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**STANDING COMMITTEE ON CHEMICALS &
FERTILIZERS (2017-18)**

SIXTEENTH LOK SABHA

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

*[Action Taken by the Government on the Observations / Recommendations contained
in the Fortieth Report of the Standing Committee on Chemicals and Fertilizers
(Sixteenth Lok Sabha) on the subject 'Implementation of New Urea Policy-2015' of the
Ministry of Chemicals and Fertilizers (Department of Fertilizers)]*



FORTY SEVENTH REPORT

**LOK SABHA SECRETARIAT
NEW DELHI**

JULY, 2018 /ASHADHA, 1940 (SAKA)

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(2017-18)**

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(DEPARTMENT OF FERTILIZERS)**

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(Sixteenth Lok Sabha) on the subject 'Implementation of New Urea Policy-2015' of the Ministry
of Chemicals and Fertilizers
(Department of Fertilizers)]*

Presented to Lok Sabha on 19 July, 2018

Laid in Rajya Sabha on 19 July 2018

**LOK SABHA SECRETARIAT
NEW DELHI
JULY, 2018 /ASHADHA, 1940 (SAKA)**

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2017-18)

Shri Anandrao Adsul - Chairperson

MEMBERS
LOK SABHA

2. Shri George Baker
3. Smt. Anju Bala
4. Shri B.N. Chandrappa
5. Shri Pankaj Chaudhary
6. Shri Sankar Prasad Datta
7. Dr. Ratna De Nag
8. Smt. Veena Devi
9. Shri R.Dhruvanarayana
10. Shri Innocent
11. Prof. A Seetaram Naik #
12. Shri K. Ashok Kumar
13. Shri Chhedi Paswan
14. Smt. Kamla Devi Patle
15. Shri Rajendran S.
16. Dr. Kulamani Samal
17. Dr. Uma Saren
18. Dr. Krishna Pratap Singh
19. Shri Kirti Vardhan Singh
20. Smt. Rekha Arun Verma
21. Shri Sarfaraz Alam*
22. Vacant^

RAJYA SABHA

23. Shri Biswajit Daimary
24. Shri Prem Chand Gupta
25. Shri B.K. Hariprasad
26. Shri Vijay Pal Singh Tomar@
27. Shri Ranvijay Singh Judev
28. Shri Sanjay Dattatraya Kakade
29. Dr. Sanjay Sinh
30. Shri Abdul Wahab
31. Vacant^

SECRETARIAT

- | | | |
|----|---------------------------|------------------|
| 1. | Shri Vinod Kumar Tripathi | Joint Secretary |
| 2. | Shri A. K. Srivastava | Director |
| 3. | Shri U. C. Bharadwaj | Deputy Secretary |

Prof. A. Seetaram Naik MP, (LS) has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 3.11.2017 vice Shri Kotha Prabhakar Reddy MP, (LS) who ceased to be a Member of the Committee on Chemicals and Fertilizers w.e.f. 3.11.2017

**Shri Sarfaraz Alam has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 27.04.2018*

@Shri Vijay Pal Singh Tomar has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 02.06.2018

^Vacant vice Dr. Bhusan Lal Jangade due to his retirement from Rajya Sabha on 02.04.2018.

^Vacant vice Shri K. Parasaran due to his retirement from Rajya Sabha on 28.06.2018.

INTRODUCTION

I, the Chairperson, Standing Committee on Chemicals and Fertilizers (2017-2018) having been authorised by the Committee to present the Report on their behalf, present this Forty-seventh Report (Sixteenth Lok Sabha) on Action Taken by the Government on the observations/ recommendations contained in the Fortieth Report (Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2017-18) on the subject 'Implementation of New Urea Policy-2015' pertaining to the Ministry of Chemicals and Fertilizers (Department of Fertilizers)

2. The Fortieth Report (Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on **19.12.2017**. The Action Taken replies of Government to all observations / recommendations contained in the Report were received on 23.05.2018. The Standing Committee on Chemicals and Fertilizers (2017-2018) considered and adopted this Report at their sitting held on 13.07.2018.

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

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

New Delhi;
18 July, 2018
27 Ashadha 1940 (Saka)

ANANDRAO ADSUL
Chairperson
Standing Committee on
Chemicals and Fertilizers

REPORT

CHAPTER – I

This Report of the Standing Committee on Chemicals and Fertilizers (2017-18) deals with the action taken by the Government on the Observations/Recommendations contained in the Fortieth (Sixteenth Lok Sabha) of the Committee on 'Implementation of New Urea Policy - 2015' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) which was presented to Lok Sabha and laid in Rajya Sabha on 19.12.2017. In all, the Committee made 05 Observations/ Recommendations in the Report.

1.2 The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish Action Taken Replies to the Observations / Recommendations contained in the Fortieth within three months from the date of presentation of the Report, i.e., by 19.03.2018. The Action Taken Replies of the Government in respect of all the 05 Observations / Recommendations contained in the Report have been received from the Ministry of Chemicals and Fertilizers (Department of Fertilizers) vide their O.M. No.F.No. 12015/1/20-FPP, dated 23.05.2018. These Action Taken Replies have been examined and categorized as follows:

- (i) Observations / Recommendations that have been accepted by the Government:-
Rec. Nos. 2, 4 and 5 (Total=03)
This may be included in Chapter II of the Draft Report.
- (ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply:-
Rec. No. 0 (Total=00)
This may be included in Chapter III of the Draft Report.
- (iii) Observations / Recommendations in respect of which replies of the Government have not been accepted by the Committee :-
Rec. Nos. 1 (Total=00)
This may be included in Chapter IV of the Draft Report.
- (iv) Observations / Recommendations in respect of which final replies of the Government are still awaited:-
Rec. Nos. 03 (Total=01)

These may be included in Chapter V of the Draft Report.

1.3. The Committee desire that the Action Taken Notes on the Observations / Recommendations contained in Chapter-I and Chapter-V of this Report should be furnished expeditiously.

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

(RECOMMENDATION NO. 1)

IMPLEMENTATION OF NEW UREA POLICY - 2015

1.5 While having noted down the slow progress in achieving the physical achievement in consonance with NUP-2015, the Committee in their original Report had recommended the following:-

"The Committee note that India has achieved 80 per cent self sufficiency in production capacity of Urea. As a result, the country could manage its substantial requirement of nitrogenous fertilizers through the indigenous industry besides import. There are 30 Urea units in the country. Out of these thirty urea units, 27 urea units use natural gas (using either domestic gas/LPG or both) as feedstock and fuel and remaining three urea units viz MCFL, Mangalore, MFL Manali, and SPIC Tuticorin use Naptha as feedstock and fuel. The New Urea Policy-2015 (NUP-2015) has been notified by the Department of Fertilizers on 20th May, 2015 with the objective of maximizing indigenous urea production, promoting energy efficiency in urea production and rationalizing subsidy burden on the Government NUP-2015 effective from 1st June, 2015 to 31st March, 2019. On the basis of actual energy consumption and pre-set norms, the units have been divided into three groups and revised energy consumption norms have been fixed for next three financial years and target energy norms have been fixed. It will drive urea units to select better technology and different measures to reduce energy consumption. The higher energy efficiency due to aforesaid measures will reduce subsidy bills. Out of 30 Urea units, 25 gas based existing Urea Units are covered under NUP-2015. 5 units namely MFL Manali, MCFL-Mangalore, SPIC-Tuticorin, BVFCL-Namrup-II and BVFCL-Namrup-III are not covered under NUP-2015 because these units are not either Naphtha based unit or not connected to gas pipeline network in the country. Noting the above, the Committee appreciate the intention of the Government for bringing out New Urea Policy-2015 for augmenting the production of urea by fertilizer units and lowering the energy consumption thus making the fertilizers units self reliant in the production of urea as well as to make them energy efficient but the ground reality is not as encouraging as it should be. While appreciating that all the Fertilizers units are in the directions of achieving the revised energy norms but production wise data are not satisfactory. The Committee observe that overall production of urea increased to the tune of 18.90 LMT in the year 2015-16 i.e. after the implementation of NUP 2015 as compared to the year 2014-15 but in the subsequent year i.e. 2016-17 the production

decreased to the tune of 2.74 LMT as compared to the year 2015-16. Apart from this production of urea in RCF has decreased after implementation of the scheme. While total production of 2 units of RCF in 2014-15 was 26.02 LMT which reduced to 25.50 LMT in the year 2015-16 and 25.32 in 2016-17. Similarly in case of other units namely TCL Babrala and KSFL Shahjahanpur, the production of urea decreased after implementation of the scheme. The Committee therefore recommended that Department of Fertilizers should analyse these data and plug the loopholes in the implementation of the scheme by taking feedback from fertilizers companies and accordingly make amendment in the policy. The Committee, therefore, recommend that the Ministry should review the progress of the policy at regular intervals so as to remove difficulties being encountered by concerned stakeholders and effectively implemented the policy to achieve the targets set forth in a professional and transparent manner."

REPLY OF THE GOVERNMENT

1.6 In their action taken reply to the aforementioned recommendation of the Committee, the Department of Fertilizers has stated as under

"notification dated 25th May, 2015, Department of Fertilizers has notified New Urea Policy – 2015 (NUP-2015) effective from 1st June, 2015, with the objectives of maximizing indigenous urea production; promoting energy efficiency in urea production; and rationalizing subsidy burden on the government. It was expected that the NUP – 2015 will lead to additional production of 17 LMT annually during the next three years, i.e. 2015-16, 2016-17 and 2017-18.

As a result, the production of urea during the year 2015-1 and 2016-17 was 244.75 LMT and 242.01 LMT respectively, i.e. an increase in production of around 20 LMT and 18 LMT in last three financial years with respect to the urea production of 225 LMT during 2014-15."

COMMENTS OF THE COMMITTEE

1.7 The New Urea Policy 2015 was notified and made effective from 01 June 2015, with the sole objective to maximize indigenous urea production by promoting energy efficiency and rationalizing subsidy burden on the Government. It was expected that this Policy will augment production of urea 17 LMT annually during the next three years 2015-16, 2016-17 and 2017-18 (June 2018). The Committee have noticed that the production of indigenous urea has not increased as envisaged in the New Urea Policy 2015 except in the year 2015-16 particularly in the Public Sector domain wherein its production has been recorded 69.29 LMT in 2014-15, 70.80 LMT in 2015-16 and 71.41 LMT in 2016-17.

During the 2017-18 (upto October) the production of urea was recorded 39.85 LMT. Though the overall production including public, private and cooperative sector during the years 2014-15, 2015-16 and 2016-17 was recorded 225.85 LMT, 244.75 LMT and 242.01 LMT. The NUP was made effective from 1st June 2015, which means the real actual effect of the Policy will start rendering results from the subsequent financial year 2016-17 and more over this increase should 17% more than the production target achieved annually in the years 2016-17 and 2017-18 shows that the performance of public sector has not been commensurate with the Policy either due to failure on the part of the Government in implementation of the same or the inefficiency or reasons beyond the control of PSUs engaged in production of urea in the country. The Committee in their original report pointed out the decreasing production level of RCF continuously for the years 2014-15, 2015-16 and 2016-17. The Government instead of giving a comprehensive Action Taken Reply giving concrete reasons for not increased production as envisaged in the Policy resorted to brief and evasive reply. The Committee are apprehensive that the government failed to implement the nuances of the NUP-2015 and continued to follow the earlier strategy which is full contradictions between the latter and fertilizers industry. Therefore, the Committee reiterate their earlier recommendation to analyse and review the policy progress afresh to achieve the targets set forth in professional and transparent manner.

RECOMMENDATION NO. 5

Requirement and availability of gas to fertilizers (Urea) Sector

1.8 Having taken the shortage of feedstock i.e. Natural Gas to the urea producing units and not linking of all the these units through Natural Gas Grid, the Committee in their original report recommended/observed as under:-

"The Committee note that Ministry of Petroleum and Natural Gas notified gas pooling mechanism on 20th May, 2015 to ensure supply of gas at uniform delivered price to all urea units connected to Natural Gas Grid. As per E-GOM decision dated 23.08.2013, the domestic gas allocation for urea sector is capped at 31.5 MMSCMD. The supply of domestic gas to fertilizer units is around 19-21 MMSCMD daily against the requirement of 48-49 MMSCMD. The gap is met through imported RLNG which is costlier compared to domestic gas. Department of Fertilizers takes up the matter with Ministry of Petroleum and Natural Gas to supply full allocation of 31.5 MMSCMD of domestic gas to reduce subsidy burden of Government.

The Committee are of the view that supply of gas to urea unit was key component for reduced cost of production of urea and thus reducing subsidy of the Government substantially.

Although as per CCEA decision dated 23.08.2013, a cap at 31.5 MMSCMD supply of gas to urea sector has been imposed owing to limited availability of domestic gas in the country, the Ministry of Petroleum & Natural Gas has not been able to supply even the quantity of gas committed. This has resulted in form of burden on urea producing unit to purchase RLNG which is costlier to domestic gas. The Committee, therefore, recommend that Ministry of Fertilizers should continue to impress on the Ministry of Petroleum and Natural Gas to supply at least 31.5 MMSCMD gas to urea units as committed and efforts should further be made to arrange cheaper gas as required to urea manufacturing units with a view to reduce subsidy burden on production of urea in the country.

Further, the Committee note that BVFCL Namrup-II and Namrup-III though gas based units and are not connected to the National Gas Grid. BVFCL is having confirmed supply of 1.72 MMSCMD of associated gas from M/S OIL which is not adequate and the fertilizers unit experiences frequent fluctuations in gas supply due to operational problem in the oil/gas field as well as on social disturbances which is the cause of direct load reduction and at times shut down of units. This problem of short supply of gas can be eliminated if the local gas grid is connected with the national grid. This arrangement will also expedite the implementation of a new Ammonia Urea Project at the existing location whose proposed capacity would be 12.70 LMTPA of urea with special energy of about 5.0 Gcal/MT. For implementation of this project, the total requirement of gas goes up to 2.347 MMSCMD against current supply of gas by M/S OIL's commitment of 1.72 MMSCMD, leaving shortage of additional 0.627 MMSCMD of gas which can be met through the connectivity to the national grid. While noting that MoP&NG would make efforts to provide requirement of 0.627 MMSCMD of gas which may be combination of domestic gas and imported RLNG by 2021 for setting up a new urea plant of BVFCL and also has a vision to connect North-East India into National Gas Grid, the Committee strongly recommend that all out effort should be made for supply of required gas to BVFCL within a fixed time frame for increasing the indigenous production of urea in north east region and it should be connected to National Grid as early as

possible through concerted efforts. The Committee may also be apprised about the deadline by which the BVFCL would be connected to National grid."

REPLY OF THE GOVERNMENT

- 1.9 The matter regarding short supply of domestic natural gas to urea manufacturing units has been taken up with Ministry of Petroleum & Natural Gas (MoP&NG) both at Secretary and Minister level.

COMMENTS OF THE COMMITTEE

1.10 The Committee in their original report had observed that the Cabinet Committee on Economic Affairs (CCEA) as per their decision dated 23.08.2013 put up a cap at 31.5 MMSCMD supply of gas to urea sector against the requirement of 48-49 MMSCMD. As a result to meet the gap, the urea producing units have to import RLNG which is costlier compared to domestic gas. The Committee further noticed that BVFCL Namrup II and Namrup III are still not connected to the National Gas Grid. Keeping into account this constraint, the Committee strongly recommended to ensure supply of required gas within a fixed time frame to all urea manufacturing units including BVFCL by connecting to National Gas Grid. The action taken reply furnished by the Ministry indicates that the matter regarding short supply of domestic natural gas to urea manufacturing units has been taken up with Ministry of Petroleum & Natural Gas (MoP&NG) both at Secretary and Minister level. However, the Committee are not fully satisfied with the cryptic reply as it does not indicate the detailed efforts made and steps taken on continuous basis to pursue with the MoP&NG to get the matter materialized with some tangible results. Therefore, the Committee strongly desire that the matter regarding supply of gas committed at CCEA meeting dated 23.08.2013 connecting all urea producing units with National Gas Grid be accorded topmost priority with allots efforts in a and the former be apprised accordingly about the progress achieved in the pursuit.

CHAPTER – II

OBSERVATIONS / RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation No. 2) **Incentivisation of Urea Production**

"Committee note that 25 urea units will be eligible to get concession rate on the basis of revised energy norms fixed for each group from 1 June, 2015 to 31 March, 2018. The revised energy norms would be the simple average of pre-set energy norms of NPS-III and actual energy consumption achieved during the year 2011-12, 2012-13 and 2013-14 or the pre-set energy norms of NPS _II, whichever is lower. For production beyond the Re-assessment capacity (RAC) the units will be entitled for their respective variable cost and a uniform per MT incentive equal to the lowest of the per MT fixed costs of all the indigenous urea units subject to import parity price plus weighted an average of other incidental charges which the Government incurs on the imposed urea. As per NUP-2015, the production beyond RAC by urea units during 2015-16 was viable since benchmark of IPP plus incidental charges was at optimum level resulting in excess production of 40.41 LMT. Due to downward trend shown by weighted average price of urea imports from international market, the bench mark of IPP plus incidental charges came down which resultantly made the production beyond RAC economically unviable for some of the urea manufacturing units resulting in reduced production by urea units. Due to intervention of the Government by way of an amendment to New Urea Policy 2015 by including para 8 vide notification dated 7th April, 2017 with the approval of CCEA, it was made possible to include Central levies in IPP for the year 2016-17 which made urea production beyond RAC economically viable. It also helped in reaching production beyond RAC at the level of 37.79 LMT during the year 2016-17, still being below the level of urea production in 2015-16.

However, during Study visit of the Committee to Manali on 10.06.2017 and Hyderabad on 13.07.2017, the representatives of National Fertilizers Limited (NFL) and KRIBHCO suggested that any confusion in regard to incentive for production of urea beyond RAC should be removed and IPP may be delinked to the reimbursement of subsidy for urea production beyond RAC. Besides this RCF also opined that NUP-2015 impacts production beyond RAC when imported urea price falls. Similarly the representatives of IFFCO complained that inspite of fixing minimum cost to the industry i.e. Rs. 2300 per MT beyond RAC, they are provided only Rs. 1285 per MT. The Committee express its displeasure over such a sorry state of affairs.

The Committee are therefore of the view that in order to achieve the maximum production of urea and also to allay fears from the mind of participating urea production units in regard to fluctuating IPP, the cap of IPP may be delinked to the re-imbursement of subsidy for urea production beyond RAC under make in India initiative for certain period of time till we achieve self sufficiency in production of urea fertilizers."

REPLY OF THE GOVERNMENT

Vide notification dated 07th April, 2017, Department of Fertilizers has made the following amendment: -

1. For production beyond Re-Assessed Capacity (RAC) during 2016-17, the units will be entitled for their respective variable cost and a uniform per MT incentive equal to the lowest of the per MT fixed costs of all the indigenous urea units subject to sum of import parity price, other incidental charges which the government incurs on the import of urea and weighted average Central Government levies per MT of urea paid by the urea manufacturing units.”
2. Further, it has been decided to include para ‘8’ in NUP-2015 as under: -
- “8. In the event of any fluctuation in Import Parity Price that would have adverse impact on the production beyond RAC by urea units, Department of Fertilizers is authorized to take an appropriate decision in consultation with Department of Expenditure.”

The inclusion of para‘8’ in NUP-2015 would take care of any fluctuation in IPP having adverse impact on the production beyond RAC. However, at present there is no proposal to delink the cap of IPP with the subsidy reimbursement for production beyond RAC.

RECOMMENDATION NO. 4

PROMOTING ENERGY EFFICIENCY IN UREA UNITS

"The Committee note that for promoting energy efficiency in urea production, the existing 25 gas based urea units have been classified into three groups based on pre-set energy norms. These urea units are eligible to get the concession rate on the basis of revised energy norms fixed for each group from 1st June, 2015 to 31st March, 2018. Further, these urea units have been given the target energy consumption to be achieved in the year 2018-19. For Group 1, target energy norms for the year 2018-19 is 5.5 G Cal/MT (except TCL-Babrara for which existing pre-set energy consumption norm of NPS-III i.e. 5.417 G Cal/MT will continue). For Group II and Group III, the energy consumption norms for the year 2018-19 is 6.2 G Cal/MT and 6.5 G Cal/MT respectively. The Committee also note that the fertilizer units across the board are feeling difficulty as they visualize large investment with longer gestation period is required for such energy reduction. Further to make the investment for these energy saving schemes viable, the saving so achieved should not be mopped up for a longer period from the date of implementation of these schemes. The Committee also note that the Government had requested PDIL to conduct a study in respect of other gas based urea units regarding the investment required for achieving the target given under New Urea Policy-2015 and the necessity of extension of existing energy norms for the purpose of recovery of the investment made. The PDIL in their analysis stated barring units under category A and B all other units under categories viz C to F would either suffer losses or not achieve their avowed objective under NUP 2015. Further this report is pending with the Government for a long time. The Committee therefore, express its displeasure over the fact that a lot of time has elapsed since the final report of PDIL is pending with the Department of Fertilizers with the core issues relating to

difficulties encountered by various fertilizers units of Public, cooperative and private sectors in achieving the target energy norms as stipulated under New Urea Policy, 2015. The Committee are afraid that if a swift decision is not taken in the matter, it has potential to render many urea units sick and financially unviable and endangering the success efficacy of New Urea Policy-2015. In view of the foregoings, the Committee recommend that a holistic view is taken by the Department in arriving at the decision on the report submitted by PDIL for finding a solution to the difficulties faced by fertilizer units in meeting the target energy norms and the decision arrived at should be conveyed to the stakeholders soon without any further loss of time. The Committee would like to be apprised in this regard."

REPLY OF THE GOVERNMENT

Vide notification dated 28th March, 2018, Department of Fertilizers has approved the following decisions with regard to Target Energy Norms given to all urea manufacturing units (except BVFCL):

- (i) For 11 urea manufacturing units viz., YFIL, NFL-Vijaypur-II, GIL, CFCL-Gadepan-I & II, IFFCO-Aonla-II, RCF-Thal, IFFCO-Kalol, IFFCO-Aonla-I, IFFCO-Phulpur-I&II, the target energy consumption norms as mentioned in Para 3.2 of NUP-2015, will come into force w.e.f. 1st April, 2018.
- (ii) The existing norms under New Urea Policy-2015 for remaining 14 urea manufacturing units viz., NFL Vijayppur-I, KRIBHCO-Hazira, KFL-Shahjahanpur, NFCL-Kakinada-I, NFCL-Kakinada-II, GNFC-Bharuchm GSFC-Vadodara, NFL-Bathinda, NFL-Nangal, NFL-Panipat, SFC-Kota, KFCL-Kanpur, RCF Trombay-V, ZACL-Goa are hereby extended for further period of 2 years i.e. till 31st March, 2020 with the following penalties:
 - (a) Penalty equivalent to 2% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the first year i.e. 2018-19.
 - (b) Penalty equivalent to 5% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the second year i.e. 2019-20.
 - (c) Urea manufacturing units must achieve Target Energy Norms during the extended period of 2018-19 to 2019-20 failing which additional penalties may be imposed on defaulting units in consultation with the Department of Expenditure.
- (iii) The aforesaid target energy norms may be continued upto 31st March, 2025. Meanwhile, an expert body under NITI Aayog would be engaged to recommend the energy norms to be achieved from 01st April, 2025.
- (iv) The three Naphtha based urea units viz., MFL, MCFL, SPIC are also allowed the existing energy norms under Para (2) of policy notification dated 17th June, 2015 for another two years i.e. till 31st March, 2020 or till these units get the gas pipeline connectivity, whichever is earlier. There will be no mopping up of energy efficiency for a fix period of 5 years from date of gas pipeline connectivity as per Para 3 (viii) and 5 (ii) of NPS-III policy dated 8th March, 2007.

RECOMMENDATION NO. 5

Requirement and availability of gas to fertilizers (Urea) Sector

"The Committee note that Ministry of Petroleum and Natural Gas notified gas pooling mechanism on 20th May, 2015 to ensure supply of gas at uniform delivered price to all urea units connected to Natural Gas Grid. As per E-GOM decision dated 23.08.2013, the domestic gas allocation for urea sector is capped at 31.5 MMSCMD. The supply of domestic gas to fertilizer units is around 19-21 MMSCMD daily against the requirement of 48-49 MMSCMD. The gap is met through imported RLNG which is costlier compared to domestic gas. Department of Fertilizers takes up the matter with Ministry of Petroleum and Natural Gas to supply full allocation of 31.5 MMSCMD of domestic gas to reduce subsidy burden of Government.

The Committee are of the view that supply of gas to urea unit was key component for reduced cost of production of urea and thus reducing subsidy of the Government substantially.

Although as per CCEA decision dated 23.08.2013, a cap at 31.5 MMSCMD supply of gas to urea sector has been imposed owing to limited availability of domestic gas in the country, the Ministry of Petroleum & Natural Gas has not been able to supply even the quantity of gas committed. This has resulted in form of burden on urea producing unit to purchase RLNG which is costlier to domestic gas. The Committee, therefore, recommend that Ministry of Fertilizers should continue to impress on the Ministry of Petroleum and Natural Gas to supply at least 31.5 MMSCMD gas to urea units as committed and efforts should further be made to arrange cheaper gas as required to urea manufacturing units with a view to reduce subsidy burden on production of urea in the country.

Further, the Committee note that BVFCL Namrup-II and Namrup-III though gas based units and are not connected to the National Gas Grid. BVFCL is having confirmed supply of 1.72 MMSCMD of associated gas from M/S OIL which is not adequate and the fertilizers unit experiences frequent fluctuations in gas supply due to operational problem in the oil/gas field as well as on social disturbances which is the cause of direct load reduction and at times shut down of units. This problem of short supply of gas can be eliminated if the local gas grid is connected with the national grid. This arrangement will also expedite the implementation of a new Ammonia Urea Project at the existing location whose proposed capacity would be 12.70 LMTA of urea with special energy of about 5.0 Gcal/MT. For implementation of this project, the total requirement of gas goes up to 2.347 MMSCMD against current supply of gas by M/S OIL's commitment of 1.72 MMSCMD, leaving shortage of additional 0.627 MMSCMD of gas which can be met through the connectivity to the national grid. While noting that MoP&NG would make efforts to provide requirement of 0.627 MMSCMD of gas which may be combination of domestic gas and imported RLNG by 2021 for setting up a new urea plant of BVFCL and also has a vision to connect North-East India into National Gas Grid, the Committee strongly recommend that all out effort should be made for supply of required gas to BVFCL within a fixed time frame for increasing the indigenous production of urea in north east region and it should be connected to National Grid as early as possible through concerted efforts. The Committee may also be apprised about the deadline by which the BVFCL would be connected to National grid."

REPLY OF THE GOVERNMENT

The matter regarding short supply of domestic natural gas to urea manufacturing units has been taken up with Ministry of Petroleum & Natural Gas (MoP&NG) both at Secretary and Minister level.

COMMENTS OF THE COMMITTEE

(PLEASE SEE PARA NO. 1.10 OF CHAPTER - I OF THE REPORT)

CHAPTER – III

**OBSERVATION / RECOMMENDATION WHICH THE COMMITTEE DO NOT DESIRE
TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY**

NIL

CHAPTER – IV

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

RECOMMENDATION NO. 1

Implementation of New Urea policy-2015

"The Committee note that India has achieved 80 per cent self sufficiency in production capacity of Urea. As a result, the country could manage its substantial requirement of nitrogenous fertilizers through the indigenous industry besides import. There are 30 Urea units in the country. Out of these thirty urea units, 27 urea units use natural gas (using either domestic gas/LPG or both) as feedstock and fuel and remaining three urea units viz MCFL, Mangalore, MFL Manali, and SPIC Tuticorin use Naptha as feedstock and fuel. The New Urea Policy-2015 (NUP-2015) has been notified by the Department of Fertilizers on 20th May, 2015 with the objective of maximizing indigenous urea production, promoting energy efficiency in urea production and rationalizing subsidy burden on the Government NUP-2015 effective from 1st June, 2015 to 31st March, 2019. On the basis of actual energy consumption and pre-set norms, the units have been divided into three groups and revised energy consumption norms have been fixed for next three financial years and target energy norms have been fixed. It will drive urea units to select better technology and different measures to reduce energy consumption. The higher energy efficiency due to aforesaid measures will reduce subsidy bills. Out of 30 Urea units, 25 gas based existing Urea Units are covered under NUP-2015. 5 units namely MFL Manali, MCFL-Mangalore, SPIC-Tuticorin, BVFCL-Namrup-II and BVFCL-Namrup-III are not covered under NUP-2015 because these units are not either Naphtha based unit or not connected to gas pipeline network in the country. Noting the above, the Committee appreciate the intention of the Government for bringing out New Urea Policy-2015 for augmenting the production of urea by fertilizer units and lowering the energy consumption thus making the fertilizers units self reliant in the production of urea as well as to make them energy efficient but the ground reality is not as encouraging as it should be. While appreciating that all the Fertilizers units are in the directions of achieving the revised energy norms but production wise data are not satisfactory. The Committee observe that overall production of urea increased to the tune of 18.90 LMT in the year 2015-16 i.e. after the implementation of NUP 2015 as compared to the year 2014-15 but in the subsequent year i.e. 2016-17 the production decreased to the tune of 2.74 LMT as compared to the year 2015-16. Apart from this production of urea in RCF has decreased after implementation of the scheme. While total production of 2 units of RCF in 2014-15 was 26.02 LMT which reduced to 25.50 LMT in the year 2015-16 and 25.32 in 2016-17. Similarly in case of other units namely TCL Babrala and KSFL Shahjahanpur, the production of urea decreased after implementation of the scheme. The Committee therefore recommended that Department of Fertilizers should analyse these data and plug the loopholes in the implementation of the scheme

by taking feedback from fertilizers companies and accordingly make amendment in the policy. The Committee, therefore, recommend that the Ministry should review the progress of the policy at regular intervals so as to remove difficulties being encountered by concerned stakeholders and effectively implemented the policy to achieve the targets set forth in a professional and transparent manner."

REPLY OF THE GOVERNMENT

"Vide notification dated 25th May, 2015, Department of Fertilizers has notified New Urea Policy – 2015 (NUP-2015) effective from 1st June, 2015, with the objectives of maximizing indigenous urea production; promoting energy efficiency in urea production; and rationalizing subsidy burden on the government. It was expected that the NUP – 2015 will lead to additional production of 17 LMT annually during the next three years, i.e. 2015-16, 2016-17 and 2017-18.

As a result, the production of urea during the year 2015-1 and 2016-17 was 244.75 LMT and 242.01 LMT respectively, i.e. an increase in production of around 20 LMT and 18 LMT in last three financial years with respect to the urea production of 225 LMT during 2014-15."

COMMENTS OF THE COMMITTEE

(PLEASE SEE PARA NO. 1.7 OF CHAPTER - I OF THE REPORT)

CHAPTER – V

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

Recommendation (Sl. No. 3)

Minimum fixed cost and additional fixed cost

The Committee note that as per NUP-2015 for production upto 100% re-assessed capacity (RAC) units get total cost of production of Urea i.e. fixed cost and variable cost. For production beyond RAC, the units get respective variable cost and a uniform per MT incentive equal to the lowest of the per MT fixed costs all the indigenous urea units subject to import parity price plus weighted average of other incidental charges which Government incurs on the imported urea. Government amended New Urea Policy-2015 on 7th April, 2017 in respect of the production beyond RAC for the year 2016-17 raising the ceiling of weighted average Central Government levies imposed on production beyond RAC during the year 2016-17. Modified New Pricing Scheme-III approved by the Cabinet was notified on 2nd April, 2014 which allowed minimum fixed cost of Rs. 2300 per MT, additional fixed cost of Rs. 350 per MT, special compensation of Rs. 150 per MT to vintage plants. However, the compensation could not be disbursed to entitled companies due to many interpretation issues relating to classification of notification issued in that regard. Fertilizers companies of public, cooperative and private sector demanded immediate release of the amount due which were increasing the under-recovery of financial resources of the companies. The Secretary of the Department of Fertilizers during evidence before the Committee on 23rd August, 2017 assured that the Ministry would sort out interpretation issue in the matter and clarify the position soon.

The Committee are unhappy to note that such a vital issue has remained unsettled for quite a long time endangering the financial health of the fertilizers companies on the one hand and uncertainty over maximizing the production of urea on the other. The Committee are of the view that the issue of disbursement of fixed cost, additional cost and special compensation to 30 years old plants be expedited without any further delay. The Committee would like to be apprised in this regard.

REPLY OF THE GOVERNMENT

The matter is under consideration of the Government.

New Delhi;

July, 2018

Ashadha, 1939 (Saka)

ANANDRAO ADSUL

Chairperson

Standing Committee on
Chemicals and Fertilizers

**MINUTES OF THE THIRTEENTH SITTING OF THE
STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2017-18)**

The Committee sat on Friday, the 13 July, 2018 from 1515 hrs. to 1545 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Anandrao Adsul - Chairperson

MEMBERS

LOK SABHA

2. Smt. Anju Bala
3. Shri R. Dhruvanarayana
4. Shri Chhedi Paswan
5. Dr. Kulamani Samal
6. Dr. Uma Saren
7. Dr. (Smt.) Ratna De (Nag)
8. Shri Sarfaraz Alam

RAJYA SABHA

9. Shri Prem Chand Gupta
10. Dr. Sanjay Sinh
11. Shri Vijay Pal Singh Tomar

SECRETARIAT

- | | | | |
|----|---------------------------|---|------------------|
| 1. | Shri Vinod Kumar Tripathi | - | Joint Secretary |
| 2. | Shri A. K. Srivastava | - | Director |
| 3. | Shri U. C. Bharadawaj | - | Deputy Secretary |

2. At the outset, the Hon'ble Chairperson welcomed the Members of the Committee.
3. The Committee thereafter took up for consideration and adoption the following draft Reports:
 - (i) Draft Report on the subject 'Promotion and Coordination of basic, applied and other research in areas related to the Pharmaceutical Sector' of the Ministry of Chemicals and Fertilizers (Department of Pharmaceuticals)
 - (ii) Draft Report on Action taken Replies by the Government on the Observations/ Recommendations contained in the Fortieth Report of the Standing Committee on Chemicals and Fertilizers (16 Lok Sabha) on the subject 'Implementation of New Urea Policy - 2015' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers); and
 - (iii) Draft Report on Action taken replies by the Government on the Observations/ Recommendations contained in the Forty third Report of the Standing Committee

on Chemicals and Fertilizers (16th Lok Sabha) on 'Demand for Grants (2018-19)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

4. After deliberations the Draft Reports were adopted by the Committee. without any changes/amendments.
5. The Committee authorised the Chairperson to make consequential changes, if any, arising out of the factual verification of the Reports by the Department of Pharmaceuticals and Department of Fertilizers.

The Committee then adjourned.

Appendix – II**(Vide Para 3 of the Introduction)**

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FORTIETH REPORT (SIXTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2017-18) ON THE SUBJECT REPORT ON 'IMPLEMENTATION OF NEW UREA POLICY - 2015' OF THE MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS).'

I	Total No. of Recommendations	05
II	Observations / Recommendations which have been accepted by the Government: (Vide Recommendation Nos. 2, 4 and 5))	3
Percentage of Total		60%
III	Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply:- NIL	0
Percentage of Total		0%
IV	Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (Vide Recommendation No. 1)	1
Percentage of Total		20%
V	Observations / Recommendations in respect of which final replies of the Government are still awaited: (Vide Recommendation Nos. 3)	1
Percentage of Total		20%