



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

FOURTEENTH LOK SABHA

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

**DEMANDS FOR GRANTS
(2007-2008)**

SEVENTEENTH REPORT



LOK SABHA SECRETARIAT

NEW DELHI

April, 2007/Chaitra, 1929 (Saka)

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(DEPARTMENT OF FERTILIZERS)**

DEMANDS FOR GRANTS

(2007-2008)

Presented to Lok Sabha on 26.04.2007

Laid in Rajya Sabha on 26.04.2007

**LOK SABHA SECRETARIAT
NEW DELHI**

April, 2007/Chaitra, 1929 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS AND 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 Sunil Khan
- *7. Shri Shrichand Kripalani
8. Shri Subhash Maharia
9. Shri Punnu Lal Mohale
- §10. Shri A. Narendra
11. Shri Prasanta Pradhan
- #12. Shri Ramswaroop Prasad
13. Shri P. Chalapathi Rao
14. Shri Ashok Kumar Rawat
15. Shri Anantha Venkata Rami Reddy
16. Shri Narsingrao H. Suryawanshi
17. Shri Mansukhbhai Dhanjibhai Vasava
18. Shri D. Venugopal
19. Shri Bhanu Pratap Singh Verma
- +20. Vacant
21. Vacant

Rajya Sabha

22. Shri 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 A.S. Chera | - | <i>Director</i> |
| 4. | Shri A.K. Srivastava | - | <i>Deputy Secretary-II</i> |
| 5. | Smt. Balwant Kaur Saimbhi | - | <i>Under Secretary</i> |
| 6. | Smt. Madhu Bhutani | - | <i>Senior Executive Assistant</i> |

* 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

+ Consequent upon nomination to the Committee on Transport, Tourism and Culture, Shri Prahlad Joshi, MP (LS) ceased to be Member of the Committee w.e.f. 20.03.2007

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2006-07) having been authorised by the Committee to submit the Report on their behalf present this Seventeenth Report on Demands for Grants of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) for the year 2007-08.

2. The Committee examined the Demands for Grants pertaining to the Ministry of Chemicals & Fertilizers (Department of Fertilizers) for the year 2007-08 which were laid on the Table of the House on 19th March, 2007.

3. The Committee took evidence of the representatives of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) at their sitting held on 29th March, 2007.

4. The Committee considered and adopted the Report at their sitting held on 17th April, 2007.

5. The Committee express their thanks to the Officers of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) for furnishing the material and other information, which they desired in connection with the examination of Demands for Grants of the Department for the year 2007-08 and for giving evidence before the Committee.

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

New Delhi;
April 17, 2007
Chaitra 27, 1929 (Saka)

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

ACRONYMS

1.	BRPSE	Board for Reconstruction of Public Sector Enterprises
2.	BVFCL	Brahmaputra Valley Fertilizer Corporation Limited
3.	CBM	Coal Bed Methane
4.	CCEA	Cabinet Committee on Economic Affairs
5.	COS	Committee of Secretaries
6.	DAP	Di-Ammonia Phosphate
7.	DBS	Domestic Budgetary Support
8.	DFG	Demands for Grants
9.	DFID	Department for International Development
10.	DOF	Department of Fertilizers
11.	EIRFP	Eastern India Rainfed Farming Project
12.	FACT	Fertilizer and Chemicals Travancore Limited
13.	FAGMIL	FCI Aravali Gypsum Minerals India Limited
14.	FCI	Fertilizer Corporation of India
15.	FCO	Fertilizer Control Order
16.	FICC	Fertilizer Industry Coordination Committee
17.	GVT	Gramin Vikas Trust
18.	HFC	Hindustan Fertilizer Corporation Limited
19.	IEBR	Internal and Extra Budgetary Resources
20.	IMG	Inter-Ministerial Group
21.	IPL	Indian Potash Limited
22.	JV	Joint Ventures
23.	KRIBHCO	Krishak Bharati Cooperative Limited
24.	LMT	Lakh Metric Tonne
25.	LNG	Liquefied Natural Gas
26.	MFL	Madaras Fertilizers Limited
27.	MOP	Muriate of Potash

28.	MRP	Maximum Retail Price
29.	NFL	National Fertilizers Limited
30.	NIC	National Informatics Centre
31.	NPS	New Pricing Scheme
32.	OCFL	Oswal Chemicals and Fertilizers Limited
33.	OIL	Oil India Limited
34.	OMIFCO	Oman India Fertilizer Company
35.	PDIL	Projects and Development India Limited
36.	PPCL	Pyrites, Phosphate and Chemicals Limited
37.	RCF	Rashtriya Chemicals and Fertilizers Limited
38.	RPS	Retention Pricing Scheme
39.	S&T	Science and Technology
40.	SMR	Steam Methan Reforming
41.	SSP	Single Super Phosphate
42.	TC	Tariff Commission
43.	TEFR	Techno-Economic Feasibility Report
44.	TPA	Tonnes Per Annum
45.	WIRFP	Western India Rainfed Project

REPORT

INTRODUCTORY

The Department of Fertilizers (DOF) is a Department under the Ministry of Chemicals and Fertilizers under the overall charge of a Minister for Chemicals and Fertilizers with a Minister of State to assist. The main objective of the Department of Fertilizers is to ensure adequate and timely availability of fertilizers for maximizing agricultural production in the country and for this purpose to promote and assist industries in the fertilizers sector and to plan and arrange import and distribution of fertilizers.

2. The main activities of Department of Fertilizers include planning, promotion and development of the fertilizer industry, planning and monitoring of production, import and distribution of fertilizers and management of financial assistance by way of subsidy/concession for indigenous and imported fertilizers. The activities of this Department also include the administrative control of the Public Sector Undertakings and Cooperative Societies in these areas. The Department also disburses payments to manufacturers/importers of decontrolled fertilizers under the concession scheme which is being administered by the Department to make these fertilizers available to the farmers at the indicative Maximum Retail Price.

3. In addition, the activities of DOF also include the administrative control of the following Public Sector Undertakings and Cooperatives in the fertilizers sector:-

- (i) Fertilizer Corporation of India Limited (closed)
- (ii) The Fertilizers and Chemicals Travancore Limited
- (iii) Madras Fertilizers Limited
- (iv) National Fertilizers Limited
- (v) Rashtriya Chemicals and Fertilizers Limited
- (vi) Brahmaputra Valley Fertilizer Corporation Limited
- (vii) Hindustan Fertilizer Corporation Limited (closed)

- (viii) Projects and Development India Limited
- (ix) Pyrites, Phosphates and Chemicals Limited (closed)
- (x) FCI Aravali Gypsum Minerals India Limited
- (xi) Krishak Bharati Cooperative Limited

4 The Department has also administrative responsibility for Indian Potash Limited (IPL), a company with shareholding by private, cooperative and public sector fertilizer companies. The office of the Executive Director, Fertilizer Industry Coordination Committee (FICC) also works under the Department of Fertilizers. This office provides the Secretariat support to the FICC constituted to administer the Retention Price Scheme (for Nitrogenous Fertilizers and various incentive schemes to augment indigenous production of fertilizers) has been replaced *vide* Resolution dated 13.03.2003 to administer and operate the New Pricing Scheme (NPS) which has come into existence w.e.f. 01.04.2003.

I. IMPLEMENTATION STATUS OF RECOMMENDATIONS CONTAINED IN THE TWELFTH REPORT ON DEMANDS FOR GRANTS (2006-07)

5. The Standing Committee on Chemicals and Fertilizers presented in Parliament their Twelfth Report on Demands for Grants (DFG) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) for the year 2006-07 on 19th May, 2006. The Committee presented their Fifteenth 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 Department of Fertilizers' in Lok Sabha on 27th February, 2007 and laid in Rajya Sabha on 1st March, 2007. Out of 19 recommendations, 10 recommendations (Sl. Nos. 1, 5, 6, 7, 8, 9, 15, 17, 18 and 19) were accepted by the Government. In respect of one recommendations (Sl. Nos. 12 and 16), the Committee did not desire to pursue in view of the Government's replies. In respect of seven recommendations (Sl. Nos. 2, 3, 4, 10, 11, 13 and 14), the replies of the Government were still awaited. The Fifteenth Action Taken Report was sent to the Department on 6th March, 2007 for furnishing Action Taken Statement on the recommendations made by the

Committee in the Report. Subsequently, the Minister of Chemicals & Fertilizers made a statement in Lok Sabha on 18th December, 2006 regarding the status of implementation of the recommendations contained in the Twelfth Report on Demands for Grants (2006-07). On the basis of the information made available by DOF category-wise analysis of implementation of recommendations by the Government is given as under:-

Recc. Sl. No.	Recommendation in Brief	Implementation by Government
I. Gist of the recommendations which were accepted by the Government		
1	Implementation status of recommendations contained in the Twelfth Report of the Committee on Demands for Grants (2006-07) of the Department of Fertilizers.	DOF stated that all efforts are being made in respect of recommendations which were not accepted by the Committee and which were of interim nature.
5	Enhancement in production capacity of nitrogenous and phosphatic fertilizers.	DOF stated that efforts are being made to increase the production capacity of urea and to reduce the dependence on imports.
6	Adequate Budget allocation to implement the plans/projects and meeting the subsidy bill.	DOF stated that continuous efforts are being made for getting requisite funds for this work. Further efforts will be made for getting additional funds during the current financial year.
7	Early settlement of all subsidy/concession bills.	DOF stated that Ministry of Finance has been requested to provide funds for payment of disbursement of subsidy.
8	Early commencement of concession policy relating to DAP and complex Fertilizers.	DOF stated that an Inter-Ministerial Group (IMG) has been constituted for examining the issues relating to concession on DAP. The IMG was required to submit their report by 15.10.2006.
9	Timely and adequate availability of fertilizers.	DOF assured that a format had been developed for planning/monitoring supplies at district level. They are also making planning to set up a computerized online monitoring system for this purpose which will be operational by the end of the current financial year.

Recc. Sl. No.	Recommendation in Brief	Implementation by Government
15	Priority for allocation of gas to the fertilizer industry.	DOF stated that an Inter-Ministerial Group (IMG) was constituted under the Chairmanship of Finance Minister to examine the issues relating to supplies of natural gas to fertilizer sector. IMG and COS has finalized their recommendations in meetings held on 18.05.2006 and 16.05.2006 respectively. Further Ministry of Petroleum and Natural Gas is also being pursued for giving top priority in allocation of gas to fertilizer sector.
17	Scheme launched by KRIBHCO called 'Sankat Haran Bima Yojana Policy for farmers'.	DOF has stated that KRIBHCO was requested to evaluate the success of the scheme and a copy of the same was circulated to the fertilizer companies for consideration.
18	Encouraging the use of Bio-fertilizers by the farmers.	DOF stated that they are encouraging chemical fertilizers companies to increase the production of bio-fertilizers.
19	Review and monitoring the working of all PSUs on regular basis.	DOF has stated that the recommendation of the Committee have been noted.
II. Gist of recommendations which was not pursued by the Committee in view of Government's reply		
12	Scope and quantum of the Western India Rainfed Project (WIRFP) should be enlarged.	DOF has stated that the Western India Rainfed Farming Project will be over by 30 th June, 2007. Department for International Development (DFID) has clarified that no further funds could be provided by them for such projects due to policy change.
16	Acquisition of assets of Oswal Chemicals and Fertilizers Limited (OCFL) by KRIBHCO and Shyam Basic Infrastructure Project.	DOF in their latest information has stated that they have cleared all the issues relating to acquisition of assets of Ministry Oswal Chemicals and Fertilizers Limited (OCFL) at Shahjahanpur by KRIBHCO and Shyam Basic Infrastructure Projects Limited. It was cleared in Board meeting held on 15.11.2006 that 'no Government approval was required for setting up special purpose vehicle/joint venture and to promote and form subsidiary Institutions in India and abroad as per Multi-State Cooperative Societies Act, 2002.

Recc. Sl. No.	Recommendation in Brief	Implementation by Government
III. Gist of recommendations on which replies of the Government were interim in nature		
2	Shortfall in utilization of plan outlay.	DOF assured that efforts will be made for implementation of projects/ schemes relating to utilization of plan funds by PSUs/Cooperatives under its administrative control.
3	Project planning and implementation in the PSUs/Cooperatives.	DOF stated that efforts are being done for undertaking evaluation and impact assessment of all major plan schemes and programmes.
4	Evaluation of projects and plan strategies regarding 11 th Five Year Plan.	DOF stated that a Working Group on Fertilizers Industry for the 11 th Five Year Plan has been constituted by the Planning Commission.
10	Finalization of Stage-III of New Pricing Scheme (NPS).	In the action taken reply, it has been stated that a note regarding 'Formulation of Policy for Urea units for Stage-II of NPS was submitted to Cabinet Committee on Economic Affairs (CCEA) for consideration. Now, as per directions of CCEA, the matter is being examined by Committee of Secretaries (COS).
11	Recommendation of the Working Group headed by Dr. Y.K. Alag on disbursal of direct subsidy to farmers.	DOF, in their action taken reply, has stated that the recommendations of the Working Group regarding disbursal of direct subsidy to farmers is under examination with a view to determine its feasibility and modalities.
13	De-bottlenecking/revamp/modernization of existing urea units.	DOF has stated that ten proposals regarding de-bottlenecking/revamp/modernization of existing urea units are under consideration by the Government.
14	Revival of sick, loss making and closed fertilizer PSUs.	DOF, in their action taken reply, has stated that possibilities of revival of the closed fertilizer companies are being explored and proposals for revival of these PSUs are under consideration of the Department of Fertilizers.

6. The Twelfth Report of the Committee on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) was presented to Parliament on 19th May, 2006. The Fifteenth Action Taken Report on action taken by the Government on the recommendations contained in Twelfth Report was presented to Lok Sabha on 27th February, 2007 and laid on the Table of Rajya Sabha on 1st March, 2007. Out of the total 19 recommendations, 10 Recommendations (Sl. Nos. 1, 5, 6, 7, 8, 9, 15, 17, 18 and 19) were accepted by the Government. In view of the Government's replies, Recommendations at Sl. Nos. 12 and 16 were not pursued by the Committee. In regard to Recommendations at Sl. Nos. 2, 3, 4, 10, 11, 13 and 14, the replies of the Government were of interim nature. Subsequently, the Minister of Chemicals and Fertilizers made a Statement regarding the status of implementation of the recommendations contained in Twelfth Report of the Committee in Lok Sabha on 18th December, 2006 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 19 Recommendations, the Department of Fertilizers have implemented only 5 Recommendations so far. The implementation process in

regard to 5 recommendations is in progress. The Recommendations at Sl. Nos. 2, 3, 4, 10, 11, 12, 13, 14 and 16 relating to shortfall in utilization of plan outlay, project planning and implementation in PSUs, plan strategies in regard to 11th Five Year Plan, finalization of Stage-III of NPS, disbursement of subsidy directly to farmers, de-bottlenecking/revamp/modernization of existing urea units, revival of sick, loss making and closed fertilizer PSUs have not been implemented so far. The Committee are dismayed at the slow pace of the implementation process of their Recommendations and desire that sincere efforts for properly and timely implementation of their Recommendations should be made by the Department of Fertilizers without further delay.

(Recommendation Sl. No. 1)

II. TENTH FIVE YEAR PLAN PERFORMANCE

7. For the Tenth Five Year Plan (2002-2007), Planning Commission has approved an outlay of Rs. 5900.00 crore consisting of Rs. 975.00 crore as Domestic Budgetary Support (DBS), Rs. 75.00 crore as External Aid routed through Budget and Rs. 4850.00 crore to be met out of Internal and Extra Budgetary Resources (IEBR).

8. For the year 2006-07, a plan outlay of Rs. 985.03 crore was approved by the Planning Commission with Rs. 886.22 crore to be met out of IEBR and balance amount of Rs. 98.81 crore as Budgetary Support. The following table shows the plan allocation and year-wise expenditure of Plan funds during the 10th Five Year Plan:-

(Rs. in crore)

Sl. No.	Name of the Undertaking	10 th Plan 2002-07	2002-03 (Actual)	2003-04 (Actual)	2004-05 (Actual)	2005-06 (Actual)	2006-07 (BE)	2006-07 (RE)	2007-08 (BE)
1	FCI-FAGMIL	380	3.00	--	0.04	0.14	150	2.92	014
2	FACT	475.00	15.00	17.26	10.14	40.00	30.00	30.00	15.00*
3	HFC (BVFCL)	275.00	150.00	131.30	4.45	37.49	40.86	40.86 **	4.50*
4	NFL	160.00	64.32	11.62	25.81	42.21	59.02	40.30	477.91
5	RCF	1900.00	54.10	28.16	143.89	168.42	237.70	304.40	302.41
6	PDIL	10.00	1.00	0.50	1.37	0.49	2.00	1.50	2.50
7	PPCL	1.00	--	--	--	--	--	--	--
8	MFL	99.00	15.00	14.00	11.93	9.49	9.00	9.00	9.00
9	FCI	--	--	--	--	--	--	--	1.00
10	HFC	--	--	--	--	--	--	--	1.00
11	PPCL	--	--	--	--	--	--	--	1.00
12	KRIBHCO	1680.00	178.47	203.82	7.43	427.99	586.00	65.00	210.00
13	IFFCO@	810.00	210.29	--	--	--	--	--	--
14	Misc. schemes under the Deptt.	110.00	20.80	19.94	21.96	16.89	18.95	18.14	13.50
	Total	5900.00	711.98	426.60	227.02	743.12	985.03	512.12	1037.96

* *This includes Rs. 10.00 crore for lumpsum provision for North East Region.*

** *Includes Rs. 4.50 crore for lumpsum provision for North East Region.*

@ *Government of India's equity stands reduced to 'nil'. Hence, no figure furnished in respect of IFFCO.*

9. During the course of examination the Committee pointed out that there has been shortfall in utilization of plan funds during the current Five Year Plan. Asked about the reasons for shortfall in utilization of plan funds, the Department of Fertilizers, in a written reply, stated that the main reasons for shortfall in utilization of plan funds are as follows:-

- a) The Plan allocation in respect of KRIBHCO included a provision for Hazira Expansion Project. However, the project could not be implemented due to lack of assured availability of gas for the same.
- b) The plan allocation in respect of RCF included provision of Rs.1330 crores for Thal Expansion Project. However, the project could not be implemented due to lack of assured availability of gas for the same.
- c) A plan outlay of Rs.810 crores was made for M/s.IFFCO. Out of this, an amount of Rs.210.29 crores could be utilized during 2002-03. Thereafter, the Government of India's equity has been repatriated by IFFCO and it is no more a public sector undertaking/cooperative under the Department of Fertilizers.
- d) The plan allocation of Rs.380 crores had been made for M/s.FCI for the 10th Five Year Plan. FCI has since been closed w.e.f. 5.9.02. Therefore, the plan allocation could not be utilized.
- e) The 10th Plan allocation for FACT is Rs.475 crores, out of which some of the major projects like new sulphuric acid plant at Cochin Division (Rs.103 Crore), railway siding at Udyogamandal (Rs.74 Crore), improvement to Phase I plants in Cochin Division etc. could not be undertaken due to fund constraints as the company was running into losses.”

10. When the Committee asked whether any revised plan was prepared by the Department of Fertilizers for implementation of some of the projects which are at the stage of closure or midway to re-apportion the plan funds for better utilization, the Department of Fertilizers stated that the savings on account of non-implementation of project was mainly under plan outlay from IEBR which is not

available for re-appropriation. However, the plan outlay for the terminal year of 10th Plan i.e. 2006-07 and the actual expenditure is as follows:-

(Rs in Crore)

S. No.	Name of the undertaking	2006-07 (RE)			Expenditure as on 31 st March, 2007		
		DBS	IEBR	TOTAL	DBS	IEBR	TOTAL
1	FAGMIL	-	2.92	2.92		0.74	0.74
2	FACT	30	-	30.00	30.00		30
3	BVFCL	40.86	-	40.86	40.86		40.86
4	NFL*		40.30	40.30		20.85	20.85
5	RCF		304	304		122.48	122.48
6	PDIL		1.5	1.5			-
7	MFL	9	-	9	8.80		8.8
8	PPCL	0	0	0			0
9	KRIBHCO		65	65		45.74	45.74
10	Misc. Departmental Schemes	18.14	-	18.14	4.92		4.92
	Total	98	414.12	512.12	84.58	189.81	274.39

11. While the Domestic Budgetary Support (DBS) will be utilized during the current year, there will be shortfall in utilization of IEBR.

12. Elaborating the reasons for non-utilization of plan funds, the Department of Fertilizers stated in a written note:-

“As regards FCI, the plan allocation of Rs. 380 crore (Rs. 190 crores as budgetary support and Rs. 190 crores as IEBR) was for revamp of Sindri Unit. Out of this, only Rs.3 crores have been released to the company for undertaking renewals and replacement during 2002-03. FCI has since been closed w.e.f. 05.09.2002. Therefore, the balance amount earmarked in the plan could not be utilized.

In case of HFC, the tenth plan allocation is Rs.275 crores (entirely budgetary support). BVFCL was formed after demerger from HFC and the entire plan allocation of Rs.275 crores has been utilized for revamp of Namrup units of BVFCL during the current plan period.

So far as PPCL is concerned, the plan allocation of Rs.1 crore could not be utilized, as it was decided by the Government to close the company.

In respect of NFL, during the year 2005-2006, the shortfall in actual expenditure was Rs.12.79 crores which mainly pertains to shortfall in upgradation of instrumentation amounting to Rs. 8.26 crores due to high lead time quoted by suppliers and savings in completion costs of energy saving schemes as compared to budget allocations amounting to Rs. 2.55 crores.

During the year 2006-2007, against the plan outlay of Rs.59.02 crores, actual expenditure upto Jan,2007 is Rs.19.44 crores. The actual expenditure is on lower side due to Revamp of Vijaipur-I being put on hold due to substantially higher bids received for critical equipments having adverse impact on the viability of the project. There has been delay in receipt of equipments for Digital Control System in Steam generation Plants at FO based units.

In respect of RCF, against the plan outlay of Rs.305.22 crore, company have actually utilized Rs.210.01 crore during 2005-06. There was a slip-up in the implementation of Ammonia-V revamp and the Argon recovery project at Thal. Hence the balance expenditure relating to this period is expected to be spent during 2006-07. During 2006-07, RCF have projected its plan outlay as Rs.237.69 crore against which Rs.154 crore is expected to be spend by the year-end. The total expenditure during the tenth plan period is expected to be around Rs.600 crore.

As regards KRIBHCO, the main project Hazira Expansion Project could not be implemented during the 10th Plan period. The project could not be implemented due to non-availability of assured supply of gas, KRIBHCO has been asked to procure firm commitments for supply of gas so that a decision on this project can be taken.

As regards FACT, the Tenth plan proposal was for Rs. 475 crores, out of which some of the major projects like New Sulphuric Acid at Cochin Division (Rs. 103 crore), Railway siding at Udyogamandal (Rs. 74 crore), improvement to Phase I plants in Cochin Division etc. were not cleared and the majority of the items are coming under Renewals and Replacements. Total plan outlay up to 2006-07 for the tenth plan period is Rs. 116.4 crore only.

The above projects were not taken up as the financial condition of the company became critical by 2002-03 and there was no internal generation of funds. A financial restructuring package was sanctioned by GOI in 2005-06. The operations of the company are still under losses and a decision on implementation of above projects will be taken after the operations of the company becomes economically viable and sustainable.

In respect of MFL, regarding utilization of plan outlays and completion of projects during the last two years, MFL has completed only 13 schemes to the tune of Rs. 20.28 crore. The reasons for non-utilization of plan outlays during the year 2005-06 and 2006-07 were that company have dropped six schemes.

As regards PDIL, Government of India had approved the plan outlay of Rs. 10 crores for 10th Five Year Plan, Rs. 7 crores as Budgetary support and Rs. 3 crores from IEBR. The company has drawn plan funds as Budgetary support, Rs. 50 lakhs during the year 2002-03 (Rs. 25 lakhs loan and Rs. 25 lakhs as Equity). The plan loan of Rs. 25 lakhs has been refunded in the year 2003-04. The percentage of shortfall in expenditure during the 10th Five Year Plan is 44.10%.

The proposed RE for the years 2005-06 and 2006-07 was 3.28 crore and 1.50 crore respectively. Out of which an amount of Rs. 1.37 crore was utilized in 2005-06 and Rs. 0.54 crore was utilized in 2006-07 (upto January, 2007). The unutilized amount was Rs. 1.91 in 2005-06 and Rs. 0.96 was in 2006-07.

The funds could not be utilized during the year 2005-06 and 2006-07 mainly due to deferment of procurement of some of the computer items, the modular cabins at one wing of 2nd floor and net-working at Baroda office.

In respect of BVFCL, the total plan outlay received in 2005-06 and 2006-07 was Rs. 37.49 crore and 30.36 crore respectively. The actual expenditure was Rs. 23.83 crore in the year 2005-06 and Rs. 17.68 crore in the year 2006-07 (upto January, 2007).

The Namrup-II Plant has been commissioned on 22.11.2005 and all the funds received upto 2005-06 has been fully utilized. As for the funds received during 06-07 the same is being used progressively as the final bills are under process for payments.”

13. On being enquired about the observations made in full term appraisal of the 10th Five Year Plan in respect of fertilizer sector and the follow-up action taken thereon, the Department of Fertilizers, in their written reply, stated as under:-

“While formulating the 11th Five Year Plan, full term appraisal of the fertilizer sector during 10th Five Year Plan will be done by the Planning Commission. The Planning Commission is yet to circulate Draft of the 11th Five Year Plan. The observations of the Planning Commission on the full term appraisal of the 10th Five Year Plan in respect of fertilizer sector will be examined and necessary follow-up action will then be taken by the Department of Fertilizers.”

14. When the Committee asked about the steps taken for implementation of the Five Year Plan schemes, the Department of Fertilizers, in a written note, stated as under:-

“The Schemes/programmes proposed to be implemented through plan outlays are finalized by PSEs at the level of Board of Directors which consists of representatives of this Department. The Schemes/programmes so proposed by PSEs (viz., FACT, MFL & BVFCL) in respect which budgetary assistance are extended by Government are examined in depth by the Technical Division of the Department of Fertilizers through physical verification at plant sites followed by which their prioritization vis-à-vis budgetary implications and suggestions for improvement etc are made. However, in respect of PSEs – majority of which are enjoying mini-ratna status and enjoy autonomy in decision making (e.g NFL,RCF, PDIL & KRIBHCO) and implement their schemes/programmes through plan outlays from Internal Generation of resources a general technical appraisal in terms viability is undertaken by Technical Division of the Department of Fertilizers. After these schemes/programmes are deliberated and finalized in the Department, evaluation is undertaken by Planning Commission during Annual Plan discussions. Besides, the Planning Commission and Ministry of Finance in consultation with this Department also undertakes monitoring of physical “outputs” as well as “outcomes” of these schemes/programmes on a regular basis. Department also regularly monitors follow up action with regard to activities of the major projects/schemes by way of quarterly review meetings.

All these forums of appraisal sufficiently ensures transmission of suggestions for the improvement in the implementation of the schemes by PSEs/society and prepares ground for them to achieve targets.”

15. The Committee note that out of Rs. 5900 crore plan outlay in regard to fertilizer sector in the 10th Five Year Plan period, the expenditure by the end of the year 2005-06 is Rs. 2108.72 crore, which is about 35.72 per cent of the approved plan outlay. For the year 2006-07, the likely expenditure is Rs. 2987.54 crore. The Committee have been informed that the main reasons for shortfall in utilization of plan funds are non-utilization of funds for Hazira Expansion Project of Krishak Bharati Cooperative Limited (KRIBHCO) and Thal Expansion Project of Rashtriya Chemicals and Fertilizers Limited (RCF), exclusion of Indian Farmers Fertilizers Cooperative Limited (IFFCO) from the administrative control of Department of Fertilizers, closing of two PSUs like Fertilizer Corporation of India Limited (FCI) and Hindustan Fertilizer Corporation Limited (HFC), non-implementation of some major projects of Fertilizers and Chemicals Travancore Limited (FACT) viz. (i) New Sulphuric Acid Plant at Cochin Division, (ii) Railway siding at Udyogamandal and certain improvements to Phase-I plants in Cochin Division, etc. Similarly, with regard to National Fertilizers Limited (NFL), the shortfall in actual expenditure is due to savings in completion costs of energy savings schemes and delay in revamping of Vijaipur-I plant. In case of Rashtriya Chemicals and Fertilizers Limited (RCF), the Ammonia-v revamp and the Argon recovery project at Thal were not implemented. Madras Fertilizers Limited (MFL) has

also not utilized the full plan outlay due to dropping of six schemes during the year 2005-06 and 2006-07 while in case of Project and Development India Limited (PDIL), the funds could not be utilized due to deferment of procurement of some computer items.

Keeping in view the fact that there is a gap of about Rs. 3792 crore in the allocation and anticipated utilization of the 10th Five Year Plan outlay of Department of Fertilizers, the Committee are of the view that the funds had not been utilized by the Department of Fertilizers properly during each year of the Tenth Plan period. The Committee are not satisfied with the reasons furnished by the Department for non-utilization of plan funds by each PSU. The Committee are pained to note that although they had repeatedly recommended that Department of Fertilizers should review the progress of all projects in a scientific manner on a regular basis but no adequate action had been taken by the Government on those recommendations. The Committee feel that implementation process of project planning in the PSUs/Cooperative unit under the administrative control of the Department of Fertilizers was poor as ground realities were not considered while formulating and implementing the schemes/projects. The Committee strongly feel that there is no use of fixing the targets if they cannot be achieved. The Committee desire that the Department of Fertilizers should,

therefore, analyse the reasons for continuous failures in achieving the targets during each year of the 10th Five Year Plan and ensure that the same shall not continue during the 11th Five Year Plan.

(Recommendation Sl. No. 2)

(a) Capacity Build-up and production

16. The installed capacity and production of Nitrogenous and Phosphatic fertilizers in the country at the end of Eighth Five Year Plan in the terminal year of the Ninth Plan and at the beginning of 5th year of Tenth Plan (2002-2007) are indicated below:-

(In LMT)

Sl. No.	Particulars	End of Eighth Five Year Plan	End of Ninth Five Year Plan (2001-02)	Beginning of 5 th year of Tenth Five Year Plan (2006-07)
1.	Capacity			
	(i) Nitrogen	97.77	120.58	120.61
	(ii) Phosphates	29.05	52.31	56.59
2.	Production			
	(i) Nitrogen	85.99	107.68	114.52
	(ii) Phosphates	25.56	38.60	45.08 (Estimated)

17. The target and actual production of Fertilizers and percentage achievement against the target from 2004-05 onwards is given below:-

(In lakh tonnes)

Year	Nitrogen			Phosphate		
	Target	Actuals	% age achievement	Target	Actuals	% age achievement
2004-05	114.06	113.35	99.38	49.26	40.67	82.56
2005-06	118.11	113.54	96.13	46.63	42.21	90.52
2006-07 (Estimated)	114.48	114.63	100.13	48.21	45.31	93.98

18. The production performance of both nitrogenous and phosphatic fertilizers during Kharif 2006 was less than the target mainly due to constraints in supply and quality of natural gas, equipment breakdowns, delay in commissioning of Namrup-II, and RCF-Trombay-V, and DIL-Kanpur remaining under continued shutdown. In

case of phosphates, production in DAP plants was low due to shortage of phosphoric acid and imported ammonia.

19. When the Committee asked as to why there was no substantial increase in capacity in respect of nitrogen in the 10th Plan, the Department of Fertilizers replied in a written note as follows:-

“The capacity utilization of the fertilizer industry, particularly in respect of urea, is expected to improve through revamping/ modernization of the existing plants and adoption of alternative sources like liquefied natural gas.

In the latter context, a pricing policy was announced in January 2004 for setting up new urea projects and expansion of existing urea projects for augmenting the domestic production capacity to meet the growing demand for enhancing the agricultural production in the country. The aim of the new policy is to encourage creation of additional capacity with international efficiency standards, and it is envisaged that the new and expansion urea units will be based on natural gas/LNG as feedstock which is the most cost effective and the least polluting feedstock in fertilizer sector today. It also envisaged the creation of additional capacity through de-bottlenecking/revamp/modernization, provided that the additional production comes from using natural gas/LNG as feedstock. As per the policy, the measures proposed for de-bottlenecking/revamp/modernization of the plant should result at least in 10% increase in the existing urea production capacity of the applicant units and such additional urea production would be priced at the existing concession rate of the unit. The Department has received ten proposals from various urea companies de-bottlenecking with proposed capacity of 18.316 LMTPA and three proposals for expansion projects with proposed capacity of 32.505 LMTPA, which would result in additional capacity of about 50.821 LMTPA of urea.

The Cabinet Committee on Economic Affairs (CCEA) in its meeting held on 1-2-2007 approved the policy for Stage – III stating that Policy of de-bottlenecking has been reformulated as “Incentives for additional Urea Production” with following provisions :-

- (a) No permission will be required from the Government for production beyond 100% of re-assessed urea capacity of the unit.
- (b) All production between 100% and 110% of the existing reassessed capacity, if so required by the government as per the approved production, plan will be incentivized on the existing net gain sharing formula between the Government

and the unit in the ratio of 65:35 respectively with the proviso that the total amount paid to the units, after including the component of variable cost will be capped at the unit's own concession rate.

- (c) Units increasing production beyond 110% may be compensated at their concession rate, subject to the overall cap of IPP.
- (d) While procuring additional urea beyond 100% of the reassessed capacity of urea units, a merit order system of procurement will be followed. In other words, the units which supply urea at the least cost would be given preference in procurement.
- (e) The cost of feedstock/fuel allowed will be in the ratio of gas/LNG/Naphtha etc. with reference to actual ratio of consumption of annual actual production of urea up to that portion of the incremental production of urea required by the Government for sale to agriculturalists. Energy / inputs for non-agricultural sale/exports and surplus ammonia shall be allocated on costlier feed/fuel basis.
- (e) To the extent that the Government does not require any quantities of additional production for direct sale to agriculturalists, the concerned units would be free to dispose of the remaining quantities by way of exports, sale to complex manufacturers etc. without seeking prior permission of DOF.
- (g) Government will not subsidize the additional production, if not required by it for agricultural consumption.”

(b) Consumption of Major Fertilizers

(in lakh tonnes)

Fertilizer	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (Apr-Sep06)*
Urea	199.17	184.93	197.67	206.65	222.97	113.66
DAP	61.81	54.73	56.24	62.56	67.64	32.06
MOP	19.93	19.12	18.41	24.06	27.31	10.02
Nitrogenous Fertilizers (N)	113.10	104.74	110.77	117.13	127.23	64.68
Phosphatic Fertilizers (P)	43.82	40.19	41.24	46.24	52.04	25.75
Potassic Fertilizers (K)	16.67	16.01	15.98	20.61	24.13	9.67
N+P+K	173.60	160.94	167.99	183.98	203.40	100.10
Percentage increase	3.94	-7.29	4.38	9.52	10.56	8.84

* Provisional

The above table shows that from the year 2001-02 to 2006-07 (April-September, 2006) the consumption of major fertilizers is on increasing trend. Accordingly, percentage has also been increased in regard to fertilizers.

20. When the Committee asked about the programmes planned by Department of Fertilizers during the 11th Five Year Plan taking into consideration the increasing trend of demand and consumption of major fertilizers, the Department of Fertilizers, in a written reply, informed that the Working Group on Fertilizers for the 11th Plan Period forecast the demand of Urea, DAP and MOP from 2006-07 to 2011-12, the figures are as follows:-

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

21. As far as demand of urea is concerned, it is stated by Department of Fertilizers that to meet the projected demand for urea during the 11th Plan Period, the Government has announced the New Pricing Scheme Stage-III on 8th March, 2007 to be implemented w.e.f. 1st October, 2006 to 31st March, 2010. Under NPS Stage-III :-

- (a) Additional production from the existing urea units in the country has been incentivized and the requirement for prior Government approval for production beyond 100% has been done away with.
- (b) The policy has emphasized conversion of all non-gas based urea units in the country to gas within a definite timeframe of next three years, which is expected not only to increase efficiencies of production but also lead to additional production of urea in the country.

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

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

23. To meet the growing demand of DAP it is informed by Department of Fertilizers that demand for phosphatic fertilizers in the country is being met through indigenous production based on imported raw material/intermediates and import of finished fertilizers. Due to lack of economically exploitable reserves of phosphates in the country, the import dependence in this sector is expected to continue during the 11th Plan Period also. The Working Group on Fertilizers have estimated total demand supply gap by 2011-2012 would be 1.711 Million MT of P₂O₅ equivalent to around 3.9 million MT of DAP. It has suggested following strategy to meet the demand supply gap.

- (i) Direct import of DAP : 1 million MT
- (ii) The balance DAP gap may be met through JV abroad for manufacture of Phosphoric Acid with buy back arrangements to manufacture phosphates in India. This will require production facilities for 1.33 million MT of Phosphoric Acid per year in rock rich countries.

24. In regard to MOP, the complete demand for potash in the country is met through imports as there are no economically exploitable results of reserves of potash in the country.

25. The import of Urea is permitted only through State Trading Enterprises. By the terminal year of the 10th Plan, the import of urea and DAP is 28.65 lakh MT and 27.87 lakh MT respectively. There is high increase in import of Urea and DAP as compared to the year 2005-06.

26. When the Committee asked about the reasons for high increase of import of urea and DAP during the year 2006-07, the Department of Fertilizers, in a written reply, stated as under:-

“There has been a substantial increase in the demand for fertilizers in recent years primarily on account of excellent rainfall conditions, area covered under irrigation, greater awareness amongst the farmers community as well as increased liquidity and purchasing power in the rural sector. In order to bridge the gap between the higher assessed demand and the estimated production of urea in the country Government resorted to record imports of urea for direct agriculture use during 2006-07. The import of Urea (other than from OMIFCO) in 2006-07 (up to 28.02.07) was 28.65 lakh MT as against 7.31 lakh MT in 2005-06.

The import of other fertilizers including DAP is freely allowed and companies import these fertilizers based on the assessment of demand & supply. The import of DAP in 2006-07 (up to 28.02.07) was 28.13 lakh MT as against 24.38 lakh MT in 2005-06.”

27. On being enquired by the Committee whether efforts have been made by Department of Fertilizers to reduce the import of Urea and DAP for the year 2007-08 and also to minimize the subsidy borne by the Government on this account the Department of Fertilizers, in a written reply, stated as under:-

“Efforts are being made to increase domestic production of urea and also to encourage its additional production by the existing units. Possibilities of joint ventures abroad for augmenting availability of urea and DAP are also being explored. However, these efforts will take time to materialize and the gap between demand and supply of fertilizers is likely to increase in the short term due to increase in demand of fertilizers on account of good rainfall conditions, area covered under irrigation, greater awareness amongst the farmers community as well as increased liquidity and purchasing power in the rural sector. Under the circumstances, imports as required from time to time will be necessary to bridge the gap between the demand and indigenous production of fertilizers.”

28. The Committee note that there has been marginal increase in production capacity in respect of both nitrogenous and phosphatic Fertilizers in the beginning of the fifth year of 10th Five Year Plan i.e. in 2006-07 as compared to the production capacity in the end of the 9th Five Year Plan i.e. in the year 2001-02. The Committee also note that consumption of major Fertilizers are also on increasing trend. The Committee find that the demand forecast of urea during the 11th Plan period as per the Working Group on Fertilizers for the Eleventh Plan is 1354.70 lakh tonnes and demand forecast for phosphatic fertilizers, especially DAP is very high in comparison to the present trend of consumption. The Committee further note that the demand for phosphatic fertilizers in the country is being met through indigenous production based on imported raw material/intermediates and import of finished Fertilizers. Due to lack of efficient exploitable reserves of phosphate in the country, it is being expected that the import practice will continue during the 11th Plan period also. The Committee, therefore, recommend that the Department should fix higher targets taking into account the increasing demand and consumption of all major fertilizers in the coming years so as to reduce the import of urea and DAP for the year 2007-08 and also to minimize the subsidy borne by the Government on this account.

(Recommendation Sl. No. 3)

III. ELEVENTH FIVE YEAR PLAN

29. The Planning Commission has approved an outlay of Rs.1037.96 crore for various Public Sector Undertakings and miscellaneous schemes of the Department of Fertilizers for the year 2007-08. Out of which an amount of Rs.992.96 crore will be met from the internal and extra budgetary resources and the balance amount of Rs.45.00 crore will be provided by way of budgetary support.

30. The Budget proposals submitted by the Department of Fertilizers and the amount actually provided by the Planning Commission for various Public Sector Undertakings and the Departmental Scheme in Annual Plan 2007-08 is given below:-

(Rs. in Crores)

Name of PSU	Budget proposals submitted by Department of Fertilizers		Proposal agreed by the Planning Commission	
	Budgetary Support	IEBR	Budgetary Support	IEBR
FCI (FAGMIL)	--	0.14	--	0.14
FACT	40.00	--	15.00	--
BVFCL *	23.69	--	* 4.50	--
MFL	9.00	--	9.00	--
PDIL	--	2.50	--	2.50
NFL	--	477.91	--	477.91
RCF	--	302.41	--	302.41
PPCL	1.00	--	1.00	
FCI	1.00	--	1.00	
HFC	1.00	--	1.00	
S&T	6.00	--	5.50	
KRIBHCO	--	210.00	--	210.00
Capital subsidy for conversion of 4 existing FO/LSHS plants to NG/LNG	5.00	--	5.00	
Rainfed Farming	1.50		1.50	
MIT	1.81		1.50	
Lump-sum Provision for the Scheme for the benefit of North Eastern region & Sikkim	10.00			
Total	100.00	992.96	45.00	992.96
Outlay	1092.96		1037.96	

* Rs.4.50 crores will be utilized for development of North-Eastern Region and Sikkim

31. The Plan Budget proposals of the Department for 2007-08 were discussed in the Planning Commission .While Planning Commission agreed with the proposal of the Department in respect of internal and extra budgetary resources generated by the PSUs, they have provided a gross budgetary support of Rs. 45 crores as against the Department's proposal of Rs.100 crores. They have provided an amount of Rs. 4.50 crores for implementation of Namrup Revamp Project of M/s. Brahmaputra Valley Fertilizer Company Ltd. and this provision will be utilized for the development of North-Eastern region and Sikkim, Rs. 15 crores for M/s. Fertilizers and Chemicals Travancore Ltd, 0.14 crore for FCI- FAGMIL and Rs. 9 crores for M/s. Madras Fertilizers Ltd. for undertaking their renewal and replacement and other schemes. An amount of Rs.4.50 crore for Brahmaputra Valley Fertilizers Corporation Limited, Rs.477.91 crore for National Fertilizers Limited, Rs.2.50 crore for project and Development India Limited, Rs.302.41 crore for Rashtriya Chemicals & Fertilizers Limited and Rs.210.00 crore for Krishak Bharati Cooperative Limited. They have also agreed for a token amount of Rs. 1 crore each for M/s Hindustan Fertilizers Corporation, M/s. Fertilizers Corporation of India and M/s. Pyrites Phosphates and Chemicals Ltd. An amount of Rs. 13.50 crores has also been agreed to for Miscellaneous Schemes of the Department which includes an amount of Rs, 5.50 crores for S&T Programme, Rs. 5 crores for Capital Subsidy for conversion of 4 existing FO/LSHS, Plants to NG/LNG, an amount of Rs. 1.5 crores for Rainfed Farming Project which is an externally aided project and Rs. 1.50 crore for Management of Information Technology Programme of the Department.

32. The Committee note that Planning Commission has approved an outlay of Rs. 1037.96 crore for various Public Sector Undertakings and miscellaneous schemes of the Department of Fertilizers for the year 2007-08. Out of which an amount of Rs. 992.96 crore will be met from the internal and extra budgetary resources (IEBR) and the balance amount of Rs. 45.00 crore will be provided through budgetary support. The Committee desire that necessary planning should be done by the Department of Fertilizers to avoid any shortfall in utilization of plan funds allocated for the first year of 11th Five Year Plan. The Committee are of the view that Government should take all corrective measures for maximum utilization of budgetary amount during the year 2007-08 after obtaining the project Review Reports from all the Public Sector Undertakings on priority basis. The Committee desire that the Department should also review all the on-going schemes of PSUs in the month of July-August of each year and, if necessary, re-allocate the funds among the PSUs during the financial year.

(Recommendation Sl. No.4)

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

33. As against actual Plan and Non-Plan expenditure of Rs. 101.80 crore and Rs. 18509.77 crore respectively during 2005-06, budgetary-provisions for 2006-07 and 2007-08 are as under:-

(Rs. in crore)

	2006-07 Budget			2006-07 Revised			2007-08 Budget		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue Section	18.95	17261.82	17280.77	18.14	22461.82	22479.96	13.50	22461.82	22475.32
Capital Section	79.86	25.18	105.04	79.86	25.18	105.04	31.50	25.18	56.68
Total	98.81	17287.00	17385.81	98.00	22487.00	22585.00	45.00	22487.00	22532.00

34. When the Committee asked about the reasons for low allocation of funds in 2007-08, the Department of Fertilizers, in a written reply stated as under:-

“The provision for Plan expenditure in Capital Section in the BE 2006-07 is Rs.79.86 crore. The same provision of Rs.79.86 crore have been retained in the RE 2006-07. However, in BE 2007-08, the Plan expenditure in Capital Section has been reduced to Rs.31.50 crore. The Plan budget of the Department for 2007-08 was discussed in the Planning Commission. While Department has requested for an amount of Rs.85.69 crore in the Capital Section (Plan), Planning Commission have provided only an amount of Rs.31.50 crore. Efforts will be made to obtain more funds at the time of discussions at the Revised Estimates stage.”

35. On being enquired by the Committee as to whether the Department of Fertilizers was satisfied with the budget allocations and whether the allocations are adequate to discharge the responsibilities entrusted, the Department of Fertilizers, in a written reply, informed as under:-

“Department of Fertilizers have submitted a demand of Rs.32895.00 crore (Non-plan net) at the time of budget discussions for the year 2007-08. However, Ministry of Finance has restricted the budget estimates (Non-plan) for the year 2007-08 at the same level of Rs.22487.00 crore (net)

which was the figure for RE 2006-07. The Plan Budget proposal of the Department of Rs.100.00 crores for 2007-08 has been restricted to Rs.45.00 crores by the Planning Commission. This Budget provision is not adequate to discharge the responsibility entrusted to the Department of Fertilizers. Department of Fertilizers will, however, make efforts for obtaining additional funds through Supplementary Demands for Grants during the course of the year 2007-08.”

V. HEAD-WISE EXAMINATION FOR BE, RE (2006-07) AND BE (2007-08)

A. Secretariat Economic Services

MAJOR HEAD 3451

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

<u>Year</u>	<u>Allocation/utilization</u> (Rs. in crore)
2005-06 (Actual)	19543.68
2006-07 (BE)	7.43
(RE)	8.39
2007-08 (BE)	9.38

37. There is an increase of Rs. 1 crore in BE (2007-08) as compared to 2006-07.

38. When the Committee asked about the reasons for increase in this head, the Department of Fertilizers, in a written reply, stated as under:-

“The Revised Estimate 2006-07 under Major Head ‘3451’ Sectt. Economic Services is Rs.8.39 crores and Budget Estimate 2007-08 is Rs.9.38 crores. There has been an increase of only Rs.1.00 crore in BE 2007-08 as compared to RE 2006-07. This increase is attributable mainly to introduction of higher pay scales of Assistants and PAs, enhancement of Dearness Allowance and grant of annual increments to employees, proposed publicity plans to make farmers aware about the availability of fertilizers through media, increase in travel expense to explore the possibility of setting up of Joint Ventures abroad.”

B. Subsidy/Concession on Fertilizers

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

39. As the maximum retail prices (MRPs) of fertilizers so notified/indicated are generally less than the cost of production and /or cost of import o fertilizers, the difference between the cost of production and/or cost of import and the MRP is paid as subsidy/concession to the manufacturers/importers of fertilizers. The following table shows the details of subsidy/concession on urea and decontrolled phosphatic and potassic fertilizers during the last 5 years:-

Rs in crores

Period	Amount of concession disbursed on decontrolled fertilizers	Amount of subsidy disbursed on urea			Total for all fertilizers
		Indigenous urea	Imported urea	Total for urea	
2000-2001	4319.00	9480.00	0.98	9480.98	13799.98
2001-2002	4503.52	8257.00	47.34	8304.34	12807.86
2002-03	3224.52	7790.00	0.00	7790.00	11014.52
2003-04	3326.00	8521.00	0.00	8521.00	11847.00
2004-05	5142.18	10243.15	493.91	10737.06	15879.24
2005-06	6596.20	10460.17	1418.07	11878.24	18474.44
2006-07(BE)	5749.00	10410.37	1093.54	11503.91	17252.91

40. The amount of subsidy/concession expenditure on Urea and decontrolled Fertilizers has been reduced as compared to the year 2005-06.

41. On being enquired by the Committee about the latest position in regard to re-imburement of subsidy bills of fertilizer units for the year 2006-07, Department of Fertilizers, in a written reply, stated as under:-

“There is an outstanding liability of subsidy payment to the tune of Rs. 11582.84 crore In addition, for Urea units, escalation / de-escalation claims of approximately Rs. 1500 crore for year 2006-07 are also under examination. They will also add to the liability for 2006-07.

In case of Decontrolled Indigenous fertilizers, claims have been settled till the month of July 2006 and the claims from August 2006 onwards are pending. In case of Decontrolled Imported fertilizers, claims have been settled till the month of September 2006 and the claims from October 2006 onwards are pending. In case of Indigenous Urea, claims have been settled till the month of November 2006 and the claims from December 2006 onwards are pending (30% payment for December claims has been made).”

42. It was further informed by the Department of Fertilizers that the budgetary allocation received so far has been insufficient to make subsidy payments due as on date. The reason is that the consumption of fertilizers including urea is likely to increase during 2007-08. Based on the increase in consumption and prevailing higher prices of fertilizers inputs, Department of Fertilizer had estimated a requirement of Rs. 32952.94 crore for subsidy/concession against which the allocation given by Ministry of Finance is Rs. 22452 crore during 2006-07. Therefore, additional funds would be required during the year to settle the carry forward liabilities of the year 2006-07 and the requirement in 2007-08.

43. In this connection, during evidence, the Secretary, Department of Fertilizers apprised the Committee that this year, they have got a total sum of Rs. 28,020 crore including a third supplementary of Rs. 3,500 crore, but still the subsidy bill of Rs. 8082.84 crore will carry forward to next year.

44. It was further informed by Department of Fertilizers, in their post evidence reply, stated as under:-

“With the release of funds for an amount of Rs. 3500 crore in the third batch of Supplementary Demand for Grants, the pending liability of Rs.11582.84 crore in 2006-2007 has been reduced to Rs. 8082.84 crore. The remaining liability will be paid out of the allocation for 2007-2008. However, the release of payment of concession/subsidy by Department of Fertilizers to the manufacturers/importers is a continuous process involving a time lag between the lodging of the claims and release of subsidy. The Department is making all out efforts to keep this time lag at minimum depending upon the fund availability.”

45. He further stated that the prices of fertilizers in the world have undergone a steep increase over the last few months and our requirement comes to approximately Rs. 56,391.16 crore for next year including carry over of Rs. 8,082.84 crore of this year to next year. The urea subsidy has also increased from Rs. 7788.48 crore to Rs. 18867 crore for the last few years. The increase in percentage terms is 142 per cent.

46. Elaborating it further, Department of Fertilizers, in post evidence reply, stated as under:-

“As per Ministry of Finance, the budgetary provision for fertilizer subsidy during 2005-06, including supplementary provisions, was Rs.18453.90 crore on net basis. During 2006-07, the provision rose to Rs. 25952.90 crore (net) constituting an increase of about 41% over the provision in 2005-06. There has been a substantial jump in the requirement of fertilizer subsidy over the recent years. Department of Fertilizers has been advised by Ministry of Finance to review the expenditure on fertilizer subsidy with a view to ensuring that the requirement of funds is in consonance with the availability of resources.”

4762. On being pointed out by the Committee that there should have been greater persuasion on the part of the Department to get more funds from the Ministry of Finance, the Department of Fertilizers, in a written reply, stated that they have been continuously pursuing with Ministry of Finance for release of requisite amount of funds. This matter has been taken up by Department of Fertilizers at all levels.

(i) **Direct subsidy to farmers**

48. On being enquired by the Committee about the pilot projects stated by the Government in three selected districts on experimental basis where reliable land records are available and what is the factual position of the project, the Secretary, Department of Fertilizers, during the course of evidence, apprised the Committee as under:-

“The Finance Minister, in his Budget Speech, has announced that the fertilizer industry has agreed to work with Department of Fertilizers in working out a pilot project. The pilot project has not yet started and the Fertilizers industry has actually engaged a consultant for this purpose. We are awaiting the report from the Fertilizer Association of India. As and when the Report is submitted and as and when the project is in progress, we will keep the Standing Committee apprised of the situation.”

49. The Committee, during the course of evidence, were informed by a Member as under:-

“The Cabinet Committee on Economic Affairs has already decided. Gold-plating means that one plant which has a capacity to produce 15,000 declares to the Government that it is producing only 10,000. If the plant utilizes 90 per cent of its capacity, it will get more subsidy. They hide the facts. For that reason, the Government is giving ideas that these many fertilizer factories in the private sector can produce this much. I cannot understand these facts. I would like to learn what this gold-plating means and how it operates.”

(ii) **Nutrient/Feedstock based subsidy to farmers**

50. When asked by the Committee about the views of the Government on nutrient based subsidy, the Secretary, Department of Fertilizers, stated as under:-

“We are also concerned about the balanced utilization of fertilizers. There has been a report on the balanced fertilizer and we are taking a view on this. We are likely to go in the direction of nutrient based subsidy which the Hon'ble Member has raised. There is definitely a thinking that is going on actively in the Government. I am sure that there are some efforts in this direction.”

51. The Committee have been informed that Department of Fertilizers has an outstanding liability of subsidy payment to the tune of Rs. 11582.84 crore for the year 2006-07. Claims in the case of decontrolled indigenous fertilizers, decontrolled imported fertilizers and indigenous urea have also not been settled completely till date. The Committee also find that the Department is not satisfied with the budgetary allocation as these are insufficient to make subsidy payment. The consumption of all major fertilizers is also on increasing trend. Based on the increase in consumption and prevailing higher prices of fertilizer inputs, Department of Fertilizers had sought a sum of Rs. 32952.94 crore for subsidy/concession against which the Ministry of Finance allocated only Rs. 22452 crore during the year 2006-07. The Secretary, Department of Fertilizers apprised the Committee during evidence that although the Department have got a sum of Rs. 28,020 crore including a third supplementary of Rs. 3,500 crore, but still the subsidy bill of Rs. 8082.84 crore will carry forward to the next year. The requirement of the Department for subsidy/concession will come to approximately Rs. 56,391.16 crore for the current year viz. 2007-08 including carry over of Rs. 8082.84 crore. The Committee would, therefore, like the Department of Fertilizers to continue their efforts for getting adequate amount of funds from Ministry of Finance and Planning Commission so that all subsidy

bills/claims should be settled during 2007-08 itself. The Committee also desire that corrective steps should be taken by the Department to check the higher prices of fertilizer inputs so that practice of carrying forward the subsidy bill year after year may be avoided.

(Recommendation Sl. No.5)

52. The Committee while examining the Demands for Grants of the Department for the year 2006-07, were informed that a scheme for disbursement of subsidy directly to the farmers in three selected districts where reliable land records are available might be formulated on an experimental basis. Further, while examining the Demands for Grants for the year 2007-08, the Secretary, Department of Fertilizers, during the evidence apprised the Committee that the fertilizer industry has agreed to work with Department of Fertilizers in working out a pilot project. The pilot project has not yet started and the fertilizer industry has engaged a consultant for this purpose. The Committee, therefore, recommend that the process of starting of pilot projects should be completed expeditiously and they be apprised of the status of progress of the pilot project on regular basis. The Committee are of the view that disbursement of subsidy directly to the farmers, instead of by industries would minimize the chances of inflated production cost of fertilizers and also send a sympathetic message among farmers. The Committee also observe that some companies resort to the tactics of Gold Plating i.e. indicating lower production capacity and on the basis of percentage production obtain huge subsidy. The Committee feel that with the introduction of direct subsidy to farmers, this tendency would also stop. The Committee also recommend to devise a policy of subsidy according to the economic status of farmers so that the maximum benefit of subsidy may go to peasants, poor and marginal farmers.

(Recommendation Sl. No. 6)

53. As stated by the Secretary during the course of evidence that the Department is pondering over the nutrient based subsidy to farmers, the Committee feel that such a scheme may also help fertilizer manufacturers in the reduction of their production cost and would not lead to inflated production cost. The Committee would like to caution that before switching over to nutrient based subsidy, the views of Fertilizers Association of India and experts should be taken and the scheme be launched on an experimental basis in one of the PSUs and the involvement of private sector may also be examined and considered.

The Committee hope that the Government would ponder over the subsidy issue seriously and implement both the schemes viz., (i) Direct subsidy to the farmers and (ii) Nutrient/Feedstock based subsidy to the manufacturers on pilot basis and after studying the result and cost effectiveness would implement one of them. The Committee desire that the Government should devise a mechanism to find out the production capacity of all the fertilizer units so that the fertilizer units do not resort to the practice of gold plating and take hefty amount of subsidy thereof.

(Recommendation Sl. No. 7)

(iii) Concession Policy for P&K and SSP Fertilizers

54. The Department of Fertilizers is administering the concession scheme on these fertilizers for extending financial support to decontrolled P&K fertilizers on sale w.e.f. 01.10.2000. Under the concession scheme, base rates of concession are announced annually after the approval of Government. The final concession rates, except for SSP, are calculated and announced quarterly after taking into account the average price of raw material and intermediates of the preceding quarter and the average exchange rate of the current quarter. Government accepted the recommendations of Tariff Commission's cost price study on complex fertilizers w.e.f. 01.04.2002. Based on the recommendations of the Tariff Commission (TC) and the Inter-Ministerial Group (IMG) Government has implemented a revised methodology of working out concession rates for DAP and MOP w.e.f. 01.04.2003.

55. The country is almost fully depended on imported raw material/intermediates for the production of phosphatic fertilizers in the country. The prices of these commodities have shown a rising trend in the international market during the last two years. In view of the difficulties arising from the situation regarding procurement and pricing of raw materials/intermediates and finished phosphate fertilizers, it was considered necessary to work out an alternative methodology of pricing linking the price of phosphatic acid with the international price of DAP. An Expert Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission was set up to examine the issues related to pricing of phosphatic fertilizers. The Expert Group has submitted the Report and it is under examination of Department of Fertilizers.

56. Department of Fertilizers pays an ad-hoc concession on SSP and the MRP of SSP is fixed by State Governments and varies from State to State. This ad-hoc dispensation and low rates of concession not only led to a sharp decrease in SSP

consumption but also had a adverse impact on the SSP industry. Keeping in view, it was decided to increase the ad-hoc concession rate on SSP from Rs. 650/- to Rs. 975/- PMT w.e.f. 01.09.2005. The State Governments have also been requested to maintain the present MRP of SSP in their States.

57. When the Committee asked about the basic objectives of concession scheme on decontrolled phosphatic and potassic (P&K) fertilizers. Department of Fertilizers, in a written note, informed that the basic objective behind this scheme is to provide these fertilizers to the farmers at affordable prices. For this purpose, Department of Fertilizers fixes the indicative MRP at which the manufacturers/importers are required to sell decontrolled fertilizers and they are provided the difference between the normative cost and MRP in the form of concession. Later on Department of Fertilizers framed fresh Guidelines on this scheme dated 05.08.2002 which are in operation. Under these guidelines, the fertilizer sold by manufacturers/importers to the dealers registered under Fertilizer Control Order (FCO), the Government agencies and the NPK mixture manufacturers is eligible for concession. In order to facilitate the manufacturers to make fertilizer available far and wide, the Department of Fertilizers has been permitting marketing arrangements whereby the manufacturers use the dealers network of the other manufacturers/importers.

58. It was further informed by Department of Fertilizers that in the wake of shortage of Rock Phosphate of the specified/notified grades, Department of Fertilizers modified the existing guidelines, the manufacturers of SSP can procure the Rock Phosphate from the sources other than the notified ones.

59. The Committee note that the Department of Fertilizers is administering the concession scheme on P&K and SSP fertilizers for extending financial support to decontrolled P&K fertilizers on sale w.e.f. 01.10.2000. The Government accepted the recommendations of Tariff Commission's cost price study on complex fertilizers w.e.f. 01.04.2002. Based on the recommendations of the Tariff Commission (TC) and Inter-Ministerial Group (IMG), the Government has implemented a revised methodology of working out concession rates for DAP and MOP w.e.f. 01.04.2003. An Expert Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission was set up to work out an alternative methodology of pricing linking the price of phosphatic acid with the international price of DAP. The Expert Group has submitted the Report and it is under examination of the Department of Fertilizers. While appreciating the Government's efforts in this regard, the Committee are of the view that the Government are moving at a slow speed in finalizing the concession policy. The Committee, therefore, express their serious concern and reiterate their earlier recommendation that the Government should finalize their Report on concession policy relating to DAP and other complex fertilizers at the earliest. The Committee hope that early finalization of concession policy would help farmers for getting decontrolled phosphatic and potassic (P&K) fertilizers at affordable prices.

(Recommendation Sl. No. 8)

(iv) Availability of Urea

60. The assessed requirement, availability and sales of urea in the last three crop seasons have been as under:-

(figures in lakh metric tonnes)

Season	Assessed requirement	Availability	Sales
Kharif 2005	114.39	113.90\$	107.67
Rabi 2005-06	119.86	121.74\$	114.24
Kharif 2006	122.37	119.64\$	113.65
Rabi 2006-07	127.08	122.83*	112.52*

* figures upto 28.02.2007

\$ Excluding silo stock and stock at Shiphold

61. This table shows that the requirement of urea during current Rabi season was assessed at highest level of 127.08 LMT. But evacuation of the imported fertilizers from port was a constraint since substantial imports of wheat were also taking place simultaneously.

62. On being enquired by the Committee as to what efforts have been made by Department of Fertilizers for proper evacuation of the imported fertilizers from ports to destination in time so that shortage of fertilizers may be avoided in different parts of the country, Department of Fertilizers, in written reply, stated as under:-

“In the beginning of the current Rabi season, problems arose in evacuation of imported fertilizers from the ports particularly at Kandla and Mundra, due to simultaneous imports of substantial quantities of wheat. Since it involved coordination among the Department of Fertilizers, Department of Food, Public Distribution and Consumer Affairs, Ministry of Shipping & Transport and the Ministry of Railways, a constant review of movement of fertilizers was taken from October 2006 onwards, at the level of the Cabinet Secretariat. In addition, this Department was in constant touch with the Railways for coordinating the evacuation of fertilizers from the ports.

As a result of joint efforts made, availability of fertilizers was ensured at the state level to meet the assessed requirement/sales.”

63. However, in reply to a question, Secretary, Department of Fertilizers stated during evidence that at times, there could be sufficient fertilizer in a State, but there could be some distribution problem due to this reason some parts in a State could face shortage of fertilizer. Besides this, the State Governments have the responsibility and authority under the Essential Commodities Act to ensure that fertilizers are not sold in the black market. Government have been supplying consistently higher quantities than the assessed requirements and therefore the responsibility is on the State Government.

64. Further, elaborating it, he stated that Department of Fertilizers is ensuring that from 1st April, 2007 onwards, 75 per cent of the month's requirement in the State is available within the State by the first of the month and the balance 25 per cent within the next 15 days so that by 15th of every month, the entire month's requirement is already made available. States are also responsible to ensure that every district gets the required quantity. In addition to this, Department is also planning to make available the entire data and then monitor the data. For this, an online monitoring system has already been launched and is in practice.

65. The Secretary, Department of Fertilizers, also submitted as under:-

“We are, first of all, asking the companies not to reach it to the State but to every district as per the requirement and then it is only when the fertilizer reaches the district that we propose paying subsidy from 1st April, onwards. Once it reaches the district, it is our belief that automatically the fertilizers will get supplied and that is one issue.”

66. The Committee note that the requirement of urea during the current Rabi season was assessed at highest level of 127.08 LMT. But evacuation of the imported fertilizers from port was a constraint since substantial imports of wheat were also taking place simultaneously. It was informed by the Department of Fertilizers that they are coordinating with Department of Food, Public Distribution and Consumer Affairs, Ministry of Shipping and Transport and Ministry of Railways for proper evacuation of the imported fertilizers from ports to destination in time. Regarding availability and distribution of fertilizers, the Secretary, Department of Fertilizers, during his deposition before the Committee also admitted that there could be sufficient fertilizer in a State, but there could be some movement problem. Reportedly, Government have been supplying consistently higher quantities than the assessed requirements and therefore responsibility is on the State Government. The Committee, therefore, recommend that the Department of Fertilizers should make all possible efforts for better coordination with the Railways for proper evacuation of fertilizers from the ports. Needless to emphasize that Government would coordinate with all State Governments for ensuring timely availability of fertilizers throughout the country.

(Recommendation Sl. No. 9)

67. The Committee are happy to note that during the current financial year supply of the fertilizer shall be made at district level. The Committee also appreciate that in the first week of every month 75% of the requirement would be made available and the remaining 25% would be made available within the next 15 days. The Committee have also been informed that an online monitoring system has also been launched which would enable each Member of Parliament to know, in his constituency, the requirement of fertilizer availability on daily basis. While appreciating the new initiatives taken by the Department, the Committee hope that the promises made by the Department are fulfilled *in-toto* and there will be no procedural delay in this regard. The Committee are of the view that on line monitoring system should also be available to the public at large from block headquarters where kiosks may be set up in coordination with National Informatics Centre (NIC) where all the data of the fertilizer demand and availability are available district/ block-wise. Such an initiative would bring the transparency in the demand and availability and contain the problem of black-marketing and hoarding.

(Recommendation Sl. No. 10)

(v) **Import of Fertilizers**

68. The import of Urea on Government account is made to bridge the gap between assessed demand and supply. The State Trading Enterprises arrange imports of Urea on behalf of the Government.

69. The imports of Urea, DAP and MOP in the country (in product term) during the last three years have been as under:-

(Quantity in lakh tonnes)

Year	Urea	DAP	MOP
2004-05	6.41	6.44	34.09
2005-06	7.31	24.38	45.78
2006-07 (Upto 23.02.2007)	28.65	27.87	30.40

70. When the Committee wanted to know about the reasons for increase in the import of urea and DAP in 2005-06 and further in 2006-07 as compared to 2004-05, the Department of Fertilizers stated that the reasons for increase in import of urea and DAP are due to increase in requirement as shown in the following table:-

UREA

(In LMT)

Years	Product	Requirement	Indigenous Production
2004-05	Urea	214.07	202.68
2005-06	Urea	234.25	200.97
2006-07	Urea	249.45	200.38 (Estimated)

DAP

Years	Product	Requirement	Indigenous Production
2004-05	DAP	70.59	51.84
2005-06	DAP	78.02	46.29
2006-07	DAP	81.29	49.51 (Estimated)

71. While indigenous production of Urea has been more or less steady, there has been some decrease in the production of DAP in 2005-06 and in 2006-07 compared to 2004-05.

72. There has been a substantial increase in the demand for fertilizers in recent years primarily on account of excellent rainfall conditions, area covered under irrigation, greater awareness amongst the farmers community as well as increased liquidity and purchasing power in the rural sector. In order to bridge the gap between the higher assessed demand and the estimated production of urea in the country, Government resorted to record imports of urea for direct agriculture use during 2006-07. The import of Urea (other than from OMIFCO) in 2006-07 (up to 28.02.07) was 28.65 lakh MT as against 7.31 lakh MT in 2005-06.

73. The import of other fertilizers including DAP is freely allowed and companies import these fertilizers based on the assessment of demand & supply. The import of DAP in 2006-07 (up to 28.02.07) was 28.13 lakh MT as against 24.38 lakh MT in 2005-06.

74. The Committee note that the import of Urea on Government account is made to bridge the gap between assessed demand and supply. The State Trading Enterprises arrange imports of urea on behalf of the Government. The Committee find that the imports of urea and DAP has been increased in the year 2005-06 and 2006-07 as compared to 2004-05. The Committee in their earlier Reports have been emphasizing the need for increasing production capacity of fertilizers. Due to delay in declaration of the fertilizer policy, there has been very few investors to come forward to invest in fertilizer sector. This has been resulted into increase of imports year after year. The Committee, therefore, expect from the Government to help the industry in capacity building of fertilizer units so that dependence on imports is minimized.

(Recommendation Sl. No.11)

(vi) **New Pricing Scheme**

75. New Pricing Scheme (NPS) for urea units came into existence w.e.f. 1.4.2003 replacing the erstwhile RPS. It aimed at inducing the urea units to achieve internationally competitive levels of efficiency, besides bringing in greater transparency and simplification in subsidy administration. NPS is being implemented in stages. Stage-I was of one year duration from 1.4.2003 to 31.3.2004. Stage-II was of two years duration, from 1.4.2004 to 31.3.2006.

76. For reviewing the effectiveness of Stage-I and Stage-II of NPS and for formulating policy for urea units beyond Stage-II i.e. from 1.4.2006 onward, the Department of Fertilizers constituted a Working Group under the chairmanship of Dr. Y.K. Alagh. The Working Group submitted its report on 26.12.2005.

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

78. The Stage-III policy seeks to promote usage of most efficient and comparatively cheaper feed stock natural gas/LNG for production of urea in the country. The policy lays down a definite plan for conversion of all non gas based urea units to gas. Considering the likely growth in consumption of urea in the years to come, the policy encourage the existing urea units to produce beyond 100% of their installed capacities by introducing a system of incentives for additional urea production subject to merit order procurement.

79. The policy seeks to rationalize distribution and movement of urea and the system of freight reimbursement with the objective of ensuring availability of urea in all parts of the country. The Government will continue to regulate movement of urea up to 50% of production depending upon the exigency of the situation. The State Government will be required to allocate the entire quantity of planned urea arrivals including both regulated and de-regulated urea in district-wise, month-wise and supplier-wise format. The Department will operate a buffer stock through the state institutional agencies/fertilizer companies in the major urea consuming States up to a limit of 5% of the seasonal requirement.

80. When the Committee asked about the salient features of the system of incentives introduced for additional urea production, the Department of Fertilizers, in a written reply, stated that the following salient features of the system to incentivise additional Urea production:-

- (i) No permission will be required from the Government for production beyond 100% of re-assessed urea capacity of the unit.
- (ii) All production between 100% and 110% of the existing reassessed capacity, if so required by the government as per the approved production plan will be incentivized on the existing net gain sharing formula between the Government and the unit in the ratio of 65:35 respectively with the proviso that the total amount paid to the units, after including the component of variable cost will be capped at the unit's own concession rate.
- (ii) Units increasing production beyond 110% may be compensated at their concession rate, subject to the overall cap of IPP.
- (iv) While procuring additional urea beyond 100% of the reassessed capacity of urea units, a merit order system of procurement will be followed. In other words, the units which supply urea at the least cost would be given preference in procurement.
- (v) The cost of feedstock/fuel allowed will be in the ratio of gas/LNG/Naphtha etc. with reference to actual ratio of consumption of annual actual production of urea up to that portion of the incremental production of urea required by the Government for sale to agriculturalists. Energy/inputs for non-agricultural sale/exports and surplus ammonia shall be allocated on costlier feed/fuel basis.

- (vi) To the extent that the Government does not require any quantities of additional production for direct sale to agriculturalists, the concerned units would be free to dispose of the remaining quantities by way of exports, sale to complex manufacturers etc. without seeking prior permission of Department of Fertilizers.
- (vii) Government will not subsidize the additional production, if not required by it for agricultural consumption.

81. Further, when the Committee asked what steps are being taken by the Government to solve the problems being faced by some of the fertilizer companies and their units, Department of Fertilizers, in their post evidence reply, stated the impact of Stage-III of New Pricing Scheme and the problems received from the fertilizer company are being examined in the Department of Fertilizers in consultation with FICC. No time limit can be fixed for the same at this stage.

82. The Committee are happy to note that the Government has approved the pricing policy for urea units for Stage-III of New Pricing Scheme (NPS) w.e.f. 01.10.2006 to 31.03.2010. The policy has been formulated keeping in view the recommendations of the Working Group. The Committee hope that by implementation of Stage-III policy, there will be further investment in urea sector maximising the urea production and incentivising additional urea production. The Committee hope that it would also encourage investment in Joint Ventures (JV) projects abroad and also establish a more efficient urea distribution and movement system. The Committee also desire that the Government should examine the impact of New Pricing Scheme on fertilizer industry and examine the problems faced by the industry and take corrective steps for solving the problems of fertilizers industries.

The Committee, however, express their displeasure that Stage-II of NPS was upto March, 2006 whereas the Government has been able to announce NPS-III in March, 2007 only. In the absence of any policy for a year or so there has been a lot of uncertainty in the fertilizer sector. On account of this, not only the fertilizer production stagnated, the imports of fertilizers also affected resulting in outgoing foreign exchange.

The Committee hope that the Government would implement the Stage-III of NPS in letter and spirit so that fertilizer industry becomes an industry friendly sector and much needed investment is put in the growth of the fertilizer sector. The Committee also expect the Government to constantly review the progress in regard to implementation of Stage-III of NPS for taking corrective measures wherever necessary.

(Recommendation Sl. No. 12)

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

MAJOR HEAD 2852

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

<u>Year</u>	<u>Allocation/utilization</u>
	(Rs. in crore)
2005-06 (Actuals)	13.80
2006-07 (BE)	12.95
(RE)	12.14
2007-08 (BE)	1.50

84. Gramin Vikas Trust (GVT) established by KRIBHCO in 1999 has been implementing two rainfed projects called (1) Western India Rainfed Farming Project (WIRFP) and (2) Eastern India Rainfed Farming Project (EIRFP) with the technical and financial assistance provided by Department for International Development (DFID) of the British Government. The EIRFP has completed its extended tenure on 31.03.2005 and presently WIRFP is being implemented by GVT, which will be completed by June, 2007. The main objective of the projects is to initiate a process of widespread and sustainable renewable natural resources developing using flexible, cost effective and participatory approaches to provide livelihood/upliftment to the poor men and women in the rainfed areas in the following States/districts in the Western and Eastern India by developing the farming system and establishing village-based institutions with low cost technology.

Project	State	Districts
WIRFP	Madhya Pradesh	Dhar, Jhabua, Ratiam
	Rajasthan	Dungarpur, Banswara
	Gujarat	Panchmahal, Dahod
EIREP	Jharkhand	Ranchi, Lateher, Mazaribah, Sarakela
	Orissa	Mayurbhani, Keonjhar, Dehenkenal
	West Bengal	Midnapur, Purulia

Eastern India Rainfed Farming Project:

85. M/s. Hindustan Fertilizer Corporation (HFC) launched EIRFP in 1989, which was subsequently taken over by KRIBHCO on 01.04.1995. This project was to be completed by March, 2000 but it was extended upto March 2003 and then further finally extended upto 31.03.2005. Out of the total outlay of 8.591 million pounds, DFID's contribution was 8.091 million pounds and that of KRIBHCO was 0.5 million pounds. The project activity closed on 31.03.2005.

Western India Rainfed Farming Project:

86. Phase-I on WIRFP launched by KRIBHCO on 01.01.1993 was completed on 31.03.1999. Phase-II started on 01.04.1999 for a period of seven years (1999-2006) with total project outlay of 27.98 million pounds. DFID has contributed 15.09 million pounds and 0.95 million pounds has been contributed by KRIBHCO.

87. The project is coming to an end on 30.06.2007. The project closure reports are being prepared.

88. The Committee note that Gramin Vikas Trust (GVT) established by KRIBHCO in 1999 has been implementing two rainfed projects called (i) Western India Rainfed Farming Project (WIRFP) and (ii) Eastern India Rainfed Farming Project (EIRFP) with the technical and financial assistance provided by the Department for International Development (DFID) of the British Government. The EIRFP has completed its extended tenure on 31.03.2005 and WIRFP is being implemented by GVT, which will be completed by June, 2007. At present, 3 States and 7 districts are covered in WIRFP for developing the farming system and establishing village-based institutions with low cost technology. The Committee find that such projects have been useful to the backward and tribal areas where these projects have been able to provide some employment in the rural/backward/tribal areas. The Committee, therefore, expect the Department to help PSUs/Cooperatives under its administrative control to secure funds from various sources to carry out such projects across the country.

(Recommendation Sl. No.13)

D. S & T Programme

MAJOR HEAD 2852

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

<u>Year</u>	<u>Allocation/utilization</u> (Rs. in crore)
2005-06 (Actuals)	2.09
2006-07 (BE)	4.97
(RE)	4.97
2007-08 (BE)	5.50

90. Science & Technology in fertilizer industry is the backbone of indigenous development in process technology and equipment design since we are depending on foreign basic process Engineering Technology. Besides, the new pricing scheme for urea units (NPS) w.e.f. 1.4.2003 lays emphasis on efficiency energy conservation measures and innovative technology for achieving the objective of savings to the exchequer in terms of subsidy outgo to the fertilizer industry. Hence the Science & Technology (S&T) Programme of Department of Fertilizers primarily lays emphasis at research & development processes and lower specific energy consumption in fertilizer plants. Some projects are on the side of fertilizer and insecticide usage in agricultural crops etc. also being considered from the year 2006-07. All these Research & Development projects are being sponsoring by this Department through premier academic institutions with the ultimate objective of disseminating successful outcomes to the fertilizer industry for adoption in production process.

91. For the 10th Five Year Plan, an amount of Rs. 5 crores was provided for funding S&T project. The following statement gives break up of funds earmarked for S&T and the actual expenditure during the 10th Five Year Plan :-

(Rs. in crores)

Item	10 th Plan (2002-07) outlay	2002-03 (Actual)	2003-04 (Actual)	2004-05 (Actual)	2005-06 (Actual)	2006-07 (BE)	Total anticipated expenditure
S&T	5.00	0.80	1.93	1.50	2.00	4.97	11.20

92. An amount of Rs. 5.50 crore has been allocated in BE (2007-08) for Science & Technology programme. When the Committee asked about the objectives to be fulfilled for the year 2007-08 due to increase under this head, the Department of Fertilizers, in a written reply, stated as under:-

93. During the year 2007-08, it is proposed to continue the present on going S&T projects. Further, advertisements have been issued in the newspapers calling for various applied research projects that can be useful for the fertilizer sector from the premier technical institutions all over the country. It is proposed to finalise a number of such proposals in consultation with the fertilizer industry, which, on successful completion, will help in improving the efficiency of the indigenous industry. In addition to projects related to fertilizer industry, few projects relating to fertilizer usage, its efficacy and application are also being planned.

94. The Committee note that Science and Technology in fertilizer industry is the backbone of indigenous development in process technology and equipment design. The Science and Technology (S&T) Programme of the Department of Fertilizers primarily lays emphasis on Research and Development processes and lower specific energy consumption in fertilizer plants. For the 10th Five Year Plan, an amount of Rs. 5 crore was provided for funding S&T projects. For the year 2007-08, the amount has been increased to Rs. 5.50 crore under this head to continue the present on-going S&T projects related to fertilizer industry. The Committee recommend that the funds allocated for the year 2007-08 for S&T programme should be enhanced suitably and utilized fully and judiciously with tangible results.

(Recommendation Sl. No. 14)

E. Provision for Projects/Schemes for the benefit of the North Eastern Region and Sikkim

MAJOR HEAD 4552

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

<u>Year</u>	<u>Allocation/utilization</u> (Rs. in crore)
2006-07 (BE)	10.00
(RE)	10.00
2007-08 (BE)	04.49

96. When the Committee asked about the specific projects being undertaken in North Eastern States, the Department of Fertilizers, in a written reply, stated that:-

“Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL), has revamped its Namrup units in Assam in the North-Eastern region of the country to enhance its total actual urea production from 1.50 lakh Tonnes Per Annum (TPA) to 5.55 lakh TPA. The company is strategically located in the north-eastern region in the state of Assam which produces urea fertilizer drawing natural gas through the extensive piping network from Oil fields operated by Indian Oil Limited and ONGC. The company is the biggest fertilizer unit in the entire region of north-east, Bihar and West Bengal. This fertilizer complex has the potential to play a key role in economic development of the region by creating peripheral amenities and for providing employment opportunities to local people.”

97. Further, the Committee were informed that an amount of Rs. 4.50 crore is allocated for implementation of Namrup Revamp Project of M/s BVFCL. A feasibility study is being conducted by M/s BVFCL to examine the possibility of setting up of Namrup-IV unit for manufacture of urea utilizing already existing infrastructure of the company.

98. The Committee note that provision for projects/ schemes for the benefit of North-Eastern Region and Sikkim has been decreased from Rs.10 crore to Rs.4.49 crore as compared to the last year. The Committee also note that allocation for the current financial year would be utilized for implementation of Namrup Revamp Project of M/s BVFCL for which a feasibility study is being conducted by BVFCL to examine the possibility of setting up of Namrup-IV unit for manufacturing of urea. The Committee feel that before allocating the amount the feasibility studies should have been made well in advance. The Committee have their apprehension that in the absence of such a study the money can be blocked and a situation of uncertainty can arise. The Committee are of the view that the Department may be provided the requisite sum of money for carrying out the feasibility studies and only then the whole amount should be allocated.

(Recommendation Sl. No. 15)

F. Plan and Non-Plan Budgetary provisions for the Fertilizer PSUs

99. The following table shows the Plan and Non-Plan budgetary provisions for the PSUs under the administrative control of the Department of Fertilizers:-

(Rs. in crore)

PSU	Non-Plan Loans			Plan Loans/ Investments		
	BE 2006-07	RE2006-07	BE 2007-2008	BE 2006-07	RE2006-07	BE 2007-2008
HFC	0.01	0.01	0.01	--	--	1.00
FCI	0.01	0.01	0.01	--	--	1.00
PPCL	0.01	0.01	0.01	--	--	1.00
PDIL	--	--	--	--	--	--
BVFCL	25.15	25.15	25.15	* 40.86	* 40.86	** 4.50
FACT	--	--	--	30.00	30.00	15.00
MFL	--	--	--	9.00	9.00	9.00
Total	25.18	25.18	25.18	79.86	79.86	31.50

* This includes Rs. 10.00 crores for lump-sum provision for North – East Region.

** Rs. 4.50 crore earmarked for M/s BVFCL in 2007-08 will be utilized for the benefit of North East Region.

100. When the Committee desired to know about the reasons for more than 50 per cent decrease in Plan loans/investments in BE (2007-08) as compared to RE (2006-07), the Department of Fertilizers replied that FACT had submitted the proposal for Rs. 70 crores under Annual Plan outlay 2007-08. The Department recommended for allocation of Rs. 40 crores for the same. However, Planning Commission allocated Rs. 15 crores only to FACT for Annual Plan 2007-08.

101. As regards BVFCL, the total plan loans/investments for the year 2006-07 was 40.86 crore. This includes Rs. 10.00 crore for lumpsum provision for North-East Region. The actual expenditure as on 31st January, 2007 was only Rs. 17.68 crore. The remaining funds are being utilized progressively as the final bills are under process of payment. During the year 2007-08, Rs. 4.50 crore is earmarked for M/s BVFCL for utilization of benefit of North-East Region.

VI. DEBOTTLENECKING/REVAMP/MODERNIZATION AND EXPANSION OF FERTILIZER UNITS

102. The Department of Fertilizers has informed that the policy announced in January 2004 for creation of additional capacity of urea by way of new and expansion projects and de-bottlenecking/revamp/modernization of existing urea units provided that the additional production comes from using natural gas/LNG as feedstock. As per the policy, the measures proposed for de-bottlenecking/revamp/modernization of the plant should result at least 10% increase in the existing urea production capacity of the applicant units and such additional urea production would be priced at the existing concession rate of the unit. The policy have generated a very good response in the fertilizer industry. The Department has received proposals from various urea companies for expansion and de-bottlenecking, which would result in additional capacity of about 50.8 LMT of urea.

103. When the Committee asked about the latest status in regard to ten proposals regarding de-bottlenecking of fertilizer projects and three proposals in regard to expansion projects in the light of approval of Stage-III of New Pricing Scheme, the Department of Fertilizers, in a written reply, stated as under:-

“The concept of debottlenecking of fertilizer projects has been done away with under New Pricing Scheme Stage-III, which is being implemented w.e.f. 1st October, 2006. Under NPS-III, the fertilizer companies do not require any permission of Government for production beyond 100% of their installed capacities and a system of incentives have been laid down for encouraging units to produce beyond 100% of their capacity. The revamp of existing fertilizer plants will now be completely a commercial decision of the company based on the incentive policy of the Government under New Pricing Scheme Stage-III.

Assured availability of natural gas is critical for setting up any new and expansion project for production of urea in the country. The three expansion projects received from various urea companies during the 10th Plan period have not been finalized in the absence of assured availability of gas for the same.”

104. On being enquired by the Committee that whether efforts have been made by Department of Fertilizers for allocation of gas to fertilizer sector, Department of Fertilizers, in their post evidence reply stated as under:-

“Department of Fertilizers has constituted an Inter-Ministerial committee under the Chairmanship of Secretary(Petroleum) for facilitating the connectivity and supply of Gas to Non gas based units converting to gas and to develop appropriate mechanism for fixing the price of gas in a transparent manner. The first meeting of the committee is schedule to be held on 9th April, 2007. Further, the Department has been regularly taking up the issues of fertilizer industry with the Ministry of Petroleum & Natural Gas.”

105. Further, setting up of Joint Venture Project abroad for producing nitrogenous fertilizers in the country, Department of Fertilizers stated that they are exploring the possibility of setting up of joint venture abroad for producing nitrogenous fertilizer in the country, through its commercial entities. The Department is in the regular correspondence with the Indian Missions in countries, which are rich in gas resources to explore the possibility of allocation of sufficient quantity of gas for set up of a joint venture urea project in that country.

106. On being enquired by the Committee regarding assessment of the additional production capacity resulting after de-bottlenecking and expansion projects, the Department of Fertilizers, in a written reply, stated as under:-

“Under the New Pricing Scheme Stage-III for urea units notified on 8th March, 2007, the fertilizer companies will be taking their commercial decisions for increasing production beyond 100% of installed capacities through revamp/ debottlenecking of existing units. However, if all the proposals for debottlenecking projects submitted during NPS-II are implemented by the fertilizer companies, it is estimated that an additional production of 25.186 lakh MT will be available.

The expansion projects, which were submitted during the 10th Plan period, have projected additional production capacity of 33.50 lakh MT per annum.”

107. The Committee have been informed that the Department of Fertilizers announced a policy in January, 2004 for creation of additional capacity of urea by way of new and expansion projects and de-bottlenecking/revamp/modernization of existing urea units. The policy have generated very good response in the fertilizer industry. The Department has received proposals from various urea companies for expansion and de-bottlenecking, which would result in additional capacity of about 50.8 LMT of urea. However, the Committee are dismayed to note that the status of approval of proposals regarding de-bottlenecking and expansion of fertilizer units is almost remain the same as compared to the last year. The Committee are of the view that after approval of pricing policy for urea units for Stage-III of New Pricing Scheme (NPS), the capacity utilization of the fertilizer industry should also be improved through revamping/modernization of the existing urea units. The Committee, therefore, strongly recommend that considering the stagnated production capacity in fertilizer, the matter regarding examination of the proposals for de-bottlenecking and expansion of fertilizer units should be taken up at the highest level. The Committee desire that the outcome of the progress made in this regard should be conveyed to the Committee within three months from the presentation of the Report.

(Recommendation Sl. No. 16)

VII. REVIVAL OF CLOSED PSU UNITS

108. The Government had taken a decision in 2002, to close Fertilizer Corporation of India Ltd. (FCI), Hindustan Fertilizer Corporation Ltd. (HFC) and Pyrites, Phosphates and Chemicals Ltd (PPCL) as they were not found techno-economically viable. However, in line with the Common Minimum Programme of the Government, the possibilities of revival of the closed units of these PSUs is being examined. Possibilities for the Revival of the FCIL, HFCL and PPCL are being explored. In respect of FCIL and HFCL the Cabinet had considered a proposal for obtaining in principle approval for revival of these PSUs on 7.12.2006 and directed that the proposal be first considered by the BRPSE. Accordingly, a proposal was submitted to the BRPSE. The hearing in the matter was held in the BRPSE on 9th February 2007. Their recommendations are awaited. On receipt of the recommendations of BRPSE, further necessary steps will be taken.

109. As regards, PPCL, a draft Cabinet Note for the revival of the company is under finalization in the Department of Fertilizers.

110. When the Committee asked as to what time the recommendations of Board for Reconstruction of Public Sector Enterprises (BRPSE) will be finalized in regard to revival of closed units of FCI and HFC, the Department of Fertilizers, in a written note, stated that the recommendations of the BRPSE in respect of revival of closed units of FCIL and HFCL have been received. The Board has recommended that the Government may accord 'in principle' approval for reversal of its earlier decision whereby these companies were closed. Based on recommendations of BRPSE, a Note seeking approval of the Cabinet for revival of these companies is under submission.

111. On being enquired by the Committee about the latest status of revival of closed units of PPCL, the Department of Fertilizers, in a written reply, stated that a proposal for obtaining recommendations of the Board for

Reconstruction of Public Sector Enterprises (BRPSE) in respect of revival of the closed units of PPCL is under finalization, for submission to the BRPSE.

112. On being further asked by the Committee whether adequate funds and support have been provided by the Government to bring the loss making companies out and complete the on-going projects well in time, the Department of Fertilizers stated that Madras Fertilizers Limited (MFL), Chennai, Fertilizers and Chemicals Travancore Ltd.(FACT), Kochi and Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL) are loss making PSUs. Proposals for financial restructuring of MFL and financial support to FACT are under consideration of Department of Fertilizers. In order to ameliorate the financial crisis facing the FACT, the CCEA had approved a financial package for the company in its meeting held on 30.03.2006 which has been implemented.

113. When the Committee enquired about the availability of gas to fertilizer units, during the evidence, the Secretary, Department of Fertilizers, apprised the Committee as under:-

“For the closed plants, The Department have had a meeting with the Ministry of Petroleum and Natural Gas and there is a commitment that gas will be available to closed units by 2009-10 and for the other units by 2008-09. Therefore, all the Naphtha units, fuel based oil units and the mix fuel units in this country will receive gas when the Department expect the actual amount of subsidy to come down very drastically.”

114. The Committee, in their Tenth and Twelfth Reports (14th Lok Sabha) had also recommended for the priority of gas allocation in fertilizer sector.

115. The Committee note that availability of gas is the main constraint in setting up of new fertilizer plants and for revival of closed fertilizer units. The Secretary, Department of Fertilizers, during the evidence, apprised the Committee that gas would be available to closed units by 2009-10 and for other units by 2008-09. It was also informed by the Department of Fertilizer that an Inter-Ministerial Committee has been constituted under the Chairmanship of Secretary, Petroleum for facilitating the connectivity and supply of gas to non-gas based units converting to gas and to develop appropriate mechanism for fixing the prices of gas. The first meeting of the Committee is scheduled to be held on 9th April, 2007. The Committee also note that major share of the gas is given to power sector. The Committee feel that gas given to power sector does not make any value addition but it affects drastically fertilizer sector in terms of value addition and reduce the burden of subsidy. The Committee strongly reiterate their earlier recommendations made in their Tenth and Twelfth Reports (14th Lok Sabha) that fertilizer sector should be given top priority in the allocation of gas. The Committee also desire that Department of Fertilizers should constantly coordinate with the Ministry of Petroleum and Natural Gas in the matter. They also recommend that fertilizer industry should be given higher share of gas allocation than that of power sector.

(Recommendation Sl. No.17)

116. The Committee have been informed that in lines with the Common Minimum Programme of the Government, the possibilities for the revival of the closed units of Fertilizer Corporation of India Limited (FCI), Hindustan Fertilizer Corporation Limited (HFC) and Pyrites Phosphates and Chemicals Limited (PPCL) are being explored. In respect of FCI and HFC, the Cabinet had considered a proposal for obtaining in-principle approval for revival of these PSUs on 07.12.2006 and directed that the proposal was submitted to the BRPSE for consideration. Their recommendations are awaited. As regards PPCL, a draft Cabinet Note for the revival of the company is under finalization in the Department of Fertilizers. The Committee desire that the Department of Fertilizers should make all possible efforts to canalize and implement the revival package for the closed and loss-making fertilizer units. The Committee also desire that the Department of Fertilizers should take up the matter with the concerned authorities at the earliest.

(Recommendation Sl. No. 18)

VIII. PERFORMANCE OF INDIVIDUAL UNDERTAKINGS

PUBLIC SECTOR UNDERTAKINGS

A. BRAHMAPUTRA VALLEY FERTILIZER CORPORATION LIMITED (BVFCL)

117. During the year 2005-06, an amount of Rs. 37.49 crore was received as plan outlay and the actual expenditure was Rs. 23.8 crore. In 2006-07, Rs. 30.86 crore was received as plan outlay and Rs. 17.68 crore was the actual expenditure upto 31st January, 2007.

118. When the Committee asked about the ongoing projects of BVFCL for which budget provision has been made during 2006-07, the Department of Fertilizers informed that the project has been physically completed and the Namrup-II unit has been commissioned on 22.11.05. Due to time and cost overrun, the revised final cost of the project is under consideration for approval by the Government. The budget allocation during the current year is being utilized for meeting the project cost of Rs.610.24 crores as approved earlier by the PIB and the balance requirement for meeting the final revised project cost of Rs. 637.51 crores will be provided for during 11th Plan period, after the final project cost has been approved.

119. On being enquired by the Committee whether Government has approved the final project cost of Namrup-II unit for proper utilization of budgetary allocation during the first year of the 11th Five Year Plan, Department of Fertilizers, in their post evidence reply, stated as under:-

“The final project cost of Namrup-II unit has not yet been approved by the Government. The same is under consideration and is expected to be approved, shortly.”

120. Further, on the question of whether the provided funds are adequate to complete the approved projects/programmes, the Department of Fertilizers stated that the balance funds in the current year 2006-07 have already been sanctioned and will be utilized before 31st March, 2007. The funds allocated during 2006-07 are not sufficient to meet the final revised revamp cost of Namrup units of BVFCL. The same is proposed to be incurred during 2007-08 after the final approval of CCEA on the revised project cost.

121. During 2006-07, the company has incurred a net loss of Rs. 107.07 crore as compared to Rs. 99.77 crore during 2005-06.

122. Asked about the reasons for incurring of losses by the company year after year and steps taken to contain the losses and make the operations of the company viable, DOF informed that the following are some of the main reasons underlying the operational losses of Namrup units of BVFCL:-

“The company is burdened with excess manpower compared to plants of present generation. As a result, the salary component as well as social overheads are very high. At the time of formation of the company the strength was 1843 as against the requirement of 900 only. At present, the strength is 1388. The BVFCL inherited old technology plants from loss making Hindustan Fertilizer Corporation Ltd. Being of old technology, the plants are high energy consuming compared to present day plants. The capacity of BVFCL's plants are much below the present day minimum economic size of urea producing plants. BVFCL's plants have suffered huge production losses due to disruption of gas supply. The after effect of this disruption further affected the plant health resulting lower capacity utilization. In the year 2005-06, the company suffered production loss to the tune of 49,000 MT (approx. Rs.35 crore) due to disruption in gas supply from oil fields due to various miscreant activities. In most part of a year there is always frequent fluctuation of gas pressure resulting reduction of plant load. This year i.e. 2006-07 also there was production loss of 8177 MT due to shortage in gas supply. Due to miscreant activities in Assam the plant suffered a lot in terms of delay in revamp project completion as no major contractors from outside Assam were willing to come resulting cost and time overrun and thereby increased capital cost. Low sales realization due to lower Group Concessional Price (Retention Price) as these plants have been clubbed with pre-92 Gas based plants instead of post-92 gas based companies after revamping of the Plants due to which the company has got less retention price than the profitability estimates in the revamping scheme. “

123. When the Committee asked what steps have been taken to contain the losses and make the operations of the company viable, Department of Fertilizers informed that the following steps are being taken for improving the performance of the company:-

“Reduction of the manpower costs by introducing VRS and thereby reducing overheads.

For ensuring quality and quantity of Natural gas supply, the matter is being pursued with M/S Oil India Limited (OIL) so that capacity utilization of both Namrup –II and Namrup III plants are achieved fully.

Reducing the break downs to minimize energy consumption which will lead to reduction in cost of production and also achieve higher production.

Schemes for energy conservation are being implemented. Energy audit of Namrup-III plants is being carried out by M/s. TERI.

Minimising the inventory holdings and generating cash flows through disposal of surplus scrap.

The company has taken over its marketing from M/S KRIBHCO w.e.f. 1st December 2006 and has made savings in marketing expenses to the tune of Rs.1.22 crores during last three months by taking various economy measures in marketing operations.

Production and marketing of Bo-fertilizers and sale of quality seeds to farmers to increase the revenue. The company is expected to earn Rs.22 lakh approximately from the sale of seeds during 2007-08.

Reduction in electricity charges by meeting company’s total power requirements from own generation.”

B. FERTILIZERS AND CHEMICALS TRAVANCORE LIMITED (FACT)

124. A provision of Rs. 30.00 crore was made in BE and RE (2006-07) for FACT. Against this FACT has incurred an expenditure of Rs. 1.42 crore as on

31.01.2007. The provision has been reduced to a level of Rs. 15.00 crore (50%) in BE (2007-08).

125. When the Committee wanted to know about the reasons for non-utilization of funds during the 2006-07, the Department of Fertilizers stated that an amount of Rs. 30 crore allocated under RE 2006-07 has been sanctioned and it is expected that they will be completed within next three months.

126. Further, when the Committee pointed out that why provision for FACT has been reduced in BE (2007-08) over BE and RE (2006-07), the Department of Fertilizers stated as under:-

“FACT had submitted the proposal for Rs. 70 crores under Annual Plan outlay 2007-08. The Department recommended for allocation of Rs. 40 crores for the same. However, Planning Commission allocated Rs. 15 crores only to FACT for Annual Plan 2007-08.”

127. On being enquired by the Committee that whether such a less amount will be sufficient to become the company economically viable and sustainable, the Department of Fertilizers, in their post evidence replies, stated as under:-

“The amount allocated for 2007-08 (Rs.15 crores) is planned for the essential Renovation & Modernization works on a priority basis. FACT is in the process of submitting a separate proposal for the economic viability and sustainable operation of the company.”

128. When the Committee asked how it will help the company to implement its pending project proposals during the 11th Plan period, the Department of Fertilizers, in their post evidence reply, stated as under:-

“The approval of Planning Commission on the Project proposals to be implemented by PSUs/Cooperatives Society during the 11th Five Year Plan is awaited. Once this is received, the company will be seeking separate administrative approval for the projects planned during the 11th Plan period.”

129. During 2005-06, the company produced 1.85 lakh tonnes of Nitrogen and 14.49 lakh tonnes of P_2O_5 respectively. The production of caprolactam during the above period was 0.39 lakh tonnes against a target production of 0.50 lakh tonnes.

130. When the Committee asked about the reasons for not achieving the target in production of Nitrogen, P_2O_5 and Caprolactum and steps being taken to achieve the target in production, the Department of Fertilizers stated as under:-

“The production as per the target during the year 2005-06 could not be achieved mainly due to severe working capital crisis. However, the production performance for the year 2005-06 has improved compared to the previous year 2004-05. The restructuring package of FACT was cleared in April, 2006 which helped the company to improve its performance after the mobilization of working capital through bank in December, 2006.”

With the availability of plan fund, the essential repair and maintenance works are being carried out. After restructuring of the company, the working capital has been mobilized. All these measures would enhance the production performance of the company.”

131. During 2005-06, the operating results of the company shows a loss of Rs. 118.74 crore and net profit of Rs. 235.55 crore. The estimated loss for the year 2006-07 in Rs. 139.74 crore.

132. When the Committee asked about the reasons for huge losses suffered by the company in the year 2005-06 and 2006-07 and steps being taken to improve the viability, Department of Fertilizers replied that steep increase in raw material prices, working capital shortage, uneconomic realization in ammonia sulphate, certain anomalies in fixation of prices of Fafamfos (NP 20:20) and sluggish demand of Caprolactum in Nylon market are the reasons losses suffered by the company. The basic reason for the loss is identified as the dependence on Naphtha/Furnace oil for fertilizer and Caprolactam production. The adverse situation is likely to continue till LNG is available (expected by 2010-11). Efforts

are being made to provide assistance to the company to sustain its performance level till LNG is available.

133. It was informed that the specific areas on which Research and Development activity carried out are efficiency improvement studies, Bio-fertilizer production, Rock phosphate characterization, Development of Solid Cement-Phosphogypsum blocks and sulphur muck utilization, etc.

134. On being asked by the Committee about the details of the Research and Development activity carried out by FACT, the Department of Fertilizers stated that The details of the Research & Development activities carried out by FACT are as follows:

“(i) The Bio-fertilizer plant at R&D Centre is capable of producing three kinds of Bio-fertilizers, namely Rhizobium, Azospirillum, and Bacillus Megatherium under the trade name BIOFACT. Subsequent to the inclusion of Bio-fertilizers in FCO, the Carrier material used so far has to be discontinued and studies using the new carrier material (Lignite) has been taken up. The company has produced 3.91 MT of Bio-fertilizers during this year. Owing to the short shelf life, production of these Bio-fertilizers is based on specific demands.

(ii) Rock Phosphate Characterization:

The Bench scale Rock Phosphate test facility at R&D Centre is used to study the suitability of different Rock Phosphate for the production of Phosphoric Acid in FACT plants.

(iii) Development of Solid Cement Phosphogypsum Blocks:

R&D centre has developed solid cement phosphogypsum blocks utilizing by-product phosphogypsum from phosphoric acid plants. Optimisation of parameters for producing Solid Cement Phosphogypsum Blocks of required specification is over. The company has applied for patenting the know-how.

(iv) Sulphur Muck Utilisation:

R&D Centre has taken up a project to explore the possibility of using sulphur muck - a waste from Sulphuric Acid plant. NPK Mixtures of

different grades 10:10:10, :10:10:4, 8:8:16, were prepared in the Laboratory by using powdered Sulphur Muck as filler. For comparison, similar grades of NPK mixtures were prepared by using Phosphogypsum as filler. Sulphur Muck incorporated NPK Mixtures were found to be more free-flowing and has less caking tendency than that of the PG incorporated NPK mixtures.

(v) Quality Control Cell:

As per directive from the Ministry of Agriculture, GOI, a quality control cell has been constituted and is actively involved in assessing independently, the quality of fertilizer products at both, the production units as well as in sales points.”

C. NATIONAL FERTILIZERS LIMITED (NFL)

135. A provision of Rs. 59.02 crore was made in BE (2006-07) and Rs. 407.00 crore in RE (2006-07) for NFL. Against this, NFL has incurred an expenditure of Rs. 19.44 crore as on 31.01.2007. The provision has been increased to Rs. 477.91 crore in BE (2007-08).

136. When the Committee wanted to know about the reasons for non-utilization of funds during 2006-07, the Department of Fertilizers stated as under:-

“A provision of Rs.59.02 crore was made in B.E. (2006-07) which was reduced to Rs.40.30 crores in R.E.(2006-07). The provision of Rs.407.00 crore kept in RE (2006-2007) pertains to total IEBR. Against the provision of Rs.40.30 crores in RE (2006-2007), an expenditure of Rs.20.85 crore has been incurred upto Feb.,2007. The shortfall in expenditure is mainly attributed to the followings:

- a) Revamp of Vijaipur-I being put on hold due to substantially higher bids received for critical equipments having adverse impact on viability of the Project.
- b) There has been delay in receipt of equipments for Digital Control System in Steam Generation Plants at FO based Units. “

137. A provision of Rs. 184.00 crore has been kept for plan outlay in the BE (2007-08). The figure of Rs. 477.91 crore pertains to total IEBR (2007-08).

138. When the Committee asked what are the plans/progress of NFL to utilize an amount of *Rs. 477.91 crore provided in BE (2007-08), the scheme-wise details are as under:-

Particulars	Amount(Rs./crores)
Ongoing Schemes	
Improvement in Effluent Treatment	5.15
Information Technology	5.40
Renewals and Replacements incl. Science & Technology	20.15
Upgradation of Instrument & Electrical System	10.50
Energy Saving Scheme	77.25
Major Retrofits and Feasibility Report	0.55
New Schemes	
Capacity Enhancement & CDR of Vijaipur-II	5.00
Change over of Feed Stock from FO to RLNG at Panipat unit	20.00
Change over of Feed Stock from FO to RLNG at Bathinda unit	20.00
Change over of Feed Stock from FO to RLNG at Nangal unit	20.00
TOTAL	184.00

Rs.477.91 crore is total IEBR and Rs.184.00 croe is plan allocation for 2007-08 from IEBR.

139. Energy Saving Scheme includes an amount of Rs.77.00 crore kept for Energy Saving Project in Vijaipur-I which is presently put on hold due to substantially higher bids received.

140. As regards change over of feed stock from FO to RLNG at FO based units, the incurrence of Rs.60.00 crore is dependent on Notification of scheme regarding change over of feed stock from FO/LSHS to gas and firming up of gas contract.

141. Production and financial performance of NFL has been good with capacity utilization of about 100% with a profit of Rs. 116 crore during 2005-06.

142. When the Committee asked about the position in regard to capacity utilization for the year 2006-07, the Department of Fertilizers stated that the capacity utilization during 2006-07 upto February 2007 is 106.7% as per unit-wise details given below:-

Units	Capacity Utilization (%)
Nangal	108.1
Panipat	98.9
Bathinda	109.1
Vijaipur-I	99.8
Vijaipur-II	114.2
Overall Capacity Utilization	106.2

143. Nangal and Bathinda units have taken Annual Turnaround after completing their annual target of 100% capacity utilization.

144. As regards joint ventures, no proposals have been fixed up in the last two years.

145. When the Committee asked about the efforts being made by Department of Fertilizers for early notification of scheme regarding change over of feedstock from FO/LSHS to gas and firming up of gas contract, the Department of Fertilizers, in post evidence reply, stated as under:-

“Change over of feedstock from FO to RLNG at FO based units, the incurrence of Rs.60 crore is dependent on Notification of scheme regarding change over of feedstock from FO/LSHS to gas.”

146. Further, when the Committee enquired about its impact on production performance of the company, Department of Fertilizers, in their post evidence reply, stated as under:-

“As the cost of production of urea based on feedstock FO/LSHS is more than the existing Import Parity Price of Urea, three FO based units of NFL may have to be closed down in case of non-conversion to gas based units.

Changeover of feedstock from FO to NG/RLNG shall ensure sustainability of the existing production levels and due to reduction in energy

consumption and substitution of costlier FO/LSHS with cheaper NG/RLNG, post Revamp the cost of production of Urea shall get reduced.”

147. When the Committee asked whether Department of Fertilizers has taken any steps or planned any programme for setting up of any major project of NFL with collaboration of joint venture for the last two years, the Department of Fertilizers replied that there is no firm proposal in this regard from NFL. The company has shown interest in joining FACT in its effort to set up a joint venture ammonia-urea plant in Egypt. Preliminary discussions with the concerned authorities in Egypt are being held by FACT and NFL.

148. It was informed by the Department of Fertilizers that in the year 2007-08, NFL has given major thrust on the area of reducing the energy consumption in all the units.

149. On being asked by the Committee what efforts are being made by NFL to reduce the energy consumption in all their units, the Department of Fertilizers stated as under:-

“The energy consumption of all the units during 2006-2007 vis.-a-vis. pre-set energy norms is as under:

Unit	Stage-II Pre-set Energy Norms	Actual 2006-2007 (upto Feb. 2007)
Nangal	9.517	9.406 *
Panipat	9.654	9.942
Bathinda	10.221	9.543 *
Vijaipur-I	5.952	9.764
Vijaipur-II	5.712	5.415

** Both the Nangal & Bathinda units have taken annual turnaround after completion of Annual Production Targets. The energy consumption on an annual basis may increase due to shut down unproductive energy.*

It may be seen from the above that all the units are operating much below the pre-set energy norms except for Panipat unit. The energy at Panipat is on the higher side due to the problem of motor of Carbon Dioxide Kobe Compressor. Action for procurement of new motor has already been taken.”

150. The major thrust given in the area of energy consumption during 2007-08 pertains to Energy Saving Project in Vijaypur-I. The project was started in February, 2006 with scheduled completion by April, 2008. The project for Vijaypur II is under review as the bids received have substantially affected the viability of the project.

151. During the study visit of the Committee to Chandigarh in October, 2006, the representatives of NFL informed the Committee that a study was being made for setting up of new bio-fertilizer plant at Nangal. In this connection, the Department of Fertilizers replied that new Bio-fertilizer plant at Nangal has not been set up. However, the farmers in the State and adjoining State at Himachal Pradesh and Haryana are being educated about the beneficial effect of Bio-fertilizers. A meager demand of 7 MT only has been received from the State of Himachal Pradesh which is not sufficient to set up of a new Bio-fertilizer plant. Continuous efforts are being made to popularize the use of bio-fertilizer among

farmers in the local areas. The decision for setting up of new Bio-fertilizer plant at Nangal shall be taken after demand reaches a reasonable level.

152. On being further asked by the Committee about the steps have been taken by NFL to encourage the use of bio-fertilizers in farmers, the Department of Fertilizers, in a written reply, stated as under:-

“The beneficial effect of bio-fertilizers is known for quite sometime and scientists have been recommending their usage. However, bio-fertilizers have not gained the popularity they deserve among the farming community. The main reason for this is that extension agencies have not adequately propagated correct method of their application, benefits of their use and precautions in using the bio-fertilizers products to the farmers. Since the installation of Bio-fertilizer plant at Indore, NFL has been undertaking a number of programs to popularize the use of bio-fertilizer among the farmers. The programs are as follows:

- Demonstrations on the farmers’ fields
- Training programs/Field Days
- R&D trials in collaboration with the universities
- Free distribution of bio-fertilizer samples & technical literature
- Seminars, workshop & Kisan melas on Bio-fertilizers

Production of an educational film, exclusively on popularization of Bio-fertilizer and encouraging farmers for its use.”

153. It was also informed to the Committee that NFL proposes to convert feedstock from fuel oil to natural gas/liquefied natural gas (LNG) at three of its plants, at an estimated cost of Rs. 1500/- crore. Projects and Development India Limited (PDIL) has been engaged as consultant for selection of Technology and preparation of Detailed Techno Economic Feasibility Report.

154. In this connection, the Department of Fertilizers stated as follows:-

“PDIL has submitted its Report on Selection of Technology Route for change over of feed stock to RLNG. Based on the recommendation of PDIL, NFL Board in its 314th Meeting held on 18.10.2006 has approved the Selection of “Steam Methane Reforming (SMR)” Technological Route. Techno-Economic Feasibility Report (TEFR) by PDIL for Panipat unit has been received and for Bathinda and Nangal is under preparation with PDIL.”

155. In regard to Insurance scheme, it was informed to the Committee that no such scheme has been started by NFL so far on the lines of 'Sankat Haran Bima Yojna' run by KRIBHCO.

156. When the Committee asked whether any proposed from NFL to start any insurance scheme, the Department of Fertilizers replied that the company is examining the matter with Insurance companies and depending upon response from them further steps would be taken.

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

157. PDIL is mainly engaged in Design, Engineering, Procurement, Inspection, Store Management and Supervision during construction and commissioning of fertilizer and chemical plants. It has played a pivotal role in establishing fertilizers plants in India from concept to commissioning, besides the trouble shooting and NDT services for health maintenance of the plants.

158. A provision of Rs. 2.00 crore was made in BE (2006-07) and Rs. 1.50 crore in RE (2006-07) for PDIL. The provision has been increased to a level of Rs. 2.50 crore in BE (2007-08).

159. When the Committee asked how PDIL proposes to utilize a sum of Rs. 2.50 crore provided in BE (2007-08), the Department of Fertilizers stated, in a written reply, as under:-

[Rs. In lakh]

1.	CAD/CDE Programme including PC for Noida, Baroda and Sindri Units.	
	PC / Laptop	30.50
	Printers, Plotters and Scanners	4.50
	Design / Drafting Autocad, Microsoft Software and other development software.	70.00
	Sub-Total	105.00
2.	Computer Networking / Storage and Backup System for Baroda / Sindri Units.	30.00
	Sub-Total	30.00
3.	Renewal & Replacement	
	Modular Furnishing of 2 nd Floor of PDIL Bhawan, Noida.	28.00
	Major Renovation of PDIL Bhawan	12.00
	Furniture & Fixtures ,etc.	5.00
	DG Set – PDIL Bhawan, Noida.	60.00
	Sub-Total	105.00
4.	New Scheme	
	Land and land development for office building at Baroda.	10.00
	Sub-Total	10.00
	Grand Total (1+2+3+4)	250.00

160. PDIL has earned a net profit of Rs. 1.64 crore during 2005-06 as against the target of Rs. 8.03 crore. During the period April to October, 2006, a profit of Rs. 6.28 crore has been earned against the estimated profit of Rs. 9.57 crore for the year 2006-07.

161. When the Committee asked about the net profit/loss during the year 2006-07, the Department of Fertilizers replied as follows:-

“Profit earned by the company during the year 2004-05, 2005-06 and 2006-07 given below:

Year	Profit (Rs. In crore)
2004-05	: 10.06
2005-06	: 10.64
2006-07 (Prov.)”	: 11.05

162. Further, the Committee informed to know about the major projects in hand, the Department of Fertilizers stated as under:-

“PDIL does not have its own projects in hand. However, the company is rendering Engineering & Consultancy Services for execution of various projects being executed by different clients. Some of the major projects for which PDIL is giving Engineering Services are given below:

Sl. No.	Project and Milestone	Client	Target completion/ Progress Achievements Up to March, 2006
1.	CFCL Gadepan-2 Revamp Project (Design Engg. And Procurement assistance Services)	CFCL	90%
2.	CFCL Gadepan-1 Revamp Project (Design Engg. And Procurement assistance Services)	CFCL	90%
3.	Consultancy Services for Revamp of Trombay Methanol Plant	RCF	60%
4.	Consultancy Services for detailed engg. Of Urea Revamp (Energy Saving) Project-GNFC-Bharuch	GNFC	31.03.2008
5.	EPCM Services for GSU and GPU modification job at GAIL-Pata	GAIL	75%
6.	Consultancy Services for Ammonia Plant Feedstock changeover Project at NFL-Panipat and Bhatinda.	NFL	31.03.2008
7.	DEP for Mounded Storage for LPG and Propylene at HPCL-Visakh Refinery	HPCL	31.03.2008
8.	Design Engg. Consultancy Services for Design detail engg. Of LPG Mounded Bullets for IOCL Haldia A/C Indus Projects Ltd. Mumbai	INDUS	15.03.2008
9.	Consultancy Services for revamping of Electrical System at IFFCO-Paradeep Complex	IFFCO	15.06.2007
10	Consultancy for Construction of Rock Phosphate Silo at IFFCO-Paradeep Complex.”	IFFCO	18.09.2007

163. It was informed by the Department of Fertilizers that the company has not undertaken by new scheme/projects. However, the continuing schemes towards PCs and computer items, Net-working and Renewal/ replacements are continuing. The utilization of plan outlay during 2004-05 and 2005-06 are given below:

[Rs. in crore]

S.No.	Scheme	2004-05	2005-06
1.	PCs and other computer items for CAD/CDE.	.63	0.19
2.	Computer Networking		
3.	Renewal & Replacement	0.74	0.30
	Total	1.37	0.49

164. The above table shows that PDIL has spent very less amount on the continuing schemes forwards PCs, computer items, Networking and Renewal and Replacement during the year 2005-06 as compared to 2004-05. No new scheme/project has been undertaken.

165. Further, when the Committee enquired whether Department of Fertilizers has examined the reasons for incurring less expenditure on continuing schemes and not taken up any new scheme by the company for the last two years, the Department of Fertilizers informed that the company has performed exceedingly well and earned Internal Extra Budgetary Resources (IEBR) of Rs.5.91 crore and 9.56 crore during the year 2004-05 and 2005-06 respectively and for 2006-07 estimated provisional IEBR is Rs.8.00 crore. All the plan funds and capital expenditure are being met from internal resources without any budgetary support.

166. The company had incurred very less expenditure on continuing schemes during the year 2005-06. The funds could not be utilized during the year 2005-06 mainly due to –

- (a) Deferment of procurement of some of the computer items, networking at Baroda office, AUTOCAD and other developmental software; and
- (b) Deferment of Modular Cabin at one wing of PDIL Bhawan.

E. RASHTRIYA CHEMICALS AND FERTILIZERS LIMITED (RCF)

167. At present, RCF has a total installed capacity of about 10.54 lakh tonnes of nitrogen and 1.17 lakh tonnes of P₂O₅ and 0.45 lakh tones of K₂O. Besides, fertilizer, the company also produces a number of industrial chemicals such as methanol, concentrated nitric acid, methylamines, ammonium bicarbonate, sodium nitrate/nitrite, DMF, DMAC, etc.

168. The production during 2005-06 was 8.84 lakh tonnes of nitrogen and 1.09 lakh tonnes of phosphate.

169. A provision of Rs. 237.70 crore was made in BE (2006-07) for RCF which has been increased to a level of Rs. 304.40 crore in RE (2006-07). The provision has been reduced to a level of Rs. 302.41 crore in BE (2007-08).

170. When the Committee asked about the reasons for decrease in provision made for RCF in BE (2007-08) over RE (2006-07), the Department of Fertilizers, in a written reply, stated as under:-

“The budgets are made taking into account the status of ongoing schemes and new schemes. The estimated expenditures on these schemes are on year to year basis and the expenses are independent every year. Therefore, variation in expenditure is bound to occur.”

171. When the Committee asked why production of nitrogen and phosphate during 2005-06 was less than the installed capacity, the Department of Fertilizers stated as under:-

“The shortfall in nitrogen was in Urea production due to following reasons:

In the first quarter of 2005-06 there was shortfall in Naphtha supply from HPCL on account of their refinery's shutdown. In the second quarter, there was the flooding in Mumbai and fire at ONGC platform resulting in gas curtailment which adversely affected the production of nitrogenous fertilizer, i.e. Urea.

Production of phosphatic fertilizers during 2005-06 was also marginally lower than the installed capacity due to constraints in the availability of gas."

172. On being enquired by the Committee about the latest position in regard to completion of major expansion, diversification and joint venture projects, undertaken by the company during the last two years, the Department of Fertilizers, in a written reply, stated:-

"Company has undertaken Joint Venture project for installation of DAP plant with Rajasthan State Mines and Mineral Ltd. A Joint Venture agreement has been signed between two partners and bids for installation of Phosphoric Acid and DAP plants have been received and are under evaluation. Other formalities like constitution of Board and Registration of the Company are under way."

173. In regard to expansion project, RCF stated that Thal Expansion Project-III is the major project which has not been approved by the Government in absence of assured availability of the gas for the project. The company has been asked to procure firm commitments on gas supplies so that a decision on the project can be taken. Further, they have also been asked to conduct a revised feasibility study on the cost at which assured gas is available, so as to enable an early decision by the Government.

174. When the Committee asked about the reasons for increased cost of the project, the Department of Fertilizers informed that the increase in cost of the project is mainly due to increase in taxes, levies, duties, inflation indices etc. The firming up of capital goods market, which is due to increased cost in metal market, is also a major factor in the increase in project cost. Iron and Nickel are the major constituents in such projects.

175. On the question of whether process of revamping of Ammonia-v plant of Trombay has been completed, Department of Fertilizers informed as under:-

“The revamping of Ammonia – V plants has been completed and plant has been commissioned in July, 2006 except Syn. Gas Compressor which is planned to be hooked up in April, 2007.”

176. During the study visit of the Committee to Mumbai in October, 2006, it was brought to the notice of the Committee that RCF has been exploring possibilities for initiating the insurance scheme for the farmers. When the Committee asked about the progress of the company in regard to initiating the insurance scheme, the Department of Fertilizers informed that the company is examining the matter further with Insurance companies and depending upon response from them further steps would be taken.

177. During the course of evidence, CMD of RCF informed the Committee as under:-

“There is a proposal for the Government to set up new plants at those locations which have been closed including Durgapur. Like RCF and NFL we are looking for such locations. Our team must have gone for due diligence. We have sent teams to all these locations at Talcher, Durgapur and Barauni so that we have the details in order that we can make an techno-economic assessment. In that connection, they had gone there. We are considering to associate with the Government.”

178. He further informed that after making the detailed study, he would give the proposal quickly which shall be subject to the gas based pipeline.

179. The CMD also informed that pipeline is being provided by M/s Reliance and it will come from Kakinada to Haldia and there will a spur at Durgapur.

F. MADRAS FERTILIZERS LIMITED (MFL)

180. A provision of Rs. 9.00 crore was made in BE (2006-07) for Madras Fertilizers Limited (MFL) which remain same (i.e. Rs. 9.00 crore in BE (2007-08).

181. A provision has been made primarily for meeting unforeseen repairs and maintenance in order to maintain continuous operation of the plants.

182. The annual installed capacity of the MFL is as follows:

Annual Capacity (MT)

Product	Pre-revamp	Post-revamp
Ammonia	247,500	346,500
Urea	292,050	486,750
NPK	540,000	840,000

183. During the year 2005-06, the company produced 3.68 lakh tonnes of urea and 2.08 lakh tonnes of NPK-Complex fertilizers as compared to 4.73 lakh tonnes of urea and 3.33 lakh tonnes of NPK-Complex fertilizers during 2004-05.

184. When the Committee asked about the reasons for less production of NPK complex fertilizers during the year 2005-06 as compared to 2004-05, the Department of Fertilizers stated as under:-

“The NPK production has come down from 40% in 2004-05 to 25% in 2005-06 due to the following reasons:

- i Non availability of Phosphoric Acid in the international market.
- ii Liquidity crisis due to losses suffered in earlier years.
- iii Inadequate compensation under concession scheme, which is under examination by the Department.”

185. The Committee were further informed during the year 2005-06, the company reported a net loss of Rs. 131.73 crore as compared to net loss of Rs. 58.39 crore in 2004-05.

186. On being enquired by the Committee about the reasons for such a huge loss to the company during the year 2005-06 as compared to 2004-05, the Department of Fertilizers, in a written reply, stated as under:-

“The major reasons for the higher loss during 2005-06 are as follows:

1. Three major shutdowns resulting in loss of production for 94 days.
2. Higher Energy/Specific Consumption for Ammonia and Urea consequent on production interruptions.
3. Under-utilization of NPK Plants due to severe liquidity crunch.
4. Non-availability of raw materials especially Phosphoric Acid in the International market for manufacture of Complex Fertilizers.
5. Negative contribution in NPK manufacture.
6. The NPK production has come down from 40% in 2004-05 to 25% in 2005-06 due to non-availability of Phosphoric Acid in international market and lack of funds to procure other raw materials viz. Urea, Potash and bought Ammonia.
7. Due to heavy accumulated losses even at the start of the year 2005-06, the Company was facing severe liquidity crisis and working capital limitations.
8. SBI Commercial Branch have reduced the Cash Credit limit by Rs.21 Cr during 2005-06 after reviewing the poor financials.

All the above factors have contributed to the poor performance in 2005-06. A total of Rs.59 Cr out of the total loss of Rs.132 Cr has been incurred during the shutdown days in December 2005 and January 2006 on account of Catalyst failure and other equipment outages due to non availability of funds for proper maintenance of Plants. “

187. It was informed to the Committee that MFLs profitability has been affected because of low capacity utilization of NPK plants. The company has not been able to procure imported phosphoric acid due to its short supply in

international market. The suppliers in South Africa, Morocco and Tunisia have restrictions to give their joint venture partners in India.

188. When the Committee asked whether Department is making any other arrangements for supply of phosphoric acid for MFL, the Department stated that MFL is expected to tie up phosphoric acid supply from international market as a part of its commercial operations.

189. On the question of the financial restructuring proposals of MFL, Department of Fertilizers has informed that Board for Reconstruction of Public Sector Enterprises (BRPSE) considered the financial restructuring proposal of MFL in its meeting held on March 17, 2005 and recommended certain reliefs such as waiver of GOI loan and interest, enhancement of outlier benefits under New Pricing Scheme for urea and modification of the existing pricing formula for complex fertilizers. On the basis of BRPSE recommendations, a proposal for financial restructuring of MFL was considered by COS in its meeting held on 22.3.2006. Keeping in view the decisions of COS in this regard, a financial restructuring proposal to make the operations of the company viable by providing adequate compensations for the productions made by the company is under finalisation.

COOPERATIVE SECTOR

KRISHAK BHARATI COOPERATIVE LIMITED (KRIBHCO)

190. An IEBR provision of Rs. 586.00 crore was made in BE (2006-07) for Krishak Bharati Cooperative Limited (KRIBHCO) which has been reduced to a level of Rs. 65.00 crore in RE (2006-07). However, an IEBR provision of Rs. 210.00 crore has been made in BE (2007-08).

191. When the Committee asked what are the projects /plans being undertaken for which provision has been made during 2006-07 and 2007-08, the Department of Fertilizers stated as under:-

“The projects/scheme-wise details of plan outlays in respect of M/s Krishak Bharati Cooperative Limited (KRIBHCO) for the years 2006-07 and 2007-08 are given as under:-

(Rs. In crores)

Sl. No.	Details	Outlays 2006-07 (RE)	Proposed Outlay 2007-08
A.	NEW SCHEMES/PROJECTS		
	Hazira Expansion/Joint Venture /Other Investment Opportunity	5.00	120.00
	Argon Recovery	20.00	75.00
	Total A	25.00	195.00
B.	ADDITIONS/ MODIFICATIONS		
	Renewals / Replacements	12.00	10.00
	Bimetallic Urea Strippers	28.00	5.00
	Total B	40.00	15.00
	GRAND TOTAL : (A+B)	65.00	210.00”

192. It was informed that KRIBHCO, IFFCO and Oman Oil Company with a share holding of 25%, 25% and 50% respectively have collaborated and set up a world class fertilizer plant in Oman. The project has capacity of 16.52 lakh MT of granular urea per annum, which is to be purchased by Government of India. KRIBHCO and IFFCO are handling and distributing this urea in India on the basis of separate short term agreement, which was effective from 1st December, 2005 to 31st May, 2006.

193. When the Committee asked on what basis the urea is being handled and distributed by KRIBHCO and IFFCO after May, 2006, the Department of Fertilizers stated as under:-

“Government of India had entered into a Urea Off Take Agreement with Oman India Fertilizer Company (OMIFCO) to lift the entire rated capacity production of urea in the first 15 years. DGFT, on the recommendations of Department of Fertilizers (DOF), has issued import license to facilitate import of urea by IFFCO & KRIBHCO from Sur, Oman during the next 15 years. M/s IFFCO & KRIBHCO are handling & distributing Oman Urea at various Indian ports as per the handling & marketing agreement entered with them. The handling and Marketing agreement was valid upto 31.05.2006. The handling rates to be allowed to these agencies w.e.f.01.06.2006 are under examination of DOF. Pending finalization of handling charges both IFFCO & KRIBHCO are provisionally handling import of urea at the same terms & conditions which were applicable up to 31.05.2006.”

194. In the year 2006, KRIBHCO has entered into a pact with Bajaj Allianz General Insurance Company Limited for a scheme call ‘Sankat Haran Bima Yojna Policy for farmers. As per the policy, on the purchase of one bag of KRIBHCO Fertilizer, every farmer would have an accidental insurance cover of Rs. 4,000 per bag.

195. On being enquired by the Committee whether Department of Fertilizers has evaluated the success of the ‘Sankat Haran Bima Policy’ extending the same for the fertilizer industry as a whole, the Department of Fertilizers stated that they are planning to commission a Study for evaluating the ‘Sankat Haran Bima Policy’.

196. During the study visit of the Committee to Hyderabad in October, 2006, it was brought to the notice of the Committee that KRIBHCO is monitoring the proper implementation of the insurance scheme and taking necessary actions for early settlement of claims lodged by farmers with the insurance agency under Sankat Haran Yojana scheme. When the Committee asked whether any views or suggestions of fertilizers companies have been received by Department of Fertilizers in this regard, the Department of Fertilizers informed that once the Study Report on Evaluation of 'Sankat Haran Bima Policy' is received, the views and suggestions of fertilizer companies will be solicited.

197. On being enquired by the Committee regarding settlement of claims lodged by the farmers with the insurance agency, the Department of Fertilizers stated that during the period 01.04.2006 upto 31.01.2007, a total 88 claims have been lodged with M/s Bajaj Allianz GIC Ltd. Out of which 37 claims have been settled so far. The remaining 51 claims could not be settled due to lack of submission of required documents by the legal heirs. Matter is being followed up by KRIBHCO.

198. Elaborating the role of KRIBHCO regarding settlement of insurance claims, it was informed that the Sankat Haran Bima Yojna is free of cost insurance cover to the farmers who purchase KRIBHCO prilled Urea. The insurance premium is being paid to the insurance company by KRIBHCO which is Rs. 19/- PMT of Urea at present. Follow-up of settlement of insurance claims are being taken up with the insurance company on regular intervals.

199. The Committee note that there is a proposal to set up new plants at those locations which were closed. The Committee have been informed that teams have been sent to all those locations namely viz. Talcher, Durgapur and Barauni to make a techno-economic assessment. As the revival of these units is based on the availability of gas based pipeline which is being provided by a private agency, the Committee recommend that the matter should be taken up by the Department of Fertilizers with the Ministry of Petroleum and Natural Gas to supply the gas to the closed units by 2009-10 positively and for other units by 2008-09. The Department should also ensure that gas pipelines are also provided at the earliest i.e. before 31st March, 2008. The Committee emphasize that quarterly review of the laying of gas pipelines and arrangement of provision of gas should be made by the Department of Fertilizers in coordination with the Ministry of Petroleum and Natural Gas. The Committee also hope that techno-economic assessment of the closed units should be made at the earliest and there should not be any laxity either on the part of the Government or PSUs in this regard. In case of sick units, the Committee recommend to revamp and upgrade the management of some of the sick units which are suffering due to mismanagement.

(Recommendation Sl. No.19)

200. The Committee note that during the year 2006, KRIBHCO had entered into a pact with Bajaj Allianz Insurance Co. Limited for a scheme called, 'Sankat Haran Bima Yojana Policy' for farmers. The Committee have been informed that Department of Fertilizers is planning to start a study for evaluating the success of the Scheme. The Committee are surprised to note that even after lapse of one year, the Department of Fertilizers is still planning to start a study for evaluating the success of the Scheme. The Committee, therefore, desire that the study be started as early as possible so that the success or failure of the Scheme should be known which is essential for a decision on the continuation of the Scheme.

(Recommendation Sl. No. 20)

New Delhi;
April 17, 2007
Chaitra 27, 1929 (Saka)

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

Appendix-I

MINUTES

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

**EIGHTH SITTING
(28.03.2007)**

The Committee sat from 1500 hours to 1645 hours.

Present

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

2. Shri Sunil Khan
3. Shri Subhash Maharia
4. Shri Ramswaroop Prasad
5. Shri P. Chalapathi Rao
6. Shri Anantha Venkatarami Reddy
7. Shri Narsingrao H. Suryawanshi

Rajya Sabha

8. Shri Devdas Apte
9. Shri Gireesh Kumar Sanghi
10. Shri V. Hanumantha Rao
11. Shri Mahendra Sahni
12. Shri T.R. Zeliang

Secretariat

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

**Representatives of the Ministry of Chemicals & Fertilizers
(Department of Chemicals & Petrochemicals)**

- | | | | |
|-----|----------------------------|---|--|
| 1. | Smt. Satwant Reddy | - | Secretary |
| 2. | Dr. Jivtesh Singh Maini | - | Additional Secretary and FA |
| 3. | Shri Ashok Kumar | - | Chairman, National Pharmaceutical Pricing Authority (NPPA) |
| 4. | Shri K.C. Mishra | - | Joint Secretary |
| 5. | Shri G.S. Sandhu | - | Joint Secretary |
| 6. | Shri P.V. Rajeev Sebastian | - | Economic Advisor |
| 7. | Shri Bilas Rao Ghodeswar | - | CCA |
| 8. | Shri N.K. Sharma | - | Director |
| 9. | Ms. Harmeet Singh | - | Director |
| 10. | Shri Surjit Bhujbal | - | Director |
| 11. | Shri Gurdeep Singh | - | Director |

**Representatives of the Public Sector Undertakings
(PSUs)/Autonomous Bodies**

- | | | | |
|----|-----------------------------|---|--|
| 1. | Shri M.C. Abraham | - | MD, Hindustan Antibiotics Ltd. (HAL) |
| 2. | Dr. P. Ramarao | - | Director, National Institute of Pharmaceuticals Education and Research (NIPER) |
| 3. | Shri K.A.R. Subramanian | - | DG, Central Institute of Plastic Engineering and Technology (CIPET) |
| 4. | Shri N.R.S. Phani
(BCPL) | - | MD, Bengal Chemicals and Pharmaceuticals Ltd. |
| 5. | Shri A.S. Didolkar | - | CMD, Hindustan Organic Chemicals Ltd. (HOCL) |
| 6. | Shri K. Hari Kumar | - | CMD, Hindustan Insecticides Limited (HIL) |
| 7. | Dr. P.K. Patanjali | - | Director, Institute of Pesticides Formulation Technology (IPFT) |
| 8. | Shri M. Venkatesan | - | Director (Finance), BPCL |

2. At the outset, the Hon'ble Chairman welcomed the Members, officials of the Department of Chemicals & Petrochemicals and Public Sector Undertakings to the sitting.

3. Thereafter, the representatives of the Department of Chemicals and Petrochemicals made a brief presentation highlighting the various activities of Chemicals and Petrochemicals sector, particularly with reference to Demands for Grants of the Department for the year 2007-08.

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

- Establishment of extension centres of CIPET in more States.
- Early disposal of claims in regard to Bhopal Gas Leak Disaster.

- (iii) Early removal of Toxic Waste from Union Carbide Plant.
 - (iv) Early commissioning of Assam Gas Project.
 - (v) Achievements of National Institute of Pharmaceuticals Education and Research (NIPER).
 - (vi) Setting up of more NIPER like Institutes in the country.
 - (vii) Production of spurious drugs.
 - (viii) Finalisation of new Pharma Policy.
 - (ix) Availability of medicines to the poor at reasonable prices.
 - (x) Implementation of schemes for North-Eastern Region.
 - (xi) Revival of closed/sick Public Sector Undertakings.
 - (xii) Social obligations of the Public Sector Undertakings.
5. A verbatim record of the proceedings of the sitting has been kept.

The Committee, then, adjourned.

MINUTES

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

**TENTH SITTING
(17.04.2007)**

The Committee sat from 1100 hrs. to 1315 hrs.

Present

Shri Anant Gangaram Geete - ***Chairman***

***Members
Lok Sabha***

2. Shri Suresh Angadi
3. Shri Sunil Khan
4. Shri Subhash Maharia
5. Shri Prasanta Pradhan
6. Shri P. Chalapathi Rao
7. Shri Anantha Venkatarami Reddy
8. Shri Narsingrao H. Suryawanshi
9. Shri Mansukhbhai D. Vasava
10. Shri D. Venugopal
11. Shri Bhanupratap Singh Verma

Rajya Sabha

12. Shri Devdas Apte
13. Shri Gireesh Kumar Sanghi
14. Shri Mahendra Sahni

Secretariat

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

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee.

3. ** ** ** ** ** ** ** ** ** ** **
 ** ** ** ** ** ** ** ** ** ** **

4. The Committee then took up for consideration the draft Report on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers). The draft Report was adopted by the Committee with some amendments.

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

The Committee, then, adjourned.

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

Appendix-III**STATEMENT OF RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE**

Recc. No.	Para No.	Recommendations/Observations
(1)	(2)	(3)
1	6	<p>The Twelfth Report of the Committee on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) was presented to Parliament on 19th May, 2006. The Fifteenth Action Taken Report on action taken by the Government on the recommendations contained in Twelfth Report was presented to Lok Sabha on 27th February, 2007 and laid on the Table of Rajya Sabha on 1st March, 2007. Out of the total 19 recommendations, 10 Recommendations (Sl. Nos. 1, 5, 6, 7, 8, 9, 15, 17, 18 and 19) were accepted by the Government. In view of the Government's replies, Recommendations at Sl. Nos. 12 and 16 were not pursued by the Committee. In regard to Recommendations at Sl. Nos. 2, 3, 4, 10, 11, 13 and 14, the replies of the Government were of interim nature. Subsequently, the Minister of Chemicals and Fertilizers made a Statement regarding the status of implementation of the recommendations contained in Twelfth Report of the Committee in Lok Sabha on 18th December, 2006 under Direction 73A of the Directions by the Speaker, Lok Sabha.</p> <p>The Committee's analysis of implementation of recommendations by the Government has revealed that out of the total 19 Recommendations, the Department of Fertilizers have implemented only 5 Recommendations so far. The implementation process in regard to 5 recommendations is in progress. The Recommendations at Sl. Nos. 2, 3, 4, 10, 11, 12, 13, 14 and 16 relating to shortfall in utilization of plan outlay, project planning and implementation in PSUs, plan strategies in regard to 11th Five Year Plan, finalization of Stage-III of NPS, disbursal of subsidy directly to farmers, de-bottlenecking/ revamp/ modernization of existing urea units, revival of sick, loss making and closed fertilizer PSUs have not been implemented so far. The Committee are dismayed at the slow pace of the implementation process of their Recommendations and desire that sincere efforts for properly and timely implementation of their Recommendations should be made by the Department of Fertilizers without further delay.</p>

(1)	(2)	(3)
2	15	<p>The Committee note that out of Rs. 5900 crore plan outlay in regard to fertilizer sector in the 10th Five Year Plan period, the expenditure by the end of the year 2005-06 is Rs. 2108.72 crore, which is about 35.72 <u>per cent</u> of the approved plan outlay. For the year 2006-07, the likely expenditure is Rs. 2987.54 crore. The Committee have been informed that the main reasons for shortfall in utilization of plan funds are non-utilization of funds for Hazira Expansion Project of Krishak Bharati Cooperative Limited (KRIBHCO) and Thal Expansion Project of Rashtriya Chemicals and Fertilizers Limited (RCF), exclusion of Indian Farmers Fertilizers Cooperative Limited (IFFCO) from the administrative control of Department of Fertilizers, closing of two PSUs like Fertilizer Corporation of India Limited (FCI) and Hindustan Fertilizer Corporation Limited (HFC), non-implementation of some major projects of Fertilizers and Chemicals Travancore Limited (FACT) <u>viz.</u> (i) New Sulphuric Acid Plant at Cochin Division, (ii) Railway siding at Udyogamandal and certain improvements to Phase-I plants in Cochin Division, etc. Similarly, with regard to National Fertilizers Limited (NFL), the shortfall in actual expenditure are due to savings in completion costs of energy savings schemes and delay in revamping of Vijaipur-I plant. In case of Rashtriya Chemicals and Fertilizers Limited (RCF), the Ammonia-v revamp and the Argon recovery project at Thal were not implemented. Madras Fertilizers Limited (MFL) has also not utilized the full plan outlay due to dropping of six schemes during the year 2005-06 and 2006-07 while in case of Project and Development India Limited (PDIL), the funds could not be utilized due to deferment of procurement of some computer items.</p> <p>Keeping in view the fact that there is a gap of about Rs. 3792 crore in the allocation and anticipated utilization of the 10th Five Year Plan outlay of Department of Fertilizers, the Committee are of the view that the funds had not been utilized by the Department of Fertilizers properly during each year of the Tenth Plan period. The Committee are not satisfied with the reasons furnished by the Department for non-utilization of plan funds by each PSU. The Committee are pained to note that although they had repeatedly recommended that Department of Fertilizers should review the progress of all projects in a scientific manner on a regular basis but no adequate action had been taken by the Government on those recommendations. The Committee feel that implementation process of project planning in the PSUs/Cooperative unit under the administrative control of the Department of Fertilizers was poor as ground realities were not considered while formulating and implementing the schemes/projects. The Committee strongly feel that there is no use of fixing the targets if they cannot be achieved. The Committee desire that the Department of Fertilizers should, therefore, analyse the reasons for continuous failures in achieving the targets during each year of the 10th Five Year Plan and ensure that the same shall not continue during the 11th Five Year Plan.</p>

(1)	(2)	(3)
3	28	<p>The Committee note that there has been marginal increase in production capacity in respect of both nitrogenous and phosphatic Fertilizers in the beginning of the fifth year of Tenth Five Year Plan i.e. in 2006-07 as compared to the production capacity in the end of the Ninth Five Year Plan i.e. in the year 2001-02. The Committee also note that consumption of major Fertilizers are also on increasing trend. The Committee find that the demand forecast of urea during the Eleventh Plan period as per the Working Group on Fertilizers for the Eleventh Plan is 1354.70 lakh tonnes and demand forecast for phosphatic fertilizers, especially DAP is very high in comparison to the present trend of consumption. The Committee further note that the demand for phosphatic fertilizers in the country is being met through indigenous production based on imported raw material/intermediates and import of finished Fertilizers. Due to lack of efficient exploitable reserves of phosphate in the country, it is being expected that the import practice will continue during the 11th Plan period also. The Committee, therefore, recommend that the Department should fix higher targets taking into account the increasing demand and consumption of all major fertilizers in the coming years so as to reduce the import of urea and DAP for the year 2007-08 and also to minimize the subsidy borne by the Government on this account.</p>
4	32	<p>The Committee note that Planning Commission has approved an outlay of Rs. 1037.96 crore for various Public Sector Undertakings and miscellaneous schemes of the Department of Fertilizers for the year 2007-08. Out of which an amount of Rs. 992.96 crore will be met from the internal and extra budgetary resources (IEBR) and the balance amount of Rs. 45.00 crore will be provided through budgetary support. The Committee desire that necessary planning should be done by the Department of Fertilizers to avoid any shortfall in utilization of plan funds allocated for the first year of 11th Five Year Plan. The Committee are of the view that Government should take all corrective measures for maximum utilization of budgetary amount during the year 2007-08 after obtaining the project Review Reports from all the Public Sector Undertakings on priority basis. The Committee desire that the Department should also review all the on-going schemes of PSUs in the month of July-August of each year and, if necessary, re-allocate the funds among the PSUs during the financial year.</p>

(1)	(2)	(3)
5	51	<p>The Committee have been informed that Department of Fertilizers has an outstanding liability of subsidy payment to the tune of Rs. 11582.84 crore for the year 2006-07. Claims in the case of decontrolled indigenous fertilizers, decontrolled imported fertilizers and indigenous urea have also not been settled completely till date. The Committee also find that the Department is not satisfied with the budgetary allocation as these are insufficient to make subsidy payment. The consumption of all major fertilizers is also on increasing trend. Based on the increase in consumption and prevailing higher prices of fertilizer inputs, Department of Fertilizers had sought a sum of Rs. 32952.94 crore for subsidy/concession against which the Ministry of Finance allocated only Rs. 22452 crore during the year 2006-07. The Secretary, Department of Fertilizers apprised the Committee during evidence that although the Department have got a sum of Rs. 28,020 crore including a third supplementary of Rs. 3,500 crore, but still the subsidy bill of Rs. 8082.84 crore will carry forward to the next year. The requirement of the Department for subsidy/concession will come to approximately Rs. 56,391.16 crore for the current year viz. 2007-08 including carry over of Rs. 8082.84 crore. The Committee would, therefore, like the Department of Fertilizers to continue their efforts for getting adequate amount of funds from Ministry of Finance and Planning Commission so that all subsidy bills/claims should be settled during 2007-08 itself. The Committee also desire that corrective steps should be taken by the Department to check the higher prices of fertilizer inputs so that practice of carrying forward the subsidy bill year after year may be avoided.</p>
6	52	<p>The Committee while examining the Demands for Grants of the Department for the year 2006-07, were informed that a scheme for disbursement of subsidy directly to the farmers in three selected districts where reliable land records are available might be formulated on an experimental basis. Further, while examining the Demands for Grants for the year 2007-08, the Secretary, Department of Fertilizers, during the evidence apprised the Committee that the fertilizer industry has agreed to work with Department of Fertilizers in working out a pilot project. The pilot project has not yet started and the fertilizer industry has engaged a consultant for this purpose. The Committee, therefore, recommend that the process of starting of pilot projects should be completed expeditiously and they be apprised of the status of progress of the pilot project on regular basis. The Committee are of the view that disbursement of subsidy directly to the farmers, instead of by industries would minimize the chances of inflated production cost of fertilizers and also send a sympathetic message among farmers. The Committee also observe that some companies resort to the tactics of Gold Plating i.e. indicating lower production capacity and on the basis of percentage production obtain huge subsidy. The Committee feel that with the introduction of direct subsidy to farmers, this tendency would also stop. The Committee also recommend to devise a policy of subsidy according to the economic status of farmers so that the maximum benefit of subsidy may go to peasants, poor and marginal farmers.</p>

(1)	(2)	(3)
7	53	<p>As stated by the Secretary during the course of evidence that the Department is pondering over the nutrient based subsidy to farmers, the Committee feel that such a scheme may also help fertilizer manufacturers in the reduction of their production cost and would not lead to inflated production cost. The Committee would like to caution that before switching over to nutrient based subsidy, the views of Fertilizers Association of India and experts should be taken and the scheme be launched on an experimental basis in one of the PSUs and the involvement of private sector may also be examined and considered.</p> <p>The Committee hope that the Government would ponder over the subsidy issue seriously and implement both the schemes <u>viz.</u>, (i) Direct subsidy to the farmers and (ii) Nutrient/Feedstock based subsidy to the manufacturers on pilot basis and after studying the result and cost effectiveness would implement one of them. The Committee desire that the Government should devise a mechanism to find out the production capacity of all the fertilizer units so that the fertilizer units do not resort to the practice of gold plating and take hefty amount of subsidy thereof.</p>
8	59	<p>The Committee note that the Department of Fertilizers is administering the concession scheme on P&K and SSP fertilizers for extending financial support to decontrolled P&K fertilizers on sale w.e.f. 01.10.2000. The Government accepted the recommendations of Tariff Commission's cost price study on complex fertilizers w.e.f. 01.04.2002. Based on the recommendations of the Tariff Commission (TC) and Inter-Ministerial Group (IMG), the Government has implemented a revised methodology of working out concession rates for DAP and MOP w.e.f. 01.04.2003. An Expert Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission was set up to work out an alternative methodology of pricing linking the price of phosphatic acid with the international price of DAP. The Expert Group has submitted the Report and it is under examination of the Department of Fertilizers. While appreciating the Government's efforts in this regard, the Committee are of the view that the Government are moving at a slow speed in finalizing the concession policy. The Committee, therefore, express their serious concern and reiterate their earlier recommendation that the Government should finalize their Report on concession policy relating to DAP and other complex fertilizers at the earliest. The Committee hope that early finalization of concession policy would help farmers for getting decontrolled phosphatic and potassic (P&K) fertilizers at affordable prices.</p>

(1)	(2)	(3)
9	66	<p>The Committee note that the requirement of urea during the current Rabi season was assessed at highest level of 127.08 LMT. But evacuation of the imported fertilizers from port was a constraint since substantial imports of wheat were also taking place simultaneously. It was informed by the Department of Fertilizers that they are coordinating with Department of Food, Public Distribution and Consumer Affairs, Ministry of Shipping and Transport and Ministry of Railways for proper evacuation of the imported fertilizers from ports to destination in time. Regarding availability and distribution of fertilizers, the Secretary, Department of Fertilizers, during his deposition before the Committee also admitted that there could be sufficient fertilizer in a State, but there could be some movement problem. Reportedly, Government have been supplying consistently higher quantities than the assessed requirements and therefore responsibility is on the State Government. The Committee, therefore, recommend that the Department of Fertilizers should make all possible efforts for better coordination with the Railways for proper evacuation of fertilizers from the ports. Needless to emphasize that Government would coordinate with all State Governments for ensuring timely availability of fertilizers throughout the country.</p>
10	67	<p>The Committee are happy to note that during the current financial year supply of the fertilizer shall be made to district level. The Committee also appreciate that in the first week of every month 75% of the requirement would be made available and the remaining 25% would be made available within the next 15 days. The Committee have also been informed that an online monitoring system has also been launched which would enable each Member of Parliament to know, in his constituency, the requirement of fertilizer availability on daily basis. While appreciating the new initiatives taken by the Department, the Committee hope that the promises made by the Department are fulfilled <i>in-toto</i> and there will be no procedural delay in this regard. The Committee are of the view that on line monitoring system should also be available to the public at large from block headquarters where kiosks may be set up in coordination with National Informatics Centre (NIC) where all the data of the fertilizer demand and availability are available district/ block-wise. Such an initiative would bring the transparency in the demand and availability and contain the problem of black-marketing and hoarding.</p>

(1)	(2)	(3)
11	74	<p>The Committee note that the import of Urea on Government account is made to bridge the gap between assessed demand and supply. The State Trading Enterprises arrange imports of urea on behalf of the Government. The Committee find that the imports of urea and DAP has been increased in the year 2005-06 and 2006-07 as compared to 2004-05. The Committee in their earlier Reports have been emphasizing the need for increasing production capacity of fertilizers. Due to delay in declaration of the fertilizer policy, there has been very few investors to come forward to invest in fertilizer sector. This has been resulted into increase of imports year after year. The Committee, therefore, expect from the Government to help the industry in capacity building of fertilizer units so that dependence on imports is minimized.</p>
12	82	<p>The Committee are happy to note that the Government has approved the pricing policy for urea units for Stage-III of New Pricing Scheme (NPS) w.e.f. 01.10.2006 to 31.03.2010. The policy has been formulated keeping in view the recommendations of the Working Group. The Committee hope that by implementation of Stage-III policy, there will be further investment in urea sector maximising the urea production and incentivising additional urea production. The Committee hope that it would also encourage investment in Joint Ventures (JV) projects abroad and also establish a more efficient urea distribution and movement system. The Committee also desire that the Government should examine the impact of New Pricing Scheme on fertilizer industry and examine the problems faced by the industry and take corrective steps for solving the problems of fertilizers industries.</p> <p>The Committee, however, express their displeasure that Stage-II of NPS was upto March, 2006 whereas the Government has been able to announce NPS-III in March, 2007 only. In the absence of any policy for a year or so there has been a lot of uncertainty in the fertilizer sector. On account of this, not only the fertilizer production stagnated, the imports of fertilizers also affected resulting in outgoing foreign exchange.</p> <p>The Committee hope that the Government would implement the Stage-III of NPS in letter and spirit so that fertilizer industry becomes an industry friendly sector and much needed investment is put in the growth of the fertilizer sector. The Committee also expect the Government to constantly review the progress in regard to implementation of Stage-III of NPS for taking corrective measures wherever necessary.</p>

(1)	(2)	(3)
13	88	<p>The Committee note that Gramin Vikas Trust (GVT) established by KRIBHCO in 1999 has been implementing two rainfed projects called (i) Western India Rainfed Farming Project (WIRFP) and (ii) Eastern India Rainfed Farming Project (EIRFP) with the technical and financial assistance provided by the Department for International Development (DFID) of the British Government. The EIRFP has completed its extended tenure on 31.03.2005 and WIRFP is being implemented by GVT, which will be completed by June, 2007. At present, 3 States and 7 districts are covered in WIRFP for developing the farming system and establishing village-based institutions with low cost technology. The Committee find that such projects have been useful to the backward and tribal areas where these projects have been able to provide some employment in the rural/backward/tribal areas. The Committee, therefore, expect the Department to help PSUs/Cooperatives under its administrative control to secure funds from various sources to carry out such projects across the country.</p>
14	94	<p>The Committee note that Science and Technology in fertilizer industry is the backbone of indigenous development in process technology and equipment design. The Science and Technology (S&T) Programme of the Department of Fertilizers primarily lays emphasis on Research and Development processes and lower specific energy consumption in fertilizer plants. For the 10th Five Year Plan, an amount of Rs. 5 crore was provided for funding S&T projects. For the year 2007-08, the amount has been increased to Rs. 5.50 crore under this head to continue the present on-going S&T projects related to fertilizer industry. The Committee recommend that the funds allocated for the year 2007-08 for S&T programme should be enhanced suitably and utilized fully and judiciously with tangible results.</p>
15	98	<p>The Committee note that provision for projects/ schemes for the benefit of North-Eastern Region and Sikkim has been decreased from Rs.10 crore to Rs.4.49 crore as compared to the last year. The Committee also note that allocation for the current financial year would be utilized for implementation of Namrup Revamp Project of M/s BVFCL for which a feasibility study is being conducted by BVFCL to examine the possibility of setting up of Namrup-IV unit for manufacturing of urea. The Committee feel that before allocating the amount the feasibility studies should have been made well in advance. The Committee have their apprehension that in the absence of such a study the money can be blocked and a situation of uncertainty can arise. The Committee are of the view that the Department may be provided the requisite sum of money for carrying out the feasibility studies and only then the whole amount should be allocated.</p>

(1)	(2)	(3)
16	107	<p>The Committee have been informed that the Department of Fertilizers announced a policy in January, 2004 for creation of additional capacity of urea by way of new and expansion projects and de-bottlenecking/revamp/modernization of existing urea units. The policy have generated very good response in the fertilizer industry. The Department has received proposals from various urea companies for expansion and de-bottlenecking, which would result in additional capacity of about 50.8 LMT of urea. However, the Committee are dismayed to note that the status of approval of proposals regarding de-bottlenecking and expansion of fertilizer units is almost remain the same as compared to the last year. The Committee are of the view that after approval of pricing policy for urea units for Stage-III of New Pricing Scheme (NPS), the capacity utilization of the fertilizer industry should also be improved through revamping/modernization of the existing urea units. The Committee, therefore, strongly recommend that considering the stagnated production capacity in fertilizer, the matter regarding examination of the proposals for de-bottlenecking and expansion of fertilizer units should be taken up at the highest level. The Committee desire that the outcome of the progress made in this regard should be conveyed to the Committee within three months from the presentation of the Report.</p>
17	115	<p>The Committee note that availability of gas is the main constraint in setting up of new fertilizer plants and for revival of closed fertilizer units. The Secretary, Department of Fertilizers, during the evidence, apprised the Committee that gas would be available to closed units by 2009-10 and for other units by 2008-09. It was also informed by the Department of Fertilizer that an Inter-Ministerial Committee has been constituted under the Chairmanship of Secretary, Petroleum for facilitating the connectivity and supply of gas to non-gas based units converting to gas and to develop appropriate mechanism for fixing the prices of gas. The first meeting of the Committee is scheduled to be held on 9th April, 2007. The Committee also note that major share of the gas is given to power sector. The Committee feel that gas given to power sector does not make any value addition but it affects drastically fertilizer sector in terms of value addition and reduce the burden of subsidy. The Committee strongly reiterate their earlier recommendations made in their Tenth and Twelfth Reports (14th Lok Sabha) that fertilizer sector should be given top priority in the allocation of gas. The Committee also desire that Department of Fertilizers should constantly coordinate with the Ministry of Petroleum and Natural Gas in the matter. They also recommend that fertilizer industry should be given higher share of gas allocation than that of power sector.</p>

(1)	(2)	(3)
18	116	<p>The Committee have been informed that in lines with the Common Minimum Programme of the Government, the possibilities for the revival of the closed units of Fertilizer Corporation of India Limited (FCI), Hindustan Fertilizer Corporation Limited (HFC) and Pyrites Phosphates and Chemicals Limited (PPCL) are being explored. In respect of FCI and HFC, the Cabinet had considered a proposal for obtaining in-principle approval for revival of these PSUs on 07.12.2006 and directed that the proposal was submitted to the BRPSE for consideration. Their recommendations are awaited. As regards PPCL, a draft Cabinet Note for the revival of the company is under finalization in the Department of Fertilizers. The Committee desire that the Department of Fertilizers should make all possible efforts to canalize and implement the revival package for the closed and loss-making fertilizer units. The Committee also desire that the Department of Fertilizers should take up the matter with the concerned authorities at the earliest.</p>
19	199	<p>The Committee note that there is a proposal to set up new plants at those locations which were closed. The Committee have been informed that teams have been sent to all those locations namely <u>viz.</u> Talcher, Durgapur and Barauni to make a techno-economic assessment. As the revival of these units is based on the availability of gas based pipeline which is being provided by a private agency, the Committee recommend that the matter should be taken up by the Department of Fertilizers with the Ministry of Petroleum and Natural Gas to supply the gas to the closed units by 2009-10 positively and for other units by 2008-09. The Department should also ensure that gas pipelines are also provided at the earliest i.e. before 31st March, 2008. The Committee emphasize that quarterly review of the laying of gas pipelines and arrangement of provision of gas should be made by the Department of Fertilizers in coordination with the Ministry of Petroleum and Natural Gas. The Committee also hope that techno-economic assessment of the closed units should be made at the earliest and there should not be any laxity either on the part of the Government or PSUs in this regard. In case of sick units, the Committee recommend to revamp and upgrade the management of some of the sick units which are suffering due to mismanagement.</p>

(1)	(2)	(3)
20	200	<p>The Committee note that during the year 2006, KRIBHCO had entered into a pact with Bajaj Allianz Insurance Co. Limited for a scheme called, 'Sankat Haran Bima Yojana Policy' for farmers. The Committee have been informed that Department of Fertilizers is planning to start a study for evaluating the success of the Scheme. The Committee are surprised to note that even after lapse of one year, the Department of Fertilizers is still planning to start a study for evaluating the success of the Scheme. The Committee, therefore, desire that the study be started as early as possible so that the success or failure of the Scheme should be known which is essential for a decision on the continuation of the Scheme.</p>