strictly comply with the time limit stipulated for analysis and communication of results.

150. The Committee then desired to know the specific deterrent action taken in cases of non-adherence to the time limit. In reply, the DoF stated that the official who violated the provision of clause 30 of FCO was liable for administrative action.

151. When asked to specify the administrative and punitive measures taken in case fertilizers were found to be sub-standard, the DoF stated that the violation of any of the provision of the Fertilizer Control Order would lead to both administrative and penal action. Under the Fertilizer Control Order there was a provision of stop sale, cancellation, suspension of authorization letter etc. It was further stated that the violation of the provision of FCO imposed penalty under Section 7 of the Essential Commodities Act, 1958 for a term of three months to seven years imprisonment. Apart from that, the DOF forfeited the subsidy amount of manufacturers on non-standard fertilizers.

152. As regards lodging of complaints by the farmers against sub-standard fertilizers, the DoF stated that the farmer might report the matter of sub-standard fertilizers to the District Agriculture Officer of the State.

153. In the light of reports of alleged spurious fertilizers being marketed, the Committee asked whether quality testing of fertilisers was actually being carried out, the locations of such quality testing centres and the authority that was monitoring these quality testing centres. In reply, the DoF stated that under clause 29 of the FCO, the fertilizer sample shall be analysed by the Central Fertilizer Quality Control and Training Institutes or its regional centres at Mumbai, Chennai or Kalyani or the notified State laboratories. The fertilizer testing laboratories were stated to be under the administrative control of the State Agriculture Department.

154. When asked to state whether any awareness campaign was being organised to promote mandatory quality testing of fertilisers amongst the farmers, the DoF submitted as under:

> "DOF issues certain advertisements directly and as well as through Fertilizer Association of India etc.
>
> Government of India has declared fertilizer as an essential commodity under the Essential Commodities Act, 1995 and has notified Fertilizer Control Order, 1985(FCO) under this Act. Under the FCO the responsibility of ensuring the quality of fertilizers supplied by manufacturers/import is the responsibility of the State Governments.
>
> For testing of quality of fertilizers various State Governments and India have set up 71 laboratories at various places including at Faridabad, Kalyani,

Mumbai and Chennai with an annual analyzing capacity of 1.34 lakh samples. As per the provision of the FCO, the fertilizers, which meet the quality standards laid down in the order, are to be sold to the farmers.

The quality of the fertilizers imported in the country is invariably checked by the fertilizer quality control laboratories in India. The State Governments are adequately empowered to draw samples of the fertilizers anywhere in the country and take appropriate action against the seller of Non-standard fertilizers.

The penal provisions under ECA, 1955 include prosecution of offenders and sentence if convicted up to seven years imprisonment besides cancellation of authorization certificate and other administrative action. The fertilizers declared non-standard by the State Government are not eligible for subsidy under NBS Policy."

155. In evidence, the Committee asked whether it would be better if the quality testing complaint by the farmers could be lodged through the District Agriculture Officer or through the District Magistrate. The Committee further asked whether the representatives of the people could be provided with the list of the location of the Quality Testing Centres in the respective States. In reply, the Secretary, DoF submitted:

"Sir, we take note of that and we will see that this will be made more publicly available."

156. In the light of increasing cost of production of urea which remained the main source of nitrogenous fertilizers, the Committee enquired whether indigenous alternate natural sources of nitrogen such as microbes and legumes present in the soil should be given serious consideration. In reply, the representative of the Department of Agriculture and Cooperation (DAC) submitted in evidence as under:—

"I have read some reports where they have said that microbes, legumes can fix even ninety per cent of the nitrogen requirement in some of the cases, not all."

157. The Committee desired to know the current status of research on this aspect and asked whether any effort had been made to correlate the research findings to the enhancement of the National Project on Organic farming. In reply, the DoF stated as under:

"ICAR and RCOF are taking up research and development of various bio-fertilizers and organic manure. The following developments have been placed during the past three years:—

(a) Potash mobilizing bio-fertilizers developed by NCOF is being used by bio-fertilisers industries on very large scale. For quality evaluation, the same has been proposed for inclusion in Fertilizer (Control) Order, 1985.

(b) Technology of zinc solubilising bio-fertilizers developed by ICAR has been transferred to NCOF and NCOF has already commercialized the same through bio-fertilizer industry. For quality evaluation, the same has been proposed for inclusion in Fertilizer (Control) Order, 1985.

(c) ICAR has developed technology for production of phosphate organic enriched manures nitro-Sulpho-phospho compost, phospho-potashic compost and enriched organic manure. NCOF has already commercialized these technologies and various industries are in the process to start their production. The technology and quality control parameters for phosphate enriched organic manures has been standardized by NCOF and proposed for inclusion in Fertilizer (Control) Order, 1985.

(d) Studies have been done at NCOF for quality standardization of other organic inputs such as liquid organic concentrates and plant derived protein hydrolysates (such as seaweed extract and soymeal extracts). These standards are under the process of consultation and will be submitted for inclusion in Fertilizer (Control) Order, 1985 in next 2-3 months time.

(e) Mycorrhizal bio-fertilizers and Castor deoiled cake have been included in Fertilizer (Control) Order, 1985 and are being promoted for use by farmers."

158. In the above context, the Committee asked whether any systematic publicity compaign had been launched for increasing awareness among the farmers for increasing use of bio fertilisers. In reply, the DoF stated that funds were being provided to the State Governments through various schemes of DAC like Macro Management of Agriculture (MMA), Rashtriya Krishi Vikash Yojana (RKVY) and National Project on Management of Soil Health and Fertility (NPMSF) for taking up all the activities for popularization of organic and biological nutrients. Publicity through newspapers, TV and Radio programmes was also being taken up by NCOF.

159. To a specific query as to whether the DOF had given any serious consideration of any roadmap for exports, it was stated that Indian soil was poor in organic carbon content and require organic manures to cope up with the grim problem of improving soil health and productivity and hence, at this stage roadmap for their exports was not supported.

160. Pointing out that Karnataka and Andhra Pradesh were reportedly doing very well in terms of increased productivity by maximum use of organic manure, the Committee asked whether any steps were being taken by the DoF/DAC to encourage other States to emulate Karnataka and Andhra Pradesh. In reply the DoF stated that all the States were being regularly advised to intensively work towards the promotion of organic manures.

161. The Committee desired to be apprised of the steps initiated for promotion of balanced use of fertilizers and to create awareness amongst the farmers in this regard. In response, the representative of the DAC elaborated during the evidence as follows:—

> "Sir, to promote the balanced use of fertilizers, the Department of Agriculture is doing three-four things. First is the NPK ratio, which ideally should be 4:2:1. And, because of subsidy on urea, it is heavily biased in favour of urea. We have soil testing labs. We are promoting a national project on soil health and fertility, under which we are sanctioning more number of soil health testing labs-static and mobile. We are strengthening the existing labs. We

> have done 145 new static labs and 118 new mobile labs. Today, we have strengthened about 300 to 400 such labs. Today, we have more than 1,000 soil testing labs with a capacity of one crore sample testing every year. The usage varies from 80 per cent to 90 per cent of capacity utilization. We have been requesting the State Governments to distribute soil health cards to farmers so that there is awareness among the farmers as to what type of nutrients are required in a particular field. We have been organising training of farmers and field demonstrations to the farmers under this programme. I have the data as to how much we have organised in the 11th Plan. We are continuing with this scheme in the 12th plan also.
>
> Apart from this, as I told earlier also, we have a national project on organic farming because that is also a very important component. One of the problems with our soil health is the organic health of the soil. That is being integrated. So, we are running a project on that. There are customised fertilisers and fortified fertilisers depending on the district-wise requirements. We are doing all these things."

162. The Committee then desired to know the current position of staff strength and asked whether any assessment had been made of the requirements of funds as well as staff in the Soil Testing Laboratories. In reply, the DoF stated that as the Soil Testing Laboratories (STLs) were maintained and operated by State Governments, the current position of staff strength in State Governments Soil Testing Laboratories (STLs) was not available with the DoF. The Department further stated that the State Governments were required to assess the requirements of funds as well as staff and they had been advised by the DoF to create and fill up posts in the STLs. However, Government of India under National Project on Management of Soil Health & Fertility (NPMSH&F), provide financial assistance to the tune of Rs. 20.00 lakh and Rs. 3.50 lakh on assistance for manpower under the component setting up of Static Soil Testing Laboratories and Mobile Soil Testing Laboratories respectively.

163. Asked to state whether any proposal had been made to outsource work of quality testing of soil to accredited private laboratories, the DoF submitted as under :—

> "There is a provision under National Project on Management of Soil Health and Fertility for setting up of Soil Testing Laboratories under PPP Mode through Agriclinics/Fertilizer Industry/NGOs/Cooperatives/Private entrepreneurs etc. So far 10 Soil Testing Laboratories under Fertilizer companies and 24 Soil Testing Laboratories through State Governments have been sanctioned under the project for implementation under PPP Mode."

164. In response to a query of the Committee as to whether the National Project on Management of Soil Health and Fertility addressed the issue of contaminated water used by the farmers, the DoF replied in the negative.

XI. MONITORING MECHANISM

165. On the issue of monitoring mechanism to verify whether the subsidy has benefitted the targeted beneficiaries as revealed in the Audit findings through the

survey of farmers, the Committee were informed that to address the extant challenges in the subsidy framework,it was proposed that a phased approach to reform the subsidy disbursement mechanism be adopted. Presently, simplistically put, the fertiliser subsidy was given by the Government to the Manufacturers/Importers directly. In the Interim proposed framework, the subsidy is planned to be provided to the retailers and ultimately to the intended beneficiaries (farmers). The detailed written reply furnished by DoF in this regard is reproduced below:—

(i) "At present, the MRP of fertlizer is fixed by manufacturers and importers for all de-controlled fertilizers except urea. The MRP and subsidy is printed on the bag, therefore, if there is any specific complaint against dealers action is initiated under FCO, 1985 and ECA, 1955 by State Government.

(ii) Due to logistic problem, sometimes there is delay in supply of fertilizers in the States Districts & leading to temporary shortage. However, it is the responsibility of State Government to take utmost care to avoid such situation.

(iii) The manufacturer/importers are presently supplying fertilizers in 50 k.g. bags, however it is the endeavour of the State Government to arrange small bags of fertilizer available with the dealer for the convenience of the farmers of the districts/block in the State.

(iv) Soil testing is done on the basis of crop wise area covered, soil fertility Status and crop requirement as recommended by ICAR. The scientific recommendation given by ICAR is adopted by the State Governments. However plot to plot soil testing is not possible in the absence of modernized technology in most of the States.

(v) The manufacturers and importers of subsidized fertilizers are repeatedly instructed in meetings at different form to stop the practice of tagging of non-subsidized products with subsidized fertilizers and instructions have been given by the State Government in this regard to all Suppliers of Fertilizers."

166. The Department further stated that the reform of the subsidy disbursement mechanism was proposed to be carried out in the following three phases:—

Phase I: Information Visibility till the Retailer

The objective of this Phase is to create information visibility of the movement of fertilizers along the supply chain from the manufacturer till the retailer. After Phase I is implemented, it is envisaged that upto date information will be available, in the public domain, about the availability of fertilizers at the retailer level (last point of sale to the farmer). This would, in itself enhance transparency of fertilizer flow across the supply chain and would facilitate better delivery of the fertilizers to the end user.

The technology solution will comprise of mapping the functionality/information flow right from manufacturing/production process (manufacture) till the last point sale (2.3 lakh retailers). The technology proposed will be web, mobile and Interactive Voice Response System (IVRS).

Phase II: Subsidy Payment to Retailer

In the interim stage, it is envisaged that the subsidy will be released to the retailer when he receives the fertilizer. This will involve transfer of subsidy directly to the retailer's bank account on receipt of fertilizer from the wholesaler. The advantage of this Interim stage was extensively discussed in the Task Force. It was recognized that the phase would have the advantage of the fertilizer moving at the full value across the supply chain upto the retailer.

Phase III: Subsidy Payment to Farmers

In the long run, once the coverage of Aadhaar is extensive throughout the Country, and Aadhaar enabled payments are operational, it is envisaged that the subsidy disbursement to the farmer can be done directly into the bank accounts of the intended beneficiary. However, this phase would also require that the eligibility of who is an intended beneficiary is clearly mandated by the Government. It is proposed to be done in two phases:

(i) Information flow on sales to individual farmers.

(ii) Transfar of subsidy to farmers (intended beneficiary).

167. When the Committee desired to hear the views of the Secretary, DoF on the monitoring mechanism evolved on the above issues, he submitted in evidence.

> "We are ensuring by the present system that fertilizer is made available up to the District level. Beyond that, at the moment the responsibility is of the State Government's Agricultural Departments and its other machinery to see that the distribution goes smoothly, and improper diversion of fertilizer for non-farming, non-agricultural purposes is not there. For this of course we have this proforma B system which we are following ....we would like to also inform the hon. Committee that we are in the process of further reforming this process and going onto a system of tracking fertiliser movement up to the dealer level and at a perspective plan.
>
> We have a pilot plan to have this subsidy transfer linked to the dealer level movement and later on to the farmer level sales. .... This system would become partially functional within this financial year. We are committed to that. This would mean that the fertilizer movement is more closely tracked and diversion is minimised."

168. The Committee desired to know the current level of preparedness of the States in terms of having an institutional mechanism for direct transfer of subsidy to beneficiaries as envisaged. In reply, the DoF stated that all the States were required to use a standardised FMS application developed to achieve information visibility in the movement of fertilizers till retailers in Phase I. All the dealers in the States were required to provide information about stock position, sales, and receipt of fertilizer till last retail point using the FMS application. The DoF further stated that all State Governemnts would be consulted before moving on to the phase of transfer of subsidy directly to the beneficiary.

169. Asked to state the timeframe for putting in place the proposed reform measures in the fertilizer subsidy disbursements, the DoF submitted as under.

"The current phase of the FMS project is in the process of stabilization post which Department of Fertilizers plans to move towards implementing direct transfer of fertilizer subsidy to the farmers in the following three sub-phases:

- State A— Part subsidy to manufacturers basis information of retail sales of fertilizer
- State B— Subsidy to retail customer basis fertilizer sales made to him/her
- State C- Subsidy to farmer* basis details of sales made of him/her

A detailed project report for the implementation of Stage A is being prepared parallel to the implementation of Phase I. In addition, national level consultations will take place to define the timeframe for implementing the proposed reform measures in the fertilizer subsidy disbursement process."

170. When asked to state whether any sort of quantum restrictions either by way of ceiling on amount of subsidy or amount of fertilizers was sought to be brought in the proposed new system, the DoF replied as under.—

"Presently, there are no quantum restrictions either by way of ceiling on amount of subsidy or amount of fertilizers in the proposed system. However, a reasoned out decision on the same may be taken by the all stakeholders as and when the national consultations take place."

171. In response to a pointed query regarding the basis for deciding the segments of beneficiaries for fertilizer subsidies in the proposed new regime, the DoF stated that the Department of Fertilizers was focusing on capturing the information visibility of fertilizer movement up to the retailer's level and transferring the fertilizer subsidy to the manufacturers. The Current Phase however, did not frame any criteria for deciding the segments of eligible beneficiaries for transfer of fertilizer subsidies. A decision will be taken on the same in the subsequent phases post national level consultations with the State Governments.

172. The Committee then desired to know the current status of the three phases which envisaged subsidy payment to the farmers directly in order to improve the delivery mechanism. In reply, the DoF stated as under.—

"Currenty, Phase I implementation is in progress and the following activities have been recently carried out or planned for the same:

(i) A User Acceptance Test (UAT) test group was formed in April 2012 constituting members from the fertilizer industry who tested the functionalities of the FMS mobile and web application at the ground level and approved the same on May, 25th 2012. The revised mobile and web application was thereby ready to use.

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*Criteria for identification of a farmer will be established in subsequent phases.

(ii) Notionwide refresher trainings were planned by the DoF for all the stakeholders post the User Acceptance Test (UAT). The Master Trainer's refresher workshops were conducted on 28th May 2012 and 6th to 8th June 2012 which are being followed by nationwide refresher trainings. The Training rollout is being closely monitored by Department of Fertilizers.

(iii) Subsequently, Phase I is planned to be rolled out across the Country where subsidy will be disbursed to the manufacturers on the basis of retailer acknowledgements in the FMS system."

173. When asked to elaborate whether infrastructural or technological bottlenecks were being taken care for the move towards enhancing a more transparent fertilizer flow across the supply chain and facilitating better delivery to the end users, the DoF stated that some of the infrastructural/technological bottlenecks faced during Phase I implementation were as follows:—

(i) Some of the dealers are not comfortable with using the mFMS mobile application. In order to overcome this challenge, a User Acceptance Test (UAT) was conducted to standarize and improvise the mFMS mobile and web application. Additionally, refresher trainings are being provided to all the dealers for a better understanding of the application modalities.

(ii) Specific states or remote areas face some connectivity issues such as lack of internet connection, inability to send SMS's which may make it difficult for users in these areas to access the application and report data. To address these challenges, the following three alternative means of reporting data through the mFMS application have been provided to the users;

(a) Through Web

(b) Through Mobile

(c) Through Interactive Voice Response System (IVRS)

(iii) Some of the dealers may face problem in mobile application deployment as their mobile phones may not support the mFMS application. Therefore, a list of mobile handsets has been provided on the mFMS transparency portal (*www.mfms.nic.in*) which support mFMS application.

174. The Committee were apprised that the Department of Fertilizers were addressing the challenges as listed above to ensure an enhanced transparent fertilizer flow across the supply chain and facilitate a better delivery to the end users.

PART II

OBSERVATIONS/RECOMMENDATIONS

The fertilizer subsidy regime in India has had a long and chequered history dating back to 1957. Currently, while urea is the only controlled fertilizer, which is subject to price distribution and movement control under the Fertilizer Control Order and Fertilizer Movement Control Order to the extent of 50 percent of production, other fertilizers like DAP, MAP, SSP, TSP, MOP and NPK complexes are decontrolled fertilizers, whose use for agricultural purposes is subsidized. In actual practice, however, fertilizer, whether controlled or decontrolled which are subsidized for agricultural consumption are, in effect, subject to explicit/implicit control by the Government of India (GOI) to ensure a uniform sale price throughout the country, which is substantially lower than the cost of production/import and also to ensure proper targeting of fertilizer subsidy. The Committee's examination of the subject in light of the Audit observations has revealed that despite huge amount of expenditure incurred by GOI on fertilizer subsidy, annual production of fertilizers increased only marginally. Even the changes in the subsidy regime from the Retention Price Scheme (RPS) to the New Pricing Scheme (NPS) have failed to incentivize increase in domestic production of fertilizer, leaving the Country dependent on imports, whose pricing is volatile. The subsidy on imported fertilizers during the years 1998-99 to 2008-09 increased from 3 per cent to 47 percent of the total subsidy. The quantum of expenditure on fertilizer subsidy touched Rs. 96,603 crore in 2008-09 before coming down to Rs. 61,636 crore in 2009-10. While the assessed requirement of fertilizers went up by more than 70 percent during the eleven years period from 1998-99 to 2008-09, the total production went up by just 11 per cent leading to increase in the imports by nearly 236 per cent. The Committee also find lack of assessment of fertilizer requirement on a scientific basis and relatively weak correlation between fertilizer consumption, which increased by 46 per cent from 2003-04 to 2008-09, and agricultural production, the major components of which increased by just 16 per cent over the same period. The Committee further observe numerous instances of non-availability/shortage as well as diversion of fertilizers for non-agricultural purposes despite huge amounts of subsidy disbursed. In short, the Committee's examination of the subject has revealed certain very disquieting aspects which inter alia include deficient assessment of fertilizer requirement; huge gap between the demand and supply of fertilizers; lack of scientific and realistic assessment of the fertilizer requirement; failure to incentivize increase in the domestic production of fertilizer even after effecting changes in the subsidy regime; virtual stagnation in the production of Urea during the last five years; numerous instances of non-availability/shortage of fertilizers; absence of physical verification of stocks and sale of fertilizers beyond the first stock point; selling of subsidized fertilizers by unauthorized outlets; irregularities in and excess payment on import of urea; diversion of subsidized fertilizers to the mixing units; inadequacy in the fertilizer quality testing infrastructure; deficient monitoring mechanism etc.

The Committee have accordingly given their observations/recommendations in the succeeding paragraphs.

2. The Committee note with serious concern the non-cooperation and stubborn definance on the part of the Department of Fertilisers in not providing the requisite records nor responding to the letters sent by Audit seeking comments on the draft Audit Report as well as in the Exit Conference which resulted in unwarranted delay in the finalization of the Audit Report. It is really disturbing that the Principal Director, Audit's letter addressed to the Secretary, DoF reminding him to indicate a convenient date for the Exit Conference also went unheeded. Notably, the concept of Entry and Exit conferences with audited entities is intended to fine tune audit methodology so that the Audit Report thus prepared is objective, transparent and balanced and it is indeed helpful to the PAC in exercising parliamentary financial Oversight function. The Committee deplore the callous attitude of the Department intended to thwart proper scrutiny by the PAC. However, in view of the unconditional apologies tendered by the representative of the Department during evidence for the lapses and his assurance that such things would not recur, the Committee fervently hope that the Department would extend full cooperation to Audit in discharge of its Constitutional mandate.

3. The Committee deprecate that the assessment of fertilizer requirement was not done in a scientific manner, but in a pedestrian manner by enhancing the requirement generally by 5 to 10 per cent over the previous season's/year's consumption. The last five years data furnished to the Committee reveal that while the actual consumption figures of major fertilizers are considerably less than the requirements projected, the availability has been more than the assessed requirement in almost all the cases. Admittedly, the assessments are currently based on figures of actual fertilizer consumption pattern during the last three years and attempts are now reportedly being made to revise the proforma used for collection of requisite data from the field pertaining to soil health reports, cropping pattern, level of irrigation of the area, etc. to ensure a more scientific, realistic and assessment of fertilizers. The issue of assessment fertilizer demand of each State by augmentation of the collection of a more relevant, accurate and informed statistical data bearing semblance to the ground realities in collaboration with the Ministry of Statistics is also reportedly under the examination of the Department of Fertilisers. Subsequent to the Audit observation, the Department of Agriculture (DAC) has also started recording minutes of deliberations of zonal conferences *w.e.f.* Rabi 2011-12. The Committee desire that since the zonal meetings deliberate crucial issues like intensive study of the cropping and consumption pattern, cropped and irrigated area, per hectare consumption of fertilizers, requirement nutrient in soil in different parts of the States etc., it is all the more important that detailed minutes of such meetings are meticulously maintained so as to keep track of things and take corrective measures, wherever warranted. Moreover, the criticality of the need for appropriate and accurate demand assessment for each type of fertilizer for all districts of the Country as input for a diligent planning at the commencement of the year and the respective seasons to make available the requirement quantity of fertilizer at the right time, deserves due attention. Needless to say, the consequential arrangements for required storage, transport, staffing, credit, financial and foreign exchange are vastly dependent on

such assessed demands, the lack of which may lead to severe financial implications and affect the agronomic productivity and related fallouts. The Committee, therefore, urge that the overall assessment process be comprehensively reviewed for moving towards a more scientific approach based on realistic and accurate statistical data obtained from the fields and also taking resort to more cost effective futuristic technology applications like remote sensing and satellite imagery for plot assessment so that fertilizer requirement movement and distribution are done in a prudent and effective manner.

4. The Committee observe that the New Pricing Scheme (NPS) for Urea units which was notified on 30th January, 2003 and came into existence w.e.f. 1st April, 2003 was being implemented in three stages. Stage-I was of one year duration from Ist April 2003 to 31st March 2004; Stage-II was of two years duration from 1st April, 2006 to 30th September, 2006; and stage-III, the modalities of which would be decided by the Department after review of the implementation of the first two stages. The NPS aimed at greater transparency, uniformity and efficiency in subsidy disbursements to Urea units and inducing the Urea manufacturing units to take cost reduction measures and be competitive. But the Committee find that the change in Urea subsidy policy regime from individual unit based pricing i.e. Retention Pricing Scheme (RPS) to group based pricing i.e. New Pricing Scheme (NPS) did not result in any significant increase in either capacity or production of urea. Rather, the production of urea during the 11 years period from 1998-99 to 2008-09 registered a negligible increase of 3.5 per cent, with a marginal decrease of three per cent during the RPS period from 1998-99 to 2002-03 and an increase of just seven per cent thereafter till 2008-09 during the NPS regime. Moreover, the groupwise weighted average cost of production of urea also increased substantially by 83 per cent to 120 per cent during the NPS period. While the Country's requirement of potassic fertilizers were met fully through imports, the actual production of DAP and NPK complexes increased by only 30 per cent although the capacity for production of phosphatic fertilizers nearly doubled from 1998-99 to 2008-09. The increase in cost of production of urea has been attributed by the Department to increase in cost of energy input which was beyond the control of the NPS implementing authorities. The DoF have further submitted that though there was no direct benefit to the Government from the subsidy point of view, there was an energy efficiency gain which was purportedly a national gain and to that extent the NPS has incentivised efficient working of the existing plants. The Committee also find that after the announcement of New Investment Policy in 2008, there has been an increase of production of about 1.5 million to two million tones of Urea. Taking into consideration admission of the representative of DoF that there is a lot of scope in becoming more self-sufficient in Urea, the Committee urge the Ministry to step up the initiatives in the right earnest so as to address the concerns of the potential investors and also to create a conducive incentive based environment for attracting new investments in the Urea sector by suitably tweaking the investment policy.

5. The Committee are deeply concerned to find the high increase in the energy cost of the domestic urea manufacturing unit amounting to Rs. 4010 crore during 2010-11 and Rs 9127 crore during 2011-12. According to the Department, the

pricing of APM and KG D-6 gas combinedly constitute 60 per cent of the increased energy cost *i.e.* 32 per cent attributable to GAIL/ONGC/OIL for APM supplies and 28 per cent attributable to RIL for KG D-6 gas. As the pricing of such energy resources are directly or indirectly governed by the policies adopted by the Ministry of Petroleum & Natural Gas for gas and the Ministry of Coal for coal, the Urea units or the Department of Fertilisers have no control over it. In this context, the Committee find that the campanies interested in new investments in Urea sector have been regularly requesting the Government for either firm allocation of gas at pre-determined fixed prices from domestic gas sources or to protect the industry from any additional liability arising due to increase in the delivered price of gas by correspondingly providing adequate protection of the floor prices. But due to lack of commitment by the Government on availability of domestic natural gas at a pre-determined price formula, the objectives to revamp, expand and revive the existing Urea units besides setting up of Brownfield/Greenfield projects, as enunciated in the New Investment Policy, 2008 have not been fructified. The DoF have therefore felt a strong need to revise the existing policy addressing various concerns of the potential investors and to attract new investment in the Urea sector. Accordingly, a draft CCEA note has been prepared and circulated by the DoF on 26th June, 2012 seeking inter-ministerial consultation and comments on the formulation of the New Investment Policy, 2012. While the Ministry of Petroleum and Natural Gas and the Department of Agriculture submitted their comments, the views of the other Ministries were still awaited. In view of the imperatives involved and increase in the subsidy burden on the Government of India due to increase in the energy cost, the Committee impress upon the DoF and the DAC to take up the matter with utmost urgency at the appropriate fora to find workable and sustainable solutions to the extent policies governing allocation of gas and coal so that new investments are attracted, the existing Urea units are revamped, expanded and revived and the Brownfield/Greenfield Projects are set up, as envisaged. The Committee further desire that the Ministry should strengthen and intensify the R&D activities towards exploring possibility of alternative cheaper feedstock options and adapting successful time tested options being practiced in other Countries to boost indigenous urea production.

6. Accordingly to the Department, Urea (N) is the only fertilizer, the requirement of which is largely (around 75 per cent) met through indigenous production which can *inter alia* be enhanced by the revival of the closed Urea units of the Fertiliser Corporation of India Ltd. (FCIL) and Hindustan Fertiliser Corporation Ltd. (HFCL). But, the Committee are perturbed to find that the process of revival of various closed units of FCIL and HFCL initiated by the Government in the year 2007 is still under examination of the Board for Industrial and Financial Restructuring (BIFR) even after the recommendations made by the Empowered Committee of Secretaries (ECOS) to revive the closed units. Surprisingly, the State Governments were neither consulted nor taken into confidence in the implementation process while adopting the New Investment Policy, 2008 under which the revamp/revival process was to be effected. Disappointingly, even the various initiatives for joint ventures abroad in various countries like Canada, Australia, Yemen, Ghana, Syria and Indonesia under this New Policy are mostly at the negotiation stage and still to go a long way for fructification. The Committee are also distressed to find that the additional demand of natural gas

has to be met through imports for meeting the estimated requirement of 34 million tonnes of urea production based entirely on gas by the end of 12th Plan period *vis-a-vis* the expected production of urea from existing gas and non-gas plants working out to only 22 million tonnes. With the cost of subsidy for imported urea obviously much higher than that for indigenous urea, the Committee feel that the continued dependence on imports creates a distortion in subsidy as well as in the fertilizer pricing policy. In view of the fact that the Government have accorded in principle approval for considering the write off of Government of India loans and interest liabilities of FCIL and HFCL subject to submission of fully tied up proposals, the Committee exhort the DoF to take requisite urgent measures for the revival of the closed fertilizer units of FCIL and HFCL so that indigenous production of Urea is enhanced to a large extent. The Committee further desire that the New Investment Policy, 2012 which is in the offing and would facilitate strategic investments by Indian entities in resource rich countries abroad having comparatively cheaper feedstock/energy options, be expedited for implementation so that the joint ventures abroad already negotiated/initiated are fructified to enable the country to gain significant foothold in the international fertiliser sector.

7. The Committee note with profound concern that payments on account of fertilizer subsidy increase more than eight fold from ₹ 11835 crore in 2003-04 to ₹ 96,603 crore in 2008-09 before coming down ₹ 61,636 crore in 2009-10. The Committee also note that decontrolled fertilizers were the primary factor on high subsidy payments with an increase of almost 20 times from ₹ 3,326 crore in 2003-04 to ₹ 65,555 crore in 2008-09. According to the Department, the increase in subsidy amount was due to the cost of import of raw material for production of P&K fertilizers, fluctuation in the Indian Currency and the increased consumption leading to continued increase in the delivered cost of the fertilizers as the MRP remained unchanged from February, 2002 to March, 2010. The Committee are also concerned to note that although the capacity for phosphatic fertilizers doubled from 1998-99 to 2008-09, actual production increased by only 30 per cent. As the increase in consumptions of DAP/MAP/NPK complexes over this period was met primarily through imports at very high prices, there were multi-fold increases in the subsidy burden. The Committee find that while the installed capacity of DAP units increased from 28,70,000 MT in 1998-99 to 72,99,000 MT (amounting to 154 per cent) in 2008-09, the production registered a negative growth of 22 per cent as it decreased from 38,67,000 MT to 29,93,000 MT during the same period. Intriguingly, though the production of DAP increased considerable during the subsequent years touching more than 84 per cent capacity utilization in the years 2009-10 and 2010-11 and 80.8 per cent in 2011-12, the dependence on imports for finished phosphatic fertilisers or phosphatic raw materials/intermediaries for indigeneous production of phosphatic fertilisers stands at 90 per cent as the Country's endowments of rock phosphate are minimal and of poor quality. Worse, the dependence on imports for potassic fertilizers for agricultural usage is 100 per cent. The Department of Fertilisers are reportedly encouraging exploration/surveys for locating fresh deposits of rock phosphate and potash. The Committee, however, desire that in addition to the steps initiated for further exploration of raw material for P&K fertilizers, the Department should also initiate adequate steps to secure long term supplies of not only finished fertilizers

but also for new raw materials through strategic investments and tie ups with fertilizer resource rich countries especially for those sectors which are substantially import dependent.

8. With the introduction of the Nutrient Based Subsidy Policy *w.e.f.* 01.04.2010, no further rise in the subsidy amount on P&K fertilizers has been observed and in fact, the total subsidy outgo in P&K sector saw a decline *i.e.* ₹ 36,107 crore for the year 2011-12 and ₹ 28,576.12 crore for the years 2012-13 (BE). On the rationale of subsidizing a decontrolled item, the Committee are informed that the decontrol of P&K fertilizers *w.e.f.* 25.08.1992 adversely affected the consumption of these fertilizers as subsidy was lifted affecting the small and marginal farmers and ultimately led to imbalance in the usage of NPK nutrients. The Committee find that while fertilizer consumption increased by 46 per cent from 2003-04 to 2008-09, the major components of agricultural production (foodgrains oilseeds and sugarcane) increased by just 16 per cent over the same period,indicating a relatively weak correlation. Mindful of the fact that imbalanced use of chemical fertilizers and neglect of organic manure results in low yields causing stagnation in agricultural productivity; low fertilizer use efficiency with consequent low farmer profit and further depletion of the most deficient nutrients in the soil, the Committee impress upon the Department to accord due importance to the Integrated Nutrient Management as contemplated, encompassing conjunctive use of Chemical fertilizers and organic manures so as to maintain soil organic carbon for higher fertilizer response *vis-a-vis* crop productivity. Further, as increasing fertilizer use efficiency undoubtedly has a high potential of saving a huge quantity of fertilizers without affecting the crop yield, it is of utmost importance that equal emphasis is also paid to the adoption of better agronomic practices and use of better quality fertilizers including organic and bio-fertilizers for sustainable agriculture. The Committee, therefore, desire the Department to address the balanced fertilization need of the nation as a dynamic concept with appropriate linkages and necessary inputs so that the intended goals of NBS policy are achieved within a targeted time frame.

9. In the above context, the Committee find that the Government of India are promoting soil test based balanced and judicious use of chemical fertilizers, bio fertilizers and locally available organic manures, like Farm Yard Manure (FYM), compost, vermicompost and green manure to maintain soil health and its productivity. The Committee also find that funds are being provided to the State Governments through various schemes of the DAC like Macro Management of Agriculture (MMA), Rashtriya Krish Vikas Yojana (RKVY) and National Project on Management of Soil Health and Fertility (NPMSF) for taking up all the activities for popularization of organic and biological nutrients. Publicity through newspaper, TV and Radio programmes is also being taken up. Further, the Union Agriculture Minister has taken up the matter with the Chief Ministers. While taking due note of the various initiatives taken up by the Government of India to promote organic and biological nutrients, the Committee desire that a centralized monitoring command be established to oversee strict enforcement of the measures initiated/contemplated so as to ensure educating the farmers on the benefits of balanced use of fertilizers for efficiency and protecting the soil health. In view of the reportedly good performance of some States

like Andhra Pradesh and Karnataka in ensuring increased productivity by maximum use of organic manure, the Committee further desire that the DoF and DAC convince and prevail upon other State Governments to emulate Andhra Pradesh and Karnataka so that there is increased productivity across the Country.

10. The Committee are perturbed to note numerous instances of non-availability/ shortage of fertilizers despite huge amounts of subsidy doled out. The Committee also observe with concern the scarcity of fertilizers; cases of delays in supply of adequate quantities of fertilizers leading to farmers agitations; inequitable distribution; absence of norms to regulate sale; skewed distribution with higher supply to districts with better accessibility and lesser supply to distant and disjointed districts; etc. The Committee are informed that timely supply and movement of fertilizers to the fertilizer consuming areas depends upon the availability of Railway rakes, labour force at the various ports and plants as well as speedy evacuation in loading, unloading of the rakes at origin and destination, effects of natural calamities, etc. On being queried about the manures being taken to make adequate fertilizers available on time to the farmers in various States, the DoF have submitted that they are taking up a number of measures which *inter alia* include monitoring of the movement of all major subsidized fertilizers throughout the Country by an on-line web based system; meeting through imports the gap between the requirement and indigenous availability of Urea; advising the State Governments to instruct the State Institutional agencies to coordinate with manufactures and importers of fertilizers for streamlining the supplies; joint review by the DoF and DAC of the fertilizer availability with the State Agriculture Departments through weekly video conferences; encouraging private sector and Public Sector Companies to explore the possibilities for joint ventures abroad to ensure uninterrupted supply of fertilizer inputs to the P&K sector etc. Mindful of the fact that timely availability of fertilizers is the essence of agronomic requirement having serious ramifications on the crop yield and consequent effects on the overall food security and taking into consideration the Secretary DoF's assurance that the fertilizer availability position is comfortable at present and adequate arrangements would be made for fertilizer availability in the coming years also as demand grows, the Committee recommend that the Department should intensify the measures initiated, strengthen the existing mechanisms and constantly endeavour towards equitable and timely distribution of requisite and appropriate types of fertilizers to all the needy farmers of the Country with special attention towards far flung and inaccessible districts.

11. The Committee note that the requirement for certification in Proforma 'B' by the State Governments for sale of decontrolled fertilizers for agricultural purposes is the only major control over end use of fertilizers, but with the removal of such linkage since June, 2007, adequate incentive to ensure certification by the competent authorities (*viz.* the State Governments) of end use of decontrolled fertilizers for agricultural purposes no longer exists. As a result, there was a steep increase in the amount of unreconciled sales figures which stood at ₹ 50,587 crore for the years 2007-08 to 2009-10 as compared to only ₹ 111 crore for the years 2003-04 to 2006-07. The Department have clarified that the outstanding amount as on 14.12.2011 for the period 2003 to 2010 stood at ₹ 2,447.08 crore and the latest pendency figure

was ₹ 1947 crore subsequent to a drive undertaken by the Department based on the Audit findings as submitted by the Secretary, DoF in evidence. On the audit recommendation for re-introduction of the earlier system of relating 10-15 per cent of subsidy till receipt of certification in Proforma 'B', the DoF have contended that the Proforma 'B' was getting less relevant as the Department is gearing up for the mobile Fertiliser Monitoring System (FMS) which will record on a daily basis, the fertilizer receipt and sales at the retailer level in the first stage. According to the Department, such information would be available online and once the system stabilizes within the financial year 2012-13, subsidy payment would be made based on the mobile FMS, which would not only obviate the need for reconciliation of sales figures but also act as an effective disincentive against black marketing and hoarding. Taking into consideration the Department's own admission that there is no existing mechanism of verification of sales and stocks beyond the district level and secondary sales and consumption patterns are being monitored by the State Agricultural Departments, the Committee are of the considered opinion that the DoF's role should not be limited to merely sensitizing the State Governments in light of various reported instances of diversion of subsidized fertilizer for non-agricultural use. Further, in view of the magnitude of the problem and the underlying consequences on the subsidy burden due to the malpractices, it is imperative that a strict verification regime with stringent enforcement of deterrent punitive/financial penalties based on real time information/data be put in place. As assured by the Secretary, DoF in evidence that the Department is developing a pilot plan to track the fertilizer movement upto the farmer level, the Committee desire that the DoF should urgently come out with a more robust monitoring mechanism and inspection regime with foolproof procedure for verification of stocks/sales so as to curb the menace of pilferage, diversion and leakages of subsidized fertilizers.

12. The Committee note that prior to January, 2003, it was mandatory under the Fertilizer Control Order (FCO) for the dealer to possess the certificate of registration for carrying out the business of selling of fertilizers. Later on, *w.e.f.* 16th January, 2003, the Ministry dispensed with the registration certificate of dealers and replaced it with the system of Memorandum of Intimation *i.e.* every person intending to sell or offer for sale or carrying the business of selling fertilizers shall make memorandum of Intimation to the notified authority and the acknowledgment of the Intimation would constitute the authoriation letter which would be valid for a period of three years from the date of issue. The Committee are also informed that the State Governments are responsible to issue licences to the dealers for carrying out wholesale/retail business of fertilizers as well as for the timely renewal of the licences. But, the efficacy of the system put in place can be well gauged from several deficiencies that has come to the notice of the Committee like dealers carrying out fertilizer business without either valid licence from the State Agriculture Department or any certificate of registration from the appropriate authority; non-maintenance of the stock registers by the dealers; black marketing of the fertilizers etc. The Secretary, DoF was candid enough to admit before the Committee that there have been instances of smuggling of fertilizers not only to neighbouring States but to even neighbouring Countries also. In view of the alarming situation, it becomes imperative on the part of the Department to revisit the extant licensing/Memorandum of Intimation mechanism

and take requisite but urgent corrective measures to plug the loopholes so that unscrupulous dealers are unable to take undue advantage of the lucanae and unauthorized sale, black marketing and smuggling of fertilizers are stopped. Acknowledging the Fertiliser Secretary's assurance that the Department have to make constant efforts in the direction, the Committee stress that vigorous and concerted efforts are required to make the subsidy administration clean, transparent and foolproof so that every penny [out of ₹ 80,000 crore (approx.)] of the tax payers' money utilized towards fertilizer subsidy is accounted for and the intended benefits accrue to the farmers.

13. The Committee's attention has been drawn to the irregularities in the import of DAP by IPL during 2007-08; excess payment on import of urea by IPL during 2008-09 and 2009-10; erroneous fixing of rates of concession of imported DAP and MOP; absence of supply plan for urea imported by IPL, etc. The DoF have clarified that the apparent discrepancy arose due to the switch of the payment procedure to 'On Account Subsidy' *w.e.f.* 01.12.2008 and adjustment of left over quantity of 0.01 LMT of the closing stock as on 30.11.08 which was carried forward as receipt in the month of December, 2008. The Department have further submitted that the interest amounting to ₹ 128.56 crore was recovered from IPL from July, 2011 'On Account' claim for the irregularities in import of DAP by IPL during 2007-08. Though corrective measures have been taken by the DoF subsequent to the Audit findings, the Committee nevertheless feel that such irregularities reveal systemic deficiencies in the import process of fertilizers and therefore warrant a stricter regulation to avoid mismatches and creeping infirmities considering the growing volume of import of fertilizers and the concomitant subsidy burden to the exchequer.

14. The Committee are perturbed to note that subsidized fertilizers are being consumed for preparation of mixed fertilizers by mixing units thereby breaking the subsidy chain and at the cost of the beneficiaries/farmers. The Department have clarified that the mixing units in the States have been permitted to use subsidized fertilizers due to the specific requirements as no subsidy is available separately on the sale of customized fertilizers and mixture fertilizers. Accordingly, the use of subsidized fertilizers for manufacturing NPK mixture fertilizers was as such allowed under the erstwhile concession scheme and the Nutrient Based Subsidy Policy for decontrolled phosphatic and potassic fertilizers. The Committee find that the Department have recently decided to monitor the sourcing of subsidized fertilizers by the mixture/customized units making it compulsory for them to source subsidized Urea and P&K fertilizers from the manufacturers directly after receipt at the District level, instead of from dealers/retailers, and to upload the data in the FMS web based monitoring system. The Department have also decided to release the balance payment of subsidy to the manufacturers/importers only after receipt of complete information through the mobile FMS. The Committee feel that these are measures in right direction and urge the Department to further intensify their efforts in properly monitoring the sourcing of subsidized fertilizers by the mixture/customized units, so that the subsidy chain is not broken and the beneficiaries are not affected. In view of the unorganised character of the mixed units and mindful of the Fertiliser Secretary's candid confession of the need for a better oversight control over these units, the Committee impress upon the Department to initiate urgent requisite measures, including

prescription of a tighter set of Guidelines, to have a better feedback, enabling exercise of greater control/oversight over the sourcing and quality of subsidized fertilizers used by the mixed units.

15. The Committee note with profound concern several deficiencies and inadequacies that plague the quality testing of fertilizers. Such areas of concern *inter alia* include grossly inadequate annual capacity of the existing quality control laboratories *vis-a-vis* the required capacity for testing samples from all sales outlets; deficient physical and human infrastructure in many of the laboratories; significant shortfalls in the actual number of samples tested, etc. What concerns the Committee more is the non-adherence to the time limit prescribed for analysis and communication of results of fertilizer quality testing. Though the Department is reportedly taking a number of measures which *inter alia* include strengthening of 39 existing FQCLs; sanctioning 15 new FQCLs; increasing the number of soil testing laboratories to 1049 with analyzing capacity of 10.7 million samples as on 31.03.2012; planning to add another 180 static and 145 mobile soil testing laboratories etc.; the Committee are still worried over the reported existing bottlenecks in proper quality checking of fertilizers and use of sub-standard fertilizers. The problem is compounded with the FCO provisions under which the responsibility of ensuring the quality of fertilizers is solely left to the State Governments, though the Central Government provide financial assistance to the State Governments under the National Project on Management of Soil Health and Fertility (NPMSH&F). The Committee therefore impress upon both the Departments (Fertilizers and Agriculture) to seriously consider the imperatives involved in the quality testing of fertilizers and constantly endeavour towards augmenting and strengthening both physical and human infrastructure of the quality testing and soil testing laboratories so that possibilities of supplying sub-standard fertilizers to the farmers are completely eliminated. The Committee believe that working in tandem with the State Governments and involving Research Institutes like Indian Council of Agricultural Research (ICAR) and Indian Institute of Soil Science (IISS), the Departments will certainly be able to bring in noticeable improvements in the quality testing of fertilizers.

16. Taking note of the adverse implications of the delay in communicating results of the fertilizer quality testing within the stipulated time period of 52 days, the Committee export the Departments to prevail upon the State Governments to take stringent action against the officials for violation of clause 30 of the FCO which provides for strict compliance with the time limit stipulated for analysis and communication of the quality testing results. The Committee further recommend that the penal provisions under the Essential Commodity Act (ECA), which prescribe prosecution of offenders and sentence, if convicted, upto seven years of imprisonment besides cancellation of the authorization certificate and other administrative action, be invoked against the offenders/defaulters to deter sale/supply of sub-standard fertilizers.

17. Taking note of the admission of the representative of the DoF about complaints of supply of sub-standard fertilizers, the Committee recommend that the farmers' complaint lodging mechanism for sub-standard quality of fertilizers be streamlined and they be allowed to lodge their complaints with the District Magistrate/District Agriculture officer for expeditious and appropriate action. It is also equally important

that the MPs, MLAs and other representatives of the people and also the NGOs be provided with the list of the exact location of the Fertilizer Quality Testing Centres in the respective States so as to enable them to take necessary action, whenever warranted. The Committee further desire that requisite measures be taken by the Departments so that the National Project on Management of Soil Health and Fertility addresses the issue of contaminated water used by the farmers while harvesting.

18. The Committee note that at present fertilizer subsidy is given by the Government to the manufactures/Importers directly. In order to address the challenges in the fertilizer subsidy framework, the DoF propose to adopt a three phased approach to reform the subsidy disbursement mechanism through which it is envisaged to provide subsidy to the retailers and ultimately to the intended beneficiaries *i.e.* farmers. In short, Phase-I involves creation of information visibility of the movement of fertilizers along the supply chain from the manufacture till the retailer; Phase-II envisages release of subsidy to retailer upon the receipt of fertilizer; and Phase-III proposes subsidy disbursement directly into the bank accounts of the farmers through Aadhar enabled payment system. While acknowledging the initiatives taken/contemplated by the DoF to reform the subsidy disbursement mechanism, the Committee desire that wider national level consultations, especially involving the State Governments be held to so as to reforms the system for efficient service delivery. The Committee also recommend that the monitoring mechanism be further strengthend in unison with the State Governments to address the challenges for ensuring an enhanced transparent fertilizer flow across the supply chain and better delivery to the end users for a more sustainable subsidy burden.

19. To sum up, the Committee find that several key issues merit urgent attention which *inter alia* include overall review of the assessment of fertilizer demand/ requirement through relevant and accurate compilation of data; capacity/production augmentation of various kinds of fertilizers; creation of a conducive environment for the investors; expansion/revival of the closed Urea units; curtailment of dependence of import of fertilizers; due importance to Integrated Nutrient Management encompassing conjunctive use of chemical fertilizers and organic manure; timely availability/supply of fertilizers; curbing the menace of pilferage, diversion and leakage of subsidized fertilizers; need for a better oversight/control over the mixed units using subsidized fertilizers; augmentation in the physical and human infrastructure of the Quality Testing and Soil Testing Laboratories; putting in place a clean and transparent subsidy administration regime and strengthening the monitoring mechanism in tandem with the State Governments. The Committee impress upon both the Departments *i.e.* Fertilisers and Agriculture to take speedy action on their suggestions/recommendations and apprise them in due course.

NEW DELHI;
29 *April,* 2013
9 *Vaisakha,* 1935 (*Saka*)

DR. MURLI MANOHAR JOSHI
Chairman,
Public Accounts Committee.

APPENDIX I

MINUTES OF THE SECOND SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2012-13) HELD ON 11TH JUNE, 2012

The Public Accounts Committee sat on Monday, the 11th June, 2012 from 1100 hrs. to 1350 hrs. in Room No. '53', Parliament House, New Delhi

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Dr. Baliram
4. Shri Sandeep Dikshit
5. Shri Anant Kumar Hegde
6. Shri Bhartruhari Mahtab
7. Shri Sanjay Nirupam
8. Shri Ashok Tanwar
9. Dr. Shashi Tharoor
10. Dr. Girija Vyas
11. Shri Dharmendra Yadav

Rajya Sabha

12. Shri Prasanta Chatterjee
13. Shri Prakash Javadekar
14. Shri Sukhendu Sekhar Roy
15. Shri N.K. Singh
16. Prof. Saif-ud-Din Soz

SECRETARIAT

1. Shri Abhijit Kumar — *Director*
2. Shri H.R. Kamboj — *Additional Director*

Representatives of The Office of The Comptroller And Auditor General of India

1.	Shri Vinod Rai	—	C&AG
2.	Shri A.K. Patnaik	—	Deputy C&AG
3.	Shri Gautam Guha	—	Director General
4.	Ms. Revathi lyer	—	Director General
5.	Shri A.M. Bajaj	—	Principal Director

Representatives of The Department of Fertilizers (DoF), Ministry of Chemicals and Fertilizers

1.	Shri Ajay Bhattacharya	—	Secretary (F)
2.	Dr. V. Rajagopalan	—	SS&FA
3.	Shri Satish Chandra	—	Joint Secretary (P&A)
4.	Shri Sham Lal Goyal	—	Joint Secretary (F&M)
5.	Shri Suresh Chandra Gupta	—	Joint Secretary (P&P)

Representative of the Department of Agriculture and Co-operation

Shri Narender Bhushan	—	JS (INM), DAC

2. At the outset, the Chairman welcomed the Members and the representatives of the Office of C&AG to the sitting of the Committee. Apprising that the meeting had been convened to have a briefing on the subject 'Performance Audit of Fertilizer Subsidy' based on the C&AG Report No. 8 of 2011-12, the Chairman drew the attention of the Members to the failure of the Department of Fertilizers to respond to the letters written by the Principal Director of Audit seeking an exit conference and also his comments on the draft Audit Report, as pointed out in the preface to the Audit Report.

3. On being asked to respond, the Secretary, Department of Fertilizers tendered his deep and unqualified apology for not responding to Audit letters and assured the Committee that corrective steps would be taken to ensure that such a lapse does not recur in future. Thereafter, he apprised the Committee about the efforts made to make fertilizer available preferably indigenous production otherwise through import; verify sales of fertilizer movement upto the District level through the online Fertilizer Monitoring System; sensitize the State Governments to minimize fertilizer diversion especially urea for non-agricultural purposes etc. He also responded to various queries raised by the Members.

4. The Members focused on the need for encouraging use of organic manures, balanced use of fertilizers, different co-relation between customized fertilizer and results of soil testing laboratory analysis, fertilizer quality testing to check use of substandard fertilizers, etc. The representative further apprised the Committee that under the National Project on Soil Health and Fertility, more number of laboratories, both static and mobile are being sanctioned to strengthen the system, farmers were being trained and field demonstrations conducted on the usage of different types of nutrients and under the

National Project on Organic farming etc. He also submitted that the need for customized fortified fertilizers depending on district-wise requirements was being addressed. The Committee desired both the Ministries to furnish written replies to the queries which the representatives could not give satisfactory replies and also furnish the data to be collected from State Governements.

5. The Committee also pointed out that certain recent researches had shown that the microbes present in soil fix nitrogen more efficiently than urea. The Committee suggested that in-depth study on this aspect should be undertaken. The Committee also directed the Ministry to take effective steps to address the issue of pilferage and diversion of subsidized fertilizers.

6. The Chairman thanked the representatives of the Ministries for deposing before the Committee and also the representatives of the Office of the C&AG of India for providing assistance to the Committee in the examination of the subject.

The witnesses then withdrew.

A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

APPENDIX II

MINUTES OF THE TWENTY-NINTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2012-13) HELD ON 29TH APRIL, 2013

The Committee sat on Monday, the 29th April, 2013 from 1500 hrs. to 1600 hrs in Room No. '51', (Chairman's Chamber) Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Dr. M. Thambidurai
4. Shri Bhartruhari Mahtab
5. Shri Abhijit Mukherjee

Rajya Sabha

6. Shri Prasanta Chatterjee
7. Shri Prakash Javadekar
8. Shri Sukhendu Sekhar Roy
9. Shri J.D. Seelam
10. Shri N.K. Singh

SECRETARIAT

1. Shri Devender Singh	—	*Joint Secretary*
2. Shri Abhijit Kumar	—	*Director*
3. Shri D.R. Mohanty	—	*Deputy Secreatry*
4. Smt. A. Jyothirmayi	—	*Deputy Secretary*
5. Ms. Miranda Ingudam	—	*Under Secretary*
6. Shri A.K. Yadav	—	*Under Secretary*
7. Smt. Anju Kukreja	—	*Under Secretary*

Representatives of the Office of the Comptroller and Auditor-General of India

1. Ms. Divya Malhotra	—	*Director General*

2. Shri Jayant Sinha — *Principal Director*

3. Ms. Athoorva Sinha — *Director*

4. Shri Likhariya — *Director*

2. At the outset, the Chairman welcomed the Members and the representatives of the Office of the C&AG of India to the last sitting of the Committee (2012-13). Giving an overview of the performance of the Committee in the year 2012-13 as well as in the 15th Lok Sabha, the Chairman observed that the years have been very productive due to the hard work of the C&AG and his team, the PAC Secretariat led by the Joint Secretary and above all the cooperation and active participation of the Members in the deliberations. The Committee unanimously endorsed the views of the Chairman.

3. The Chairman, then, apprised that the meeting had been convened to consider the following Draft Reports of the Committee:

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

(ii) '**Fertilizer Subsidy**' based on C&AG Report No. 8 of 2011-12, Union Government (Civil);

(iii) *** *** ***

(iv) *** *** ***

(v) *** *** ***

(vi) *** *** ***

(vii) *** *** ***

4. Giving an overview of the issues contained in the Draft Reports and the comments of the Committee thereupon, the Chairman solicited the views/suggestions of the Members.

5. After some discussion, the Committee adopted the above mentioned Draft Reports. The Committee, then, authorized the Chairman to finalize the Reports in the light of the factual verifications, if any, made by the Audit and present them to Parliament on a convenient date.

6. The Chairman thanked the Members for their active participation in the consideration and adoption of the Draft Report. The Members also conveyed their thanks to the Chair for his able leadership in conducting the meetings of the Committee in a probing and educative manner.

The Committee then adjourned.

GMGIPMRND—744LS—29-05-2013.