



**STANDING COMMITTEE ON
CHEMICALS & FERTILIZERS
(2006-07)**

FOURTEENTH LOK SABHA

**MINISTRY OF CHEMICALS & FERTILIZERS
(DEPARTMENT OF FERTILIZERS)**

**DEMANDS FOR GRANTS
(2006-07)**

[Action Taken by the Government on the recommendations contained in the Twelfth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers)]

FIFTEENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 2007/Magha, 1928 (Saka)

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(2006-07)

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(DEPARTMENT OF FERTILIZERS)

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[Action Taken by the Government on the recommendations contained in the Twelfth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers)]

Presented to Lok Sabha on 27.02.2007

Laid in Rajya Sabha on 01.03.2007



LOK SABHA SECRETARIAT
NEW DELHI

February, 2007/Magha, 1928 (Saka)

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**COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2006-07)**

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

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

Rajya Sabha

22. Shri Devdas Apte
23. Shri B.S. Gnanadesikan
24. Shri Gireesh Kumar Sanghi
25. Shri V. Hanumantha Rao
- @26. Shri Mahendra Sahni
27. Shri Dilip Singh Judev
28. Shri R. Shunmugasundaram
29. Shri Raj Mohinder Singh Majitha
30. Shri T.R. Zeliang
31. Vacant

Secretariat

- | | | | |
|----|--------------------------|---|-----------------------------------|
| 1. | Shri M. Rajagopalan Nair | - | <i>Additional Secretary</i> |
| 2. | Shri A.K. Singh | - | <i>Joint Secretary</i> |
| 3. | Shri Brahm Dutt | - | <i>Director</i> |
| 4. | Shri S.C. Kaliraman | - | <i>Under Secretary</i> |
| 5. | Smt. Madhu Bhutani | - | <i>Senior Executive Assistant</i> |

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- * ***Nominated w.e.f. 31.08.2006.***
\$ ***Nominated w.e.f. 25.09.2006***
@ ***Nominated w.e.f. 04.10.2006***
Nominated w.e.f. 08.12.2006

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals & Fertilizers (2006-07) having been authorised by the Committee to submit the Report on their behalf, present this Fifteenth Report on Action Taken by the Government on the recommendations contained in the Twelfth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers).

2. The Twelfth Report of the Committee was presented to Lok Sabha on 19th May, 2006. The replies of the Government to all the recommendations contained in the Twelfth Report were received on 15th December, 2006. The Standing Committee on Chemicals & Fertilizers (2006-07) considered the Action Taken Replies received from the Government and adopted the Draft Action Taken Report at their sitting held on 9th January, 2007.

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

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

NEW DELHI
February 12, 2007
Magha 23, 1928 (Saka)

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

R E P O R T

CHAPTER- I

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Twelfth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on Demands for Grants (2006-07) relating to the Ministry of Chemicals & Fertilizers (Department of Fertilizers), which was presented to Lok Sabha on 19th May, 2006.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the recommendations contained in the Twelfth Report within three months from the presentation of the Report i.e. by 19th August, 2006. The action taken replies of the Government in respect of all the 19 recommendations contained in the Report were received on 15th December, 2006. These have been categorised as follows:-

- (i) Recommendations/observations that have been accepted by the Government:-

Sl. Nos. 1, 5, 6, 7, 8, 9, 15, 17, 18 and 19

- (ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies:-

Sl. Nos. 12 and 16

- (iii) Recommendation/observation in respect of which reply of the Government has not been accepted by the Committee:-

Sl. No. Nil

- (iv) Recommendations/ observations in respect of which final replies of the Government are still awaited:-

Sl. Nos. 2, 3, 4, 10, 11, 13 and 14.

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been furnished by the Government should be furnished expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations in the succeeding paragraphs.

A. FOLLOW-UP ACTION ON RECOMMENDATIONS CONTAINED
IN SIXTH REPORT OF THE COMMITTEE

(Recommendation Sl. No. 1)

5. The Committee had examined the follow-up action by the Government on the recommendations contained in the Sixth Report of the Committee on Demands for Grants (2005-06) of the Department of Fertilizers. The Committee have also reviewed the progress of implementation of their recommendations contained in the Ninth and Twelfth Reports and also the action taken replies submitted by the Department of Fertilizers now. The Committee note that there has been slow pace in the implementation process of some of the recommendations like balanced use of fertilizers, formulation and implementation of Stage-III policy of New Pricing Scheme for urea units, de-bottlenecking/revival of sick/loss making and closed fertilizers PSUs, recovery of balance amount from M/s Karsan Limited and these are yet to be fully implemented. The Committee, therefore, desire that the Government should take concrete steps expeditiously in a time bound manner on their recommendations.

B. UTILIZATION OF TENTH FIVE YEAR PLAN OUTLAY

(Recommendations Sl. Nos. 2 and 3)

6. While examining the Demands for Grants (2006-07) of the Department of Fertilizers, the Committee had noted that out of Rs. 5900 crore plan outlay for the fertilizer PSUs and for Departmental schemes in the 10th Plan period, the expenditure by the end of the year 2006-07 (terminal year) was estimated to be Rs. 3366 crore, which is about 56 per cent of the approved plan outlay. The Department of Fertilizers had informed that among others, the main reasons for shortfall in utilization of plan funds were non-implementation of expansion projects of KRIBHCO and RCF. Keeping in view the fact that there was a gap of about Rs. 2534 crore in the allocation and anticipated utilization of the 10th Plan outlay of the Department of Fertilizers, the Committee had observed that the prevailing trend of utilization of plan funds would adversely affect the ongoing and future fertilizer projects resulting in stagnation in the production capacity of fertilizers in the country. In this context, the Committee had asked the Department of Fertilizers to review the process of project planning and implementation of all the projects in a scientific manner on a regular basis.

7. In their reply, the Department has stated that as regards KRIBHCO, the Public Investment Board (PIB) had recommended a proposal of Rs. 1750 crore and price bids for the same were opened on 28.04.2005. As the lowest bid was much higher than this estimate, KRIBHCO has issued separate ITBs for ammonia and urea plants to all the five pre-qualified bidders in order to have better response and sufficient competition on December 21, 2005. The bids received are still to be opened. As regards RCF, a revised proposal for Thal Expansion envisaging an estimated cost of Rs.2239 crore and capacity addition of 11.55 lakh Metric tonnes of urea per annum was received from the company in January, 2006 which was examined by the Technical Division of the Department. Certain clarifications were obtained from the Company on the proposal. The Company had also not obtained the approval of Board of Directors and was requested to do so. The Board of

Directors of M/s. RCF has approved the proposal at its meeting held on 21.7.2006. The matter is now under the consideration of the Government. The Department of Fertilizers has further stated that the Boards of Directors of PSUs/Cooperatives considers implementation of schemes/projects by the company. The representatives of the Department on these Boards have occasion to air the viewpoints of the Department during these deliberations. Besides, the Department has a Technical Division which is consulted while taking decision on implementation of project / schemes by the PSUs/Cooperatives. Over and above this, the Department regularly reviews progress of projects during quarterly review meetings and meetings in connection with review of physical outcomes of these projects/schemes.

8. The Committee are not happy with the Department's reply that the Department has its representatives on the Boards of Directors of PSUs/Cooperatives to air its view points regarding implementation of schemes/projects and also regularly reviews their progress during quarterly review meetings. The Committee do not corroborate the reply of the Department and dismayed to learn that in spite of issuance of separate ITBs by KRIBHCO on 21.12.2005, the bids received are still to be opened. Similarly, RCF did not obtain the approval of its Board of Directors of a revised proposal of Rs. 2239 crore received by the Department in January, 2006. The Committee expect the Department of Fertilizers to be more serious in monitoring and reviewing the planning and implementation of schemes/projects relating to utilization of plan funds by PSUs/Cooperatives under its administrative control.

9. The Committee regret to note that the Department has not furnished reply to the specific recommendation of the Committee that entire process of project planning and implementation in the PSUs/Cooperative units under the administrative control of the Department of Fertilizers should be reviewed and streamlined. The Committee would await conclusive follow-up action in the matter.

C. NEW PRICING SCHEME (NPS)

(Recommendation Sl. No. 10)

10. A New Pricing Scheme (NPS) for urea units has come into existence w.e.f. 01.04.2003 replacing the erstwhile Retention Pricing Scheme (RPS). NPS is being implemented in stages. Stage-I was of one year duration, from 01.04.2003 to 31.03.2004. Stage-II of NPS was for two years duration from 01.04.2004 to 31.03.2006. For reviewing the effectiveness of Stage-I and II of NPS and for formulating a policy for urea units beyond Stage-II i.e. from 01.04.2006 onwards, the Committee had desired that the process of formulating a policy for urea beyond 31.03.2006 should have been completed well in advance to avoid the prevailing uncertainty. They had recommended that the Government should finalize the same without any further delay.

11. The Department of Fertilizers, in their reply has submitted that a note entitled 'Formulation of policy for urea units for Stage-III of New Pricing Scheme commencing w.e.f. 1.4.2006' for consideration of the Cabinet Committee on Economic Affairs (CCEA), which in its meeting held on 27.07.2006 directed that matter, in the first instance, be examined by a Committee of Secretaries (COS).

12. The Committee are not satisfied with the response of the Department as the New Pricing Scheme (NPS) for urea units, which should have been operative since 01.04.2006, has not seen the light of the day, so far. Considering the urgency of the matter, the Committee, once again, strongly recommend that all out efforts should be made by the Government to formulate and implement the NPS for Stage-III without any further loss of time.

D. DIRECT SUBSIDY TO FARMERS

(Recommendation Sl. No. 11)

13. The Committee had noted that the Working Group headed by Dr. Y.K. Alagh had recommended that a scheme for disbursal of subsidy directly to the farmers in three selected districts where reliable land records are available might be formulated on an experimental basis. The Committee had recommended that the recommendation of the Working Group must be acted upon expeditiously to see the result and efficacy of the scheme with a view to implementing it throughout the country.

14. In their reply, the Department has informed that the Working Group headed by Dr. Y.K. Alagh has recommended, interalia, that a scheme for disbursal of subsidy directly to farmers in three selected districts where reliable land records are available may be formulated on an experimental basis. The recommendation is under examination with a view to determination of its feasibility and the possible modalities.

15. The Committee regret to note that there is no progress on this score during the last 8 months. Even the initial process of determining the feasibility aspects and modalities of the scheme for disbursal of subsidy directly to farmers has not been initiated by the Department, so far. Considering the interests of poor and small/marginal farmers, the Committee once again recommend that the Department should expedite the process of formulation and implementation of the scheme as early as possible. The Committee would like to be apprised of conclusive action taken in the matter at the earliest.

E. INSURANCE SCHEME FOR FARMERS

(Recommendation Sl. No. 17)

16. KRIBHCO entered into a pact with the Bajaj Allianz General Insurance Co. Ltd. for a scheme called Sankat Haran Bima Yojana Policy for farmers. As per the policy, on the purchase of one bag of KRIBHCO fertilizers (costing Rs. 241.50 plus taxed /VAT as applicable in the concerned State), manufactured at the Hazira unit, every farmer would have an accidental insurance cover of Rs.4,000 per bag. The policy would be applicable in case of accident with any agriculture machinery or

road mishap and the total maximum capital sum insured would be Rs. 1.00 lakh per farmer. The Committee were informed that the insurance cover is free for the farmers and nothing is to be paid by them towards insurance, against purchase of KRIBHCO urea bag. At present, this insurance scheme covers the State of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh & Uttranchal. The total budget of the scheme for the year 2006-07 was Rs. 2.55 crore. The Committee, while appreciating the scheme, urged the Department of Fertilizers to evaluate its success with a view to extending the same for the fertilizers industry as a whole, after incorporating necessary modifications, if necessary.

17. In their reply, the Department of Fertilizers has stated that Sankat Haran Bima Yojana Policy' is an individual insurance scheme being implemented by KRIBHCO in selected States for welfare of farmers. Public Sector Undertaking (PSUs)/ Cooperative Societies take such decision as a part of their commercial dealing. However, KRIBHCO is being requested to evaluate the success of the scheme and circulate a copy of the scheme to other fertilizers companies for their consideration and implementation.

18. The Committee are unhappy to note that even after 8 months from the presentation of the Report, the Department of Fertilizers has informed that KRIBHCO is being requested to evaluate the success of the scheme. The Committee expect that the Department of Fertilizers would be more prompt and careful in implementation of the Committee's recommendation. They would await conclusive action taken in the matter.

CHAPTER-II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation Sl. No. 1)

The Sixth Report of the Committee on Demands for Grants (DFG) of the Department of Fertilizers (DOF) for the year 2005-06 was presented to Parliament on 21st April, 2005. The Ninth Action Taken Report on action taken by the Government on the recommendations contained in 6th Report was presented to Lok Sabha on 13th December, 2005. Out of the total 16 recommendations, 12 recommendations (Sl. Nos. 1 to 8, 10, 11, 14 and 15) were accepted by the Government. In view of the Government's reply, recommendation at Sl. No. 9 was not pursued by the Committee. In respect of recommendation at Sl. No. 13, the reply of the Government was not accepted by the Committee. In regard to recommendation at Sl. Nos. 12 and 16, the replies of the Government were of interim nature. Subsequently, the Minister of Chemicals & Fertilizers made a Statement regarding the status of implementation of the recommendations contained in the Sixth Report of the Committee in Lok Sabha on 22nd December, 2005 under Direction 73A of the Directions by the Speaker, Lok Sabha.

The Committee's analysis of implementation of recommendations by the Government has revealed that out of the total 16 recommendations, the Department of Fertilizers have implemented only 10 recommendations, so far. The recommendations (at Sl. Nos. 4, 9, 12, 13, 15 and 16) relating to regional imbalances in fertilizers consumption; direct subsidy to the farmers and containment of hoarding/black marketing of fertilizers; de-bottlenecking/revamp/modernization of existing urea units; revival of the sick, loss making and closed fertilizer PSUs; Namrup-II revamp project and recovery of the balance amount from M/s. Karsan Limited have not been implemented so far. The Committee are dismayed at the slow pace of the implementation process of their recommendations. They trust that the Department of Fertilizers would take necessary steps to implement the recommendations in their totality expeditiously.

Reply of the Government

The Ministry, in their reply, have given further Action Taken Reply on the recommendations at Sl. Nos. 4, 12, 13, 15 and 16 of the Sixth Report of the Standing Committee on Chemicals & Fertilizers (2004-05) on 'Demands for Grants (2005-06) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers)'. The recommendation-wise* further action is as under:-

I. Regional imbalances in fertilizer consumption
(Recommendation Sl. No. 4)

The subject of balanced use of fertilizers is being addressed by the Department of Agriculture & Co-operation, which has constituted a Task Force on the subject, which has also examined the Statewise/regional variation in the consumption of fertilizers. The recommendation of the Task Force are under examination by the Inter-departmental group, set up under the chairmanship of Secretary(Agriculture). The Task Force has recommended rationalization of subsidy of various nutrients and a nutrient based subsidy model in place of product based subsidy regime. The Department of Fertilizers is awaiting the final report of the Inter-departmental Group on the recommendations of the Task Force.

II. De-bottlenecking/revamp/modernization of existing urea units
(Recommendation Sl. No. 12)

Eleven proposals for de-bottlenecking/revamp/modernization proposing capacity addition of 22.29 Lakh Metric tones per annum (LMTPA) have been received in this Department for approval. Two of the debottlenecking proposals namely Tata Chemicals Limited (TCL), Babrala and Indo Gulf Fertilizers Limited (IGFL), Jagdishpur have been approved in principle. The remaining proposals along with certain points raised by the above two units are under consideration.

* *For text of Committee's recommendations at Sl. Nos. 4, 12, 13, 15 and 16 of the Sixth Report and Action Taken Replies furnished by the Government thereon, please refer Ninth Report of the Standing Committee on Chemicals & Fertilizers (2005-06) on action taken by the Government on the recommendations contained in Sixth Report of the Committee.*

Government is exploring the possibility of incentivizing additional urea production from the existing urea units with a view to reduce dependence on imports and promoting food security of the country. A final decision on these proposals for additional urea production by way of debottlenecking/revamp and modernization will be taken after the approval of Stage III policy for New Pricing Scheme for urea units.

III. Revival of sick, loss-making and closed fertilizer PSUs
(Recommendation Sl. No. 13)

Pursuant to the Common Minimum Programme of the Government, the possibilities of revival of the closed fertilizer companies viz. Fertilizer Corporation of India Ltd. (FCIL) and Hindustan Fertilizer Corporation Ltd. (HFCL) are being explored. A Cabinet Note for obtaining the 'in-principle approval' of the Cabinet for reversal of its earlier decisions whereby the FCIL and HFCL were closed and in principal approval for revival of these companies and in-principle approval to write off GOI loans and interest liabilities of these companies towards the Government, was sent to the Cabinet Secretariat on 29.11.2006. The Cabinet in its meeting held on 7th December 2006 (Case No. 416/50/2006) has directed that the matter be referred to the Board for Reconstruction of Public Sector Enterprises. Accordingly, appropriate action is being taken.

IV. Namrup-II revamp project
(Recommendation Sl. No. 15)

Due to delay in commissioning of front end of Ammonia-II due to detection of leakage in Boiler Feed Water Heater, shortage of gas etc., the Namrup-II unit could only be commissioned on 22.11.2005. With this, revamp of Namrup units stands completed. Since the Namrup-II unit could only be commissioned on 22.11.2005 the project cost has increased by Rs.30.27 crores.

Department of Fertilizers is working on issues related to viability of the project under the new pricing scheme for incorporation in the Note for CCEA seeking approval for (i) Second Revised Cost Estimates (RCE-II) of Namrup

Revamp Project of BVFCL at Rs. 640.51 crores and a revised time schedule of 85 months from the zero date i.e., by 22.11.2005. (ii) Pricing of the urea of revamped Namrup-II unit according to the Detailed Project Report data for a period of two years from the date of its commissioning.

V. Recovery of balance amount from M/s. Karsan Limited
(Recommendation Sl. No. 16)

The US District Court had delivered a preliminary judgement on 23-06-2005 in favour of NFL awarding demurrages of US\$ 2 million plus post judgement period interest as per US law against the beneficiaries of M/s Karsan and it has yet to issue the final judgement in the matter. Subsequently NFL filed an application to enhance pre-judgement interest to the range of around US\$ 1.2 million covering the period from the date of transfer of amount i.e. 30-12-1995 to the date of judgement.

So far only a sum of Rs.1.02 crore (US \$ 225,940) could be recovered from the accounts of Karsan Limited in Geneva, the only known assets identified in their name. The other recovery cases are pending in various courts of law in number of countries such as Turkey, Monaco, Bahrain, USA, Russia, India etc., and are being pursued vigorously by NFL directly and with the help of CBI/MEA at the Ministry level, and the cases are at different stages of consideration.

The matter of recovery is being monitored/reviewed regularly in the Department of Fertilizers by holding meetings with the senior officers of NFL, Ministry of External Affairs and Central Bureau of Investigation.

The recovery proceedings are a long drawn litigation process pending in various courts in a number of countries and as such, it may take inordinately long time to settle the matter through judicial process. In view of the foregoing facts, the Committee may consider dropping/omitting this 'Recommendation'.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 5)

The Committee's examination has revealed that there has been no increase in production capacity in respect of nitrogenous fertilizer. Even the increase in production capacity in respect of Phosphate during the 10th Plan has been only marginal. The Committee also find that the demand forecast of urea during the Eleventh Plan period, as per the Working Group on Fertilizers for the Tenth Plan is 281.24 lakh tonnes and demand forecast for phosphatic fertilizers, especially DAP is very high in comparison to the present trends of consumption. Considering these facts, the Committee recommended that concerted efforts should be made to enhance the production capacity of these fertilizers so as to reduce the dependence of the country on import for making fertilizers available to the farmers particularly when the cost of indigenously produced urea is only about Rs. 9738 per tonne as compared to import cost of Rs. 12,264 per tonne.

Reply of the Government

As per the Industrial Policy Resolution dated 24th July 1991, no license is required for setting up/expansion of fertilizer plants, entrepreneurs are free to set up/expand fertilizer projects anywhere in the country subject to environmental clearance. For setting up of new and expansion urea units, the Government has announced a policy in January, 2004 providing that the new and expansion projects of urea have to be based on natural gas/LNG and that the subsidy payable to such urea projects would be based on long range average cost (LRAC) principle. In pursuance to this policy, the three urea companies have submitted proposals for expansion projects with a total capacity of 33.50 LMT. Proposals for creation of additional capacity by way of de-bottlenecking/modernization /revamp have also been received from 12 urea units resulting in additional capacity to the tune of 25.186 LMT. Revival of closed urea units of Hindustan Fertilizers Corporation Limited (HFC) and Fertilizer Corporation of India Limited (FCI) in Eastern India is also under consideration of the Government with a view to increase the production capacity of urea to meet the increasing demand and to reduce dependence on imports. Major hindrance in capacity expansion has been non-availability of gas, which is the preferred feedstock for manufacture of urea.

With the concerted efforts of the Department of Fertilizers, a credible plan for availability of gas and pipeline connectivity to fertilizer sector has been agreed upon with the Ministry of Petroleum & Natural Gas. The Ministry of Petroleum & Natural Gas has stated that domestic gas availability scenario will remarkably improve from 2008-09 and there should be no problem of general availability of gas/LNG from 2008-09 onwards. Pipeline connectivity will also be made available to all units by 2009-10 except a few units which have been asked to explore alternative sources like Coal Bed Methane (CBM)/coal gas. With a view to exploit the cheap sources of feedstock abroad, the Department is working towards setting up joint venture urea projects and/or entering into long term buy back arrangements in those countries where cheap gas is available.

The phosphatic & potassic sector in the country is completely decontrolled and de-licensed. Any entrepreneur wanting to set up industry to produce phosphatic fertilizer can do so without any permission from the Department of Fertilizers. Nevertheless, to get the benefit of Concession Scheme, he has to submit an application to Department of Fertilizers to include its unit under the Concession Scheme. There is no unit wise concession under the Concession Scheme and the concession depends upon the type of raw materials/intermediates used for the production of fertilizers. The unit is incorporated into the Concession Scheme as per its raw material usage and the sourcing of N, P & K.

As far as potassic fertilizer is concerned, the country is completely dependent upon imported potash for meeting its requirement, as there are no commercially viable reserves of potash in the country.

The production capacity of phosphatic fertilizer in the country has shown stagnation due to tight availability of phosphatic raw materials/intermediates in the international market. Any new capacity in this sector can be added up only with the firm arrangement for supply of phosphatic raw materials/intermediates from resources rich countries.

The installed production capacity has shown a steady growth in production with a gradual shift from DAP to NPKs, resulting in stagnation in production of indigenous DAP during the 10th Plan period.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 6)

The Committee note that the budgetary provisions of the Department of Fertilizers for the year 2006-07 are Rs.18154.06 crore, out of which the Plan component is Rs.98.81 crore and the Non-plan component is Rs.18055.25 crore. In the Revised Estimates of 2005-06, the Plan expenditure was pegged at Rs.105.00 crore and Non-plan at Rs.18055.25 crore. This shows a reduction of Rs.6.19 crore in 2006-07 in Plan Budget and no change in the Non-plan Budget. The Committee also find that the Department are not satisfied with the budget allocations as these are inadequate to meet and discharge the responsibilities entrusted to the Department. The Committee would like the Department of Fertilizers to continue their efforts for getting requisite funds to implement the plans/projects as also to meet the subsidy bills which have even carried over liabilities of the year 2005-06.

Reply of the Government

Department of Fertilizers are making continuous efforts for getting requisite funds to implement the plans/projects and also for meeting the subsidy bills which have been carried over liability for the year 2005-06. In fact, the Department have received an amount of Rs. 2100 crores (gross) for meeting the subsidy requirement for import of fertilizers and also for making payment for concessional sale of imported decontrolled fertilizers through the 1st Batch of Supplementary Demands for Grants. Further efforts will be made for getting additional funds at the time of Revised Estimates 2006-07 and also through 2nd and 3rd Batch of Supplementary Demands for Grants during the current financial year.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 7)

The Committee note that there has been delay in the reimbursement of fertilizer subsidy to the fertilizers units. The Department have made 'on account payment of subsidy claims upto September 2005 for DAP, MOP and complex fertilizers. In the case of SSP, 'on account payment of subsidy claim upto December 2005 has been made. In the case of urea bills upto the month of September, 2005 have been settled. The Committee are given to understand that subsidy bills are being delayed due to paucity of funds. They find that the Department of Fertilizers were expected to clear the claims for the sale of fertilizers upto October 2005, by the end of March, 2006, as a sum of Rs. 1200 crore was being allocated to the Department under the third batch of the Supplementary Demands for Grants, 2005-06. In this connection the representative of the Department apprised the Committee during evidence that the subsidy bill of Rs. 5000 crore would be carried forward to the next year (2006-07) even after additional allocation of approximately of Rs. 2200 Crore in the second and third batches of supplementaries. As the annual budget has already been passed, the Committee desire that all subsidy/concession bills should be settled expeditiously. As recommended elsewhere in the Report, the Department of Fertilizers should vigorously pursue the matter with the Ministry of Finance and Planning Commission for increased allocation for fertilizers subsidy in the supplementary grants.

Reply of the Government

During 2006-07, the total budget estimate for payment of for disbursement of subsidy on sale of controlled/ decontrolled fertilizers has been Rs. 17252.91 crore whereas the estimated/requirement of funds is Rs. 25372.16 crore. In addition to it, there has been a carryover liability of Rs. 5913.94 crore from 2005-06 to 2006-07. Hence the total requirement of funds is Rs. 31286.10 crore leaving a shortfall of Rs. 14033.19 crore. In order to meet out this gap, Ministry of Finance has been requested to provide funds in the first supplementary demand for grants

2006-07. The bulk of the carry-over liabilities of 2005-06 have already been settled from the allocation under BE 2006-07

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 8)

The Committee note that the Department of Fertilizers had constituted an Expert Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission, for benchmarking phosphoric acid price with the international price of DAP for purposes of determining the concession on DAP. The Department have examined the recommendations of the Expert Group and proposed the revised methodology for working out concession rates for DAP Complex fertilizers. A draft note on the subject for the Cabinet Committee on Economic Affairs (CCEA) has been circulated for inter-Ministerial consultations. The Committee desire that this whole process should be expedited so that the concession policy relating to DAP and Complex Fertilizers come into place early. The Committee trust that the interests of the farming community would be a guiding factor. They also desire that the proposed policy should inter-alia include necessary incentives for the fertilizer industry which is essential to create more production capacities to meet the future requirements of fertilizers in the country.

Reply of the Government

After examination of recommendations of the Expert Group, Department of Fertilizers decided to place the recommendations before CCEA for approval and accordingly, circulated a draft CCEA note for inter ministerial consultation. Department of Commerce in their comments stated that in the new proposed dispensation of concession to indigenous DAP as recommended by the Expert Group, the third component of subsidy which is payable to indigenous DAP manufacturers is discriminatory under WTO guidelines. Since this component is payable to domestic manufacturers only, it can not be treated as a pass through to farmers and hence is discriminatory in nature.

Department of Commerce suggested that in lieu of third component to domestic manufacturers, the present custom duty of 5% on imported fertilizer inputs may be reduced to Zero, while keeping the custom duty on imported finished fertilizers at the current level of 5%. Alternatively, the third component of subsidy should be recast and reflected as payments by the Government to the domestic manufacturers through a public funded Government programme either for research and development or payment for extension and advisory services. However, this re-crafted component should not have any linkage with the price of the fertilizer or the level of the production.

In view of the comments received from Department of Commerce, Department of Fertilizers has constituted an Inter Ministerial Group (IMG) to examine the following issues :-

- i) Benchmarking of concession on indigenous DAP with imported DAP especially in light of WTO provisions and Expert Group recommendations.
- ii) Linkages of subsidy on SSP with that of indigenous DAP.
- iii) Rationalization of Concession Scheme on complex fertilizers with reference to N, P, K pricing & “other costs”.
- iv) Rationalization of MRPs of complex fertilizers.
- v) Review of performance of the normated phosphoric acid formula which is being implemented in the year 2006-07.

The IMG is required to submit its report by 15.10.2006. However, in the meantime Government has accepted the formula recommended by Expert Group in their interim report for working out the normative derived price of phosphoric acid. The concession rate for the phosphatic fertilizers are being worked out based on the derived price of phosphoric acid during the year 2006-07.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 9)

Even though the Department of Fertilizers claim that there is sufficient amount of fertilizers available in the market, there have been reports about shortages of fertilizers, particularly, urea in several parts of the country like Andhra Pradesh, Gujarat, Western Uttar Pradesh, Punjab, Haryana etc. Regarding the distribution and availability of fertilizers, particularly urea, the Secretary, Department of Fertilizers, during his deposition before the Committee, also admitted that there has been complaints on this aspect and in some States there have been problems relating to movement and adequate supply of urea. He added that the Department of Fertilizers monitor such situations and whenever necessary corrective measures are taken. The Committee, therefore, recommend that all necessary steps should be taken to ensure timely and adequate availability of fertilizers, so that, the farmers are not left at the mercy of the hoarders and black-marketers.

Reply of the Government

Urea is the only fertilizer that is under partial distribution control and 50% of the urea produced in the country is allocated to States Under Essential Commodities Act (ECA). The Department tries to ensure availability at State level as per the requirement by directing movement of urea to the extent of 50% of indigenous production. All other fertilisers viz. DAP, MOP, SSP etc are decontrolled fertilisers and availability of these fertilisers depends of demand and supply situation in the States.

Even when, supplies at the State level are ensured as per assessed requirement of the State, complaints of local shortages within different areas/districts of the State are often received by this Department. State Governments are responsible for planning and monitoring equitable distribution of fertilisers within the States. However, as recommended by the Standing Committee, this Department is also initiating measures to assist and facilitate such exercises to ensure proper and timely availability at all locations in the State. As a

start point, this Department has developed and distributed to States, a format for planning/monitoring supplies at the district level. It is expected that this system of monitoring will stabilize in the ensuing Rabi 2006-07 season. In addition, the Department is planning to set up a computerized on-line monitoring system for flow of all fertilizer products from production facilities or port of import right upto the District and even Sub-District level. A detailed study for this purpose has been assigned to TCS. This new system is proposed to be made operational by the end of the current financial year.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 15)

The Committee have also been informed that setting up of new fertilizer plants is also linked with availability of gas including the import of gas from other countries like Iran. Secretary, Department of Fertilizers also informed the Committee that about 35% of the indigenous fertilizer capacity is based on Naphtha and fuel oil which takes away about 70% of the subsidy. The Department of Fertilizers have accordingly sought priority for allocation of gas to the fertilizer industry. The Committee reiterate the recommendation made in their Tenth Report (14th Lok Sabha) that like the energy sector, fertilizers sector should be given top priority in the allocation of gas.

Reply of the Government

The issue of pricing and availability of natural gas/liquefied natural gas (LNG) for fertilizer sector is being actively pursued. Government had constituted an Inter-Ministerial Group (IMG) under the chairmanship of Finance Minister to examine issues relating to supplies of natural gas and LNG to fertilizer sector. IMG was also asked to examine and work out a framework which ensures preferential allocation of domestic natural gas to the fertilizer sector industry and making available LNG to fertilizer units, its pricing and the related taxation issues. IMG held two meetings and finalised its recommendations in its second meeting

held on 18.5.2006. Committee of Secretaries (COS) also deliberated on the issue of pricing and availability of natural gas/LNG for the fertilizer sector in its meeting held on 16.5.2006. Further action is being taken in compliance of the decisions taken by IMG and COS.

Further, the Ministry of Petroleum & Natural Gas has also been made aware of the views of the Standing Committee for giving top priority in allocation of gas to fertilizer sector.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 17)

The Committee have learnt that KRIBHCO has entered into a pact with the Bajaj Allianz General Insurance Co. Ltd. for a scheme called Sankat Haran Bima Yojana Policy for farmers. As per the policy, on the purchase of one bag of KRIBHCO fertilizers (costing Rs. 241.50 plus taxed /VAT as applicable in the concerned State), manufactured at the Hazira unit, every farmer would have an accidental insurance cover of Rs.4,000 per bag. The policy would be applicable in case of accident with any agriculture machinery or road mishap and the total maximum capital sum insured would be Rs. 1.00 lakh per farmers. The Committee has also been informed that the insurance cover is free for the farmers and nothing is to be paid by them towards insurance, against purchase of KRIBHCO urea bag. At present, this insurance scheme covers the State of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh & Uttranchal. The total budget of the scheme for the year 2006-07 is Rs. 2.55 crore. The Committee, while appreciating the scheme, urge the Department of Fertilizers to evaluate its success with a view to extending the same for the fertilizers industry as a whole, after incorporating necessary modification, if necessary.

Reply of the Government.

'Sankat Haran Bima Yojana Policy' is an individual insurance scheme being implemented by KRIBHCO in selected States for welfare of farmers. Public Sector Undertaking (PSUs)/ Cooperative Societies take such decision as a part of their commercial dealing. However, KRIBHCO is being requested to evaluate the success of the scheme and circulate a copy of the scheme to other fertilizers companies for their consideration and implementation.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

Comments of the Committee

(Please see Para No. 18 of Chapter-I of the Report)

(Recommendation Sl. No. 18)

The Committee feels that due to their nutrient value and eco-friendliness, the role of application of bio-fertilizers in agriculture is going to increase day by day in comparison to the chemical fertilizers. This is also evident going by the present demand of these fertilizers. The Committee have been informed that in order to augment the production of bio-fertilizers in the country, the Department of Agriculture and Cooperation had a scheme to provide financial assistance of upto Rs. 20.00 lakh per unit for setting up of bio-fertilizers production units under "National Project on Development and use of Bio-fertilizers" during 9th Five Year Plan and 2002-03. This scheme has now subsumed under a new Central Sector scheme "National Project on Organic Farming" implemented by the Department of Agriculture and Cooperation with effect from October 2004. Some financial assistance is being provided by NABARD and National Cooperative Development Corporation (NCDC) for setting up of bio-fertilizers units costing upto a maximum of Rs. 20.00 lakh. Against this backdrop, the Committee are of opinion that the Department of Fertilizers should play a major role in production, promotion and publicity for maximum use of bio-fertilizers by the farmers in the country particularly when all the fertilizers production units are under its administrative control.

Reply of the Government.

Bio-fertilizers are basically handled by Department of Agriculture & Cooperation. Under the National Project on Organic Farming, the following funds have been made available by that Department for setting up bio-fertilizers units through National Bank for Agriculture & Rural Development (NABARD) and National Cooperative Development Corporation (NCDC).

(Rs. in lakhs)

Year	NABARD	NCDC	Total
2004-05	40.00	-	40.00
2005-06	160.00	100.00	260.00
Total	200.00	100.00	300.00

Further, the Department of Fertilizers have also reviewed the production of Bio-fertilizers by the indigenous chemicals Fertilizers Companies and encouraging them to increase it further in a decentralized manner.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 19)

From the facts eplaced before the Committee about the financial position of the PSUs/Cooperative under the administrative control of the Department of Fertilizers, the Committee find KRIBHCO, NFL, RCF and PDIL are profit earning units. The other PSUs viz. FACT, MFL, BVFCL are loss making units. Besides, FCI, HFC and PPCL are closed units. However, belatedly some initiatives have been taken to examine the feasibility to revive/set up new plants at the existing sites of these plants. The Committee would like the Department of Fertilizers to review and monitor the working of all PSUs on a regular basis to give suitable directions to these units for taking remedial measures. Needless to emphasize, the Government should provide requisite support and funds to bring the loss making companies out of the red as also to complete the ongoing projects well in time.

Reply of the Government

The recommendations of the Committee have been noted for compliance in future.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

CHAPTER-III

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

(Recommendation Sl. No. 12)

The Committee note that the Eastern India Rainfed Farming Project (EIREP) stated in 1995 with the financial and technical assistance of Department of International Development (DFID) and implemented by KRIBHCO, was completed on 31.03.2005. The main objective of the project was to improve the livelihood of the tribal and rural communities. Similarly, the Western India Rainfed Farming Project (WIRFP) is being implemented by India Farm Forestry Development Coop. Ltd. (IFFDC) supported by DFID since 1st April 1999 with the same objectives and will come to an end in June 2007. The project cost under WIREP is Rs. 81.88 crore and the expenditure incurred since 1st April 1999 to December, 2005 is Rs. 59.56 crore. During the study tour of the Committee to Ahmedabad in February, 2006 representatives of Krishak Bharati Cooperative Limited (KRIBHCO) informed that about 11 lakh tribal communities have been benefited from WIRFP. KRIBHCO has also adopted some villages to take up social activities. Taking note of the reported positive results of this project, the Committee recommend that the scope and quantum of this project should be enlarged substantially as this will help in enhancing the livelihood of the tribal and rural communities which will result on their economic empowerment and integration in the mainstream of the society.

Reply of the Government.

The funding by Department for International Development (DFID) Government of U.K . for Eastern India Rainfed Farming Project was over in March 2005. Similarly, Western India Rainfed Farming Project will be over by 30th June, 2007. DFID has made it clear that it cannot provide any further funds for such projects due to change in their policies.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 16)

The Committee note that KRIBHCO formed a joint venture with Shyam Basic Infrastructure Projects Pvt. Ltd. In November-December, 2005 for taking over assets of a running plant at Shahjahanpur for Rs. 1900 crore with production capacity of 8.64 lakh metric tones (LMT) of urea per annum. KRIBHCO and Shyam Basic Infrastructure Projects Pvt. Ltd. have invested Rs. 420 crore and Rs. 270 crore respectively in the equity in the ratio of 60:40 and the rest of the money has been raised through the loans. Admittedly, KRIBHCO had financial resources to take over the plant on their own. The Committee are not fully convinced of the argument adduced by KRIBHCO that had they gone for acquisition of the plant independently, their competitors could have acquired the plant by paying more money as was their experience in the case of acquisition of the Paradeep fertilizer plant. In the opinion of the Committee, the following related points require clarification/scrutiny:-

- (i) whether prior approval of DOF for formation of joint venture for taking over the Oswal plant was obtained and given by DOF;
- (ii) whether the Government owned institutions viz. PSUs / Cooperatives etc. can select any private party as business partner without going for competitive bids;
- (iii) whether the Board meetings and General Body meeting called for to ratify the deal were held as per the procedure, with requisite notice/agenda, etc.;
- (iv) the role of the Government nominees in the Board meetings and General Body meetings; and
- (v) the role of the Government in the acquisition process.

Considering the vital nature of the above issues, the Committee would examine this matter in-depth separately.

Reply of the Government

- i) No approval of the DOF was either sought or given to KRIBHCO for formation of joint venture for taking over the Oswal plant.

- ii) Although Government owned PSUs are required to comply with the procedure as per the Companies Act and the guidelines issued by the Department of Public Enterprises and the administrative Department when going in for selection of any private party as business partner, the Multi-State Cooperatives are on a different footing. They are governed by the bye-laws and also the Multi-State Cooperative Societies Act, 2002 and the rules and instructions issued thereunder. The MSCS Act gives functional autonomy to these cooperatives. However, in respect of any matter, they are required to follow a transparent procedure.
- iii) In reply to a Parliament Question (Lok Sabha Unstarred Question No. 199 answered on 20.2.2006), it has already been clarified that the approval of the Board of Directors and the General Body for the acquisition of assets of Shahjahanpur Plant and formation of a subsidiary company by the name of KSFL were taken by KRIBHCO as per provisions of the Multi-State Cooperative Societies Act, 2002.
- iv) In the 220th Board meeting held on 15.11.2006 on the query of Government Directors regarding Government's approval it was clarified that the settled position is that no Government approval was required.

In the Special General Body held on 24.11.2005, the President's representative raised the following issues for consideration of the House:-

- (1) The applicability and requirement of DPE/PIB Guidelines in respect of financial investments to be made by PSEs should be kept in mind while proceeding further with the Project.
- (2) The details of the Project to be submitted to the Government at the earliest.
- (3) The liabilities of the FICC/Govt. arising out of the Shahjahanpur Division of OCFL should be properly ascertained and secured and recovered from sale consideration if necessary.

'To the aforesaid 3 issues, the Chairman and also the delegates present explained that KRIBHCO was not a PSU and hence, the guidelines applicable to PSEs were not applicable to it and that it was a settled position that no Govt. approval was required in the matter of investment through acquisition.'

- v) As already explained, the Government had no role in the acquisition process. The deal was an independent decision of the KRIBHCO and no Government approval was obtained.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

CHAPTER-IV

**RECOMMENDATION/OBSERVATION IN RESPECT OF WHICH REPLY OF THE
GOVERNMENT HAS NOT BEEN ACCEPTED BY THE COMMITTEE**

----- **NIL** -----

CHAPTER-V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

(Recommendation Sl. No. 2)

The Committee note that out of Rs. 5900 crore plan outlay for the fertilizer Public Sector Undertakings (PSUs) and for the departmental schemes in the 10th Five Year Plan period, the expenditure by the end of the year 2006-07 (terminal year of the Plan) is estimated to be only Rs.3366 crore, which is about 56 per cent of the approved plan outlay. The Committee have been informed that the main reasons for the shortfall in utilization of plan funds are non-implementation of Hazira Expansion Project of KRIBHCO and Ammonia Urea Project at Thal of Rashtriya Chemicals & Fertilizers Ltd. (RCF) exclusion of Indian Farmers Fertilizers Cooperative Ltd. (IFFCO) from the Department of Fertilizers' administrative control, closing of some of the PSUs like Fertilizer Corporation of India Limited (FCI) and Hindustan Fertilizer Corporation Limited (HFC), non-clearance of major projects of Fertilizers & Chemicals Travancore Ltd. (FACT) like new Sulphuric acid plant at Cochin Division, railway siding at Udyogmandal and certain improvements in Phase-I plant at Cochin Division etc.

Reply of the Government

As regards Hazira Fertilizer Project of KRIBHCO, Public Investment Board (PIB) had recommended the proposal at an estimated project cost of Rs.1750 crores for consideration by the Cabinet Committee on Economic Affairs (CCEA). However, KRIBHCO had opened the price bids on April 28,2005. As the lowest bid was much higher than this estimate, KRIBHCO has issued separate ITBs for ammonia and urea plants to all the five pre-qualified bidders in order to have better response and sufficient competition on December 21, 2005. The bids received are still to be opened.

As regards RCF, a revised proposal for Thal Expansion envisaging an estimated cost of Rs.2239 crores and capacity addition of 11.55 lakh Metric tonnes of urea per annum was received from the company in January, 2006 which was examined by the Technical Division of the Department. Certain clarifications were obtained from the Company on the proposal. The Company had also not obtained the approval of Board of Directors and was requested to do so. The Board of Directors of M/s. RCF has approved the proposal at its meeting held on 21.7.06. The matter is now under the consideration of the Government.

The proposals relating to revival of closed units of FCI and HFC are under consideration of the CCEA. As regards FACT, after technical scrutiny of the schemes submitted by the company, only those items coming under essential renewals and replacements and for maintaining the continuous operation of its divisions were recommended and the proposals of above two schemes did not fall in this category.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

Comments of the Committee

(Please see Para No. 8 of Chapter-I of the Report)

(Recommendation Sl. No. 3)

Keeping in view the fact that there is a gap of about Rs.2534 crore in the allocation and anticipated utilization of the 10th Five Year Plan outlay of the Department of Fertilizers, the Committee are of the view that the present trend of utilization of plan funds will adversely affect the ongoing and the future fertilizer projects. It is not surprising that there is hardly any capacity addition in the 10th Plan in the fertilizer sector. The Committee do not approve such a lackadaisical approach on the part of the Government/PSUs in the important area of planning and execution of projects particularly under the Five Year Plans. The Committee are rather deeply concerned over the present level of stagnation in the production

capacity of fertilizers in the country. They, therefore, strongly recommend that the entire process of project planning and implementation in the PSUs/Cooperative units under the administrative control of the Department of Fertilizers should be reviewed and streamlined. Needless to emphasize, the Department of Fertilizers should review the progress of all projects in a scientific manner on a regular basis.

Reply of the Government

The Boards of Directors of PSUs/Cooperatives considers implementation of schemes / projects by the company. The representatives of the Department on these Boards have occasion to air the viewpoints of the Department during these deliberations. Besides, Department has a Technical Division which is consulted while taking decision on implementation of project / schemes by the PSUs/Cooperatives. Over and above this the Department regularly reviews progress of projects during quarterly review meetings and meetings in connection with review of physical outcomes of these projects/schemes. Moreover, action has been initiated by the Department for undertaking evaluation and impact assessment of all major plan schemes and programmes which would constitute import inputs for finalization programmes for the 11th Plan. It is expected that this assessment will enable review and streamlining of the process of project planning by PSUs/ Cooperative units.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

Comments of the Committee

(Please see Para No. 9 of Chapter-I of the Report)

(Recommendation Sl. No. 4)

Even though the current year viz. 2006-07 is the terminal year of the 10th Five Year Plan, the Committee are not very sure whether necessary planning has been done by the Department of Fertilizers for the 11th Five Year Plan. The Committee would, therefore, like the Department of Fertilizers to identify the projects and other related issues to be taken up in the 11th Five Year Plan and evolve suitable plan strategies for meeting the fertilizer requirements of the country.

Reply of the Government

A Working Group on Fertilizer Industry for the Eleventh Five Year Plan (2007-2012) has been constituted by the Planning Commission. The Department has further constituted 4 sub-Groups for recommendations on specific issues namely:-

- Demand Projections and movement of fertilizers to end users and the use of new fertilizer practices.
- Assessing the demand of raw materials to meet the projected demand requirements of Urea and to suggest technological upgradation of current industry to international level with the end objective of reducing subsidy levels.
- Assessing the demand of raw materials to meet the projected demand requirements of Phosphatic and Potassic fertilizers and to suggest technological upgradation of current industry to international level with the end objectives of reducing concession levels.
- Technology and R&D Issues relating to Fertilizers industry.

The Reports of the Sub-Groups are under finalization.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No.10)

The Committee note that a New Pricing Scheme (NPS) for urea units has come into existence w.e.f. 01.04.2003 replacing the erstwhile Retention Pricing Scheme (RPS). NPS is being implemented in stages. Stage-I was of one year duration, from 01.04.2003 to 31.03.2004. Stage-II of NPS was for two years duration from 01.04.2004 to 31.03.2006. For reviewing the effectiveness of Stage-I and II of NPS and for formulating policy for urea units beyond Stage-II i.e. from 01.04.2006 onwards, the Department of Fertilizers had constituted a Working Group under the chairmanship of Dr. Y.K. Alagh which submitted its report in December, 2005 and the report is under examination by the Department. Since Government were very well aware that Stage-II of NPS would expire by 31.03.2006, the Committee feel that the process of formulating a policy for urea beyond 31.03.2006 should have been completed well in advance to avoid the prevailing uncertainty. The Committee desire that the Government should finalize the same without any further delay. The Committee would also like to be intimated on this account within a period of one month from presentation of the Report.

Reply of the Government

The Department of Fertilizers has submitted a note entitled 'Formulation of policy for urea units for Stage-III of New Pricing Scheme commencing w.e.f. 1.4.2006' for consideration of the Cabinet Committee on Economic Affairs (CCEA), which in its meeting held on 27.07.2006 directed that matter, in the first instance, be examined by a Committee of Secretaries (COS). The matter is now being examined by COS. 1st meeting of COS has already been held in this regard on 04.08.2006.**

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

Comments of the Committee

(Please see Para No. 12 of Chapter-I of the Report)

**** At the time of factual verification, the Department of Fertilizers vide their O.M. dated 19th January, 2007 informed that 'Based on the recommendations of the Committee of Secretaries (COS) in its meetings held on 04.08.2006 and 13.10.2006, a draft CCEA note entitled 'Formulation of Policy for Urea units for Stage-III of New Pricing Scheme' has been submitted to CCEA for consideration and approval.**

(Recommendation Sl. No.11)

The Committee in their earlier reports have recommended to explore the possibility of disbursing the subsidy on fertilizers directly to the farmers as all the poor and small/marginal farmers are not able to reap the benefits of subsidy/concession on fertilizers. In their response, the Department of Fertilizers had maintained that the payment of subsidy to the farmers directly is a gigantic task and would involve huge administrative expenditure and logistics and the country does not have the requisite infrastructure to support the administrative mechanism to provide subsidy to each farmer as a large percentage of the land holdings in the country is with small and medium farmers. In this context, the Committee note that the Planning Commission in their mid-term appraisal of the 10th Plan had inter alia recommended the re-examination of the fertilizer subsidy scheme and also to target this more to small holdings, for example, through higher subsidy on fixed quantity per farmer. Further, the Working Group headed by Dr. Y.K. Alagh has recommended, inter alia, that a scheme for disbursal of subsidy directly to the farmers in three selected districts where reliable land records are available might be formulated on an experimental basis. Undoubtedly, all these findings of the expert bodies reinforce the need for disbursement of subsidies on fertilizers directly to the farmers, as recommended by this Committee time and again, in the past. The Committee, accordingly, recommend that the recommendation of the Working Group on this score must be acted upon expeditiously to see the result and efficacy of the scheme with a view to implementing it throughout the country.

Reply of the Government

Working Group headed by Dr. Y.K. Alagh has recommended, inter alia, that a scheme for disbursal of subsidy directly to farmers in three selected districts where reliable land records are available may be formulated on an experimental basis. The recommendation is under examination with a view to determination of its feasibility and the possible modalities.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

Comments of the Committee

(Please see Para No. 15 of Chapter-I of the Report)

(Recommendation Sl. No. 13)

The Committee note that the Department of Fertilizers have received proposals from various urea companies for de-bottlenecking and expansion since the announcement of the policy in January 2004 in this regard, which would result in additional capacity of about 50.8 LMT of urea. However, the Committee are dismayed to find that approval in principle has been given in respect of only two out of eleven proposals for creation of additional capacity of 5.342 LMTPA through de-bottlenecking. The remaining proposals are under examination of the Government. Considering the stagnated production capacity in fertilizers, the Committee strongly recommend that examination of the proposals for debottlenecking and expansion of fertilizer units should be expedited.

Reply of the Government

Out of the 12 proposals received in the Department "In principle" approval on two proposals viz pertaining to Tata Chemicals Ltd. and Indo Gulf Fertilizers Limited have been conveyed to the managements of the companies. Out of the remaining 10 proposals eight have been evaluated by the Technical Committee constituted by this Department. A final decision on them will be taken after approval of stage III of New Pricing Scheme by the Government. Remaining two proposals are being technically evaluated.

As regards Expansion, out of the three proposals received (RCF, KRIBHCO and Indo Gulf Fertilizers) KRIBHCO has been asked to resubmit the proposal with firmed up cost, Indo Gulf Fertilizers have been requested to submit Detailed Project Report and RCF has been requested to submit firmed up proposal after obtaining approval of the Board of Directors.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

(Recommendation Sl. No. 14)

The Committee have been informed that in line with the Common Minimum Programme of the Government, proposals for revival of Barauni and Durgapur units of HFC and Gorakhpur and Sindri units of FCI for setting up 'Brown Field Fertilizer Plants' and a Coke Oven Complex including production of fertilizers in respect of Ramagundam and Talcher units of the Fertilizer Corporation of India Ltd. (FCI) and for Haldia unit of Hindustan Fertilizer Corporation Ltd. (HFC) have been received and are under consideration of the Government. Similarly, possibility of reviving the Amjhore Unit of Pyrites, Phosphates & Chemicals Ltd. (PPCL) by mining and selling the pyrite available at the unit direct as fertilizers is also being examined. The Committee desire that the whole process of examination of these proposals for revival of fertilizer units should be expedited and a time frame should be fixed for their completion.

Reply of the Government.

Pursuant to the Common Minimum Programme of the Government, the possibilities of revival of the closed fertilizer companies viz. Fertilizer Corporation of India Ltd. (FCIL) and Hindustan Fertilizer Corporation Ltd. (HFCL) are being explored. A proposal for obtaining the 'in-principle approval' of the Cabinet for reversal of its earlier decisions whereby the FCIL and HFCL were closed and in principal approval for revival of these companies and in-principle approval to write off GOI loans and interest liabilities of these companies towards the Government, is under consideration of the Department of Fertilizers.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. 5(2)/2006-Fin-II dated 14.12.2006]

**New Delhi;
February 12, 2007**

Magha 23, 1928 (Saka)

ANANT GANGARAM GEETE
Chairman,
**Standing Committee on
Chemicals & Fertilizers.**

Appendix-I

MINUTES

**STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2006-07)**

**SIXTH SITTING
(09.01.2007)**

The Committee sat from 1500 hrs. to 1530 hrs.

Present

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

2. Shri Suresh Angadi
3. Shri Jaiprakash (Mohanlal Ganj)
4. Shri Sunil Khan
5. Shri Shrichand Kripalani
6. Shri Subhash Maharia
7. Shri Punnu Lal Mohale
8. Shri A. Narendra
9. Shri Ramswaroop Prasad
10. Shri P. Chalapathi Rao
11. Shri Ashok Kumar Rawat
12. Shri Narsingrao H. Suryawanshi
13. Shri Bhanu Pratap Singh Verma

Rajya Sabha

15. Shri Devdas Apte
16. Shri V. Hanumantha Rao
17. Shri Mahendra Sahni

Secretariat

- | | | |
|------------------------|---|-----------------|
| 1. Shri A.K. Singh | - | Joint Secretary |
| 2. Shri Brahm Dutt | - | Director |
| 3. Shri S.C. Kaliraman | - | Under Secretary |

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting and wished them a Happy New Year. xx xx xx xx xx xx xx

4. Thereafter, the Committee considered the Draft Report on Action Taken by the Government on the recommendations contained in the Twelfth Report of the Committee on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers). After a brief discussion, the draft Report was adopted by the Committee.

4. The Committee authorised the Chairman to make consequential changes, if any, arising out of the factual verification of the Report by the Ministry of Chemicals & Fertilizers (Department of Fertilizers) and present the same to both the Houses of Parliament in the ensuing Budget Session.

The Committee, then, adjourned.

Appendix – II

(Vide Para 3 of the Introduction)

Analysis of Action Taken by the Government on the recommendations contained in the Twelfth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers).

I	Total No. of Recommendations	19
II	Recommendations which have been accepted by the Government <i>(Vide Recommendations at Sl. Nos. 1, 5, 6, 7, 8, 9, 15, 17, 18 and 19)</i>	10
	Percentage to Total	52.63%
III	Recommendations which the Committee do not desire to pursue in view of Government's Replies <i>(Vide Recommendations at Sl. No. 12 and 16)</i>	2
	Percentage of Total	10.53%
IV	Recommendation in respect of which reply of the Government has not been accepted by the Committee	Nil
	Percentage of Total	Nil
V	Recommendations in respect of which final replies of the Government are still awaited <i>(Vide Recommendations at Sl. Nos. 2, 3, 4, 10, 11, 13 and 14)</i>	7
	Percentage of Total	36.84%