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STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2020-21)

SEVENTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS

(DEPARTMENT OF FERTILIZERS)

[Action Taken by the Government on the Observations / Recommendations contained in the Fifth Report of the Standing Committee on Chemicals and Fertilizers (Seventeenth Lok Sabha) on Study of System of Fertilizer Subsidy of the Ministry of Chemical and Fertilizers (Department of Fertilizers)]

TWELFTH REPORT

LOK SABHA SECRETARIAT

NEW DELHI

FEBRUARY, 2021 /MAGHA, 1942 (SAKA)

REPORT

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS

(2020-21)

(SEVENTEENTH LOK SABHA)

MINISTRY OF CHEMICALS AND FERTILIZERS

(DEPARTMENT OF FERTILIZERS)

[Action Taken by the Government on the Observations / Recommendations contained in the Fifth Report of the Standing Committee on Chemicals and Fertilizers (Seventeenth Lok Sabha) on Study of System of Fertilizer Subsidy of the Ministry of Chemical and Fertilizers (Department of Fertilizers)

Presented to Lok Sabha on 11.2.2021

Laid in Rajya Sabha on 11.2.2021

LOK SABHA SECRETARIAT

NEW DELHI

FEBRUARY, 2021 /MAGHA, 1942 (SAKA)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2019-20)

Smt. Kanimozhi Karunanidhi - Chairperson

MEMBERS
LOK SABHA

2	Shri Maulana Badruddin Ajmal
3	Shri Ramakant Bhargava
4	Shri Prataprao Govindrao Patil Chikhalikar
5	Shri Rajeshbhai Naranbhai Chudasama,
6	Shri Ramesh Chandappa Jigajinagi
7	Shri Kripanath Mallah
8	Shri Satyadev Pachauri
9	Smt Aparupa Poddar
10	Shri Arun Kumar Sagar
11	Shri M. Selvaraj
12	Shri Pradeep Kumar Singh
13	Shri Uday Pratap Singh
14	Shri Nandigam Suresh
15	Er. Bishweswar Tudu
16	Shri H. Vasanthakumar
17	Shri Prabhubhai Nagarbhai Vasava
18	Dr. M.K Vishnu Prasad.
19	Shri Deepak Baij
20	Dr. Manoj Rajoria
21	Shri Shriniwas Dadasaheb Patil

RAJYA SABHA

22	Shri G.C.Chandrashekhar
23	Dr. Anil Jain
24	Shri Ahmad Ashfaque Karim
25	Shri Vijay Pal Singh Tomar
26	Shri Arun Singh
27	Shri P. Selvarasu^
28	Shri A.D. Singh^
29	Shri K. Vanlalvena^
30	Vacant*
31	Vacant

SECRETARIAT

1.	Shri Manoj K. Arora	-	Officer on Special Duty
2.	Shri A.K. Srivastava	-	Director
3.	Shri C. Kalyanasundaram	-	Additional Director
4.	Shri Panna Lal	-	Under Secretary

^Nominated to the Committee w.e.f 22.07.2020.
**Shri Amar Singh expired on 01.08.2020.*

INTRODUCTION

I, the Chairperson, Standing Committee on Chemicals and Fertilizers (2020-21) having been authorised by the Committee to submit the Report on their behalf, present this Twelfth Report (Seventeenth Lok Sabha) on Action Taken by the Government on the observations/ recommendations contained in the Fifth Report (Seventeenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2019-20) on Study of System of Fertilizer Subsidy pertaining to the Department of Fertilizers.

2. The Fifth Report (Seventeenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on 21.12.2017 and laid in Rajya Sabha on 21.12.2017. The Action Taken replies of Government to all observations / recommendations contained in the Report were received on 11.6.2020. The Standing Committee on Chemicals and Fertilizers (2020-21) considered and adopted this Report at their sitting held on 12.10.2020.

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

4. For facility of reference and convenience, the further Comments of the Committee have been printed in bold letters in **Chapter-I** of the Report**.**

New Delhi;
08 February, 2021
19 Magha, 1942 (Saka)

KANIMOZHI KARUNANIDHI
Chairperson
Standing Committee on
Chemicals and Fertilizers

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2019-20).

Smt. Kanimozhi Karunanidhi - Chairperson

MEMBERS
LOK SABHA

2	Shri Maulana Badruddin Ajmal
3	Shri Ramakant Bhargava
4	Shri Prataprao Govindrao Patil Chikhalikar
5	Shri Rajeshbhai Naranbhai Chudasama,
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2. Shri A.K. Srivastava - Director
3. Shri C. Kalyanasundaram - Additional Director
4. Shri Panna Lal - Under Secretary

^ *Nominated to the Committee w.e.f 22.07.2020.*

• *Due to demise of Shri Amar Singh (expired on 01.08.2020).*

INTRODUCTION

I, the Chairperson, Standing Committee on Chemicals and Fertilizers (2020-21) having been authorized by the Committee to present the Report on their behalf, present this Tenth Report (Seventeenth Lok Sabha) on Action Taken by the Government on the observations/ recommendations contained in the Fifth Report (Seventeenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2019-20) on the subject 'Study of System of Fertilizers Subsidy' pertaining to the Department of Fertilizers.

2. The Third Report (Seventeenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on 21.12.2017. The Action Taken replies of Government to all observations / recommendations contained in the Report were received on 11.6.2020. The Standing Committee on Chemicals and Fertilizers (2020-21) considered and adopted this Report at their sitting held on 12.10.2020.

3. An analysis of the Action Taken by the Government on the observations/recommendations contained in the Tenth Report (Seventeenth 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 **- Chapter-I.**

New Delhi;
8 February, 2021
19 Magha, 1942 (Saka)

KANIMOZHI KARUNANIDHI
Chairperson
Standing Committee on
Chemicals and Fertilizers

REPORT

CHAPTER – I

This Report of the Standing Committee on Chemicals and Fertilizers (2019-20) deals with the action taken by the Government on the Observations/ Recommendations contained in the Fifth Report (17th Lok Sabha) of the Committee on the subject 'Study of System of Fertilizers Subsidy' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 17-03-2020. In all, the Committee made 14 Observations/ Recommendations in the Report.

1.2 The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the Observations/ Recommendations contained in the Fifth Report within three months from the date of presentation of the Report, i.e. by 17-06-2020. The Action Taken Replies of the Government in respect of all the 14 Observations/ Recommendations contained in the Report have been received from the Ministry of Chemicals and Fertilizers (Department of Fertilizers) *vide* their O.M. **No.H-11021/8/2020-Parl. dated 12-06-2020**. These Replies have been examined and categorized as under:-

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

Rec. Nos. 1, 4, 7, 10, 12, 13 & 14 (Total 07).

(Included in Chapter-II of the Report)

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

Rec. Nos. 3, 5, 6 &11. (Total 04)

(Included in Chapter-III of the Report)

(iii) Observations/Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration-

Rec. No. 9. (Total 01)

(Included in Chapter-IV of the Report)

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

Rec. Nos. 2 & 8. (Total 02)

(Included in Chapter-V of the Report)

1.3 The Committee desire that the Action Taken Notes on the Observations/ Recommendations of the Committee contained in Chapter-I of this Report and the Final Replies in respect of Observations/ Recommendations contained in Chapter-V for which final replies are still awaited, 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.4

Delay in Settlement of Subsidy Claims and Carry-forward Liabilities

1.5 The Committee in their 5th Report made the following observations/ recommendations with regard to delay in settlement of subsidy claims submitted by fertilizer companies and resultant carry-forward liabilities of the Department of Fertilizers:-

> **"The Committee are concerned to note the huge carry-over liabilities of the Department of Fertilizers on subsidy expenditure at the end of each financial year due to non payment of subsidy bills received from companies. As on 31.03.2018, 2688 subsidy bills amounting to Rs. 19362.54 crore were pending for settlement and as on 31.03.2019, 9223 subsidy bills amounting to Rs. 30,243.93 crore were pending for payment. As per policy guidelines, DBT claims are to be settled within 7 working days from the date of submission of the claims and there is no time limit prescribed for settlement of non-DBT claims. There is no provision for payment of interest in case of delay in settlement of subsidy claims. According to Department of Fertilizers, non-receipt of Proforma B1/B2 from the concerned State, non submission of requisite documents/data by fertilizers companies as per policy guidelines and paucity of funds are the reasons for delay in settlement of arrears of subsidy claims. In Committee's view, the paucity of funds due to inadequate budgetary allocation is the major reason for delay in settlement of subsidy arrears. To avert the financial difficulties of fertilizer manufacturing companies, the Government allows the fertilizer companies to take loans against the receivables of subsidies from the banks and the government to bear the cost of interest. There is also a proposal to allow public sector fertilizer companies to borrow from National Small Saving Fund as a temporary measure with the bearing of interest by the Government. The Committee has taken note of the delays in settlement of subsidy claims. The Committee have strongly taken note of the specific cases brought out by some of the Members where the delay in payment of subsidy to the manufacturer is unusually long. The Committee have also taken note of the fact that very often the amount held up due to such delays is fairly high while the amount that is disputed in the individual claim may be a small proportion of the total amount of subsidy claim by manufacturer. Since the present situation is not conducive for the smooth functioning of fertilizer subsidy system, the Committee recommend the following:-**
>
> **(i) The Committee strongly recommend that the Department should develop a system by which a certain proportion of the amount of claim is paid to the manufacturer automatically within a period of seven working days. This amount could be 75% of the total claim of subsidy. The remaining amount should also be paid off in a fixed period of time subject to the completion of all documentation and clarifications by the manufacturer/importer. It is to be noted that the automatic payment should be really automatic and not subject to any scrutiny beyond a basic calculation checking. Such a system will eliminate financial stress on the manufacturers which is often caused due to delay in payment of subsidy amounts. This will also bring in transparency and accountability on the Department and improvement in the governance standards.**

(ii) **The Department should impress upon the Ministry of Finance at the highest level to make adequate amount of funds in the form of budgetary allocation for subsidy schemes and it is the responsibility of the Department of Fertilizers to place before that Ministry of Finance the exact requirement of funds for meeting the expenditure on fertilizers subsidies in a financial year. Sentiments expressed by this committee for the allocation of adequate amount of funds for subsidy schemes should be conveyed to the Ministry of Finance.**

(iii) **One time Additional supplementary budgetary allocation to completely dismantle the recurring carry over liabilities may be sought from the Ministry of Finance particularly to avoid unnecessary expenditure on interest on loans borrowed by fertilizer companies to manage the situation arising out of delays in payment of subsidies by the Government.**

(iv) **Department should initiate strong steps to settle the subsidy claims under DBT within 7 working days as stipulated under the policy guidelines. Definite time limit should also be fixed for non DBT subsidy claims and the progress made in this regard should be intimated to the Committee.**

(v) **Before settlement of subsidy claims submitted by fertilizer companies, 30 days are presently given for B-1 proforma certification by the concerned state regarding short and substandard quantity of fertilizer supplied by fertilizer companies and 180 days are allowed for state certification for quality under B-2 proforma. This may be examined by the Department whether these many days are necessary for certification as this may be one of the reasons for carry-over liabilities and appropriate action may be taken for reducing the number of days required for these certifications by the concerned states. "**

REPLY OF THE GOVERNMENT

1.6 The Action Taken Reply is as under:-

(i) "As of now 100% subsidy is released to the fertilizers manufacturing / importing companies by Direct Benefit Transfer based on the actual sales. Periodical monitoring is being done to avoid any delay through Bill Monitoring module.

The reason for delay in the subsidy payments is lack of sufficient budgetary allocation.

(ii) *The Department of* Fertilizers has time and again impressed upon the Ministry of Finance about the financial hardships faced by the fertilizers companies. In the current financial year i.e. 2020-21 also, this department

took up the matter at the level of Secretary and Minister. Further, it is stated that Standing Committee on Chemicals and Fertilizers in its 7th Report dated 20.03.2020 recommended that henceforth there should be no cut on the fertilizer subsidy budget sought by the Department of Fertilizers so that fertilizer companies are able to operate in a healthy environment and directed Department of Fertilizers to convey the recommendation to Ministry of Finance. The same has been conveyed to Ministry of Finance vide this Dep*artment's D.O. No. 1(6)/2019-Fin.I dated 15th May, 2020.*

(iii) The Department had projected a requirement of Rs. 100349.50 Crore for the financial year 2020-21. However, Ministry of Finance has allocated only Rs.73975 Crore keeping in view the overall fiscal space and priorities of the government. As on 1.04.2019, the carry over liabilities in fertilizer subsidy were to the tune of Rs.32488.54 Crore, the Department has wiped up the carry over liabilities from the budget allocation of 2019-20. In the absence of adequate budget allocation for 2020-21, the Department would seek additional allocation in the supplementary demands and if required it would seek the Special Banking Arrangement also besides any other measures.

(iv) All the DBT payments are being processed in a time bound manner, though paucity of sufficient budgetary allocation is a major challenge for time bound payments.

Periodical monitoring is being done to avoid any delay through Bill Monitoring module for DBT payments.

Similarly, Non DBT subsidy payments are being affected due to lack of sufficient budgetary allocation.

(v) The Direct Benefit Transfer system was implemented w.e.f. 1.10.2016 for the fertilizer subsidy initially in 17 districts and gradually has covered all the districts in the country. In DBT system, there is no requirement of submission of certificates (B1 and B2 proforma) as 100% subsidy on various fertilizer grades is released to the fertilizer companies, on the basis of actual sales made by the retailers to the beneficiaries

The reason for carryover liabilities of fertilizer subsidy is inadequate budgetary allocation. The annual budget allocation for fertilizer subsidy has been consistently less compared to the requirement projected by D/o Fertilizers. **This has resulted in continuing Carryover Liabilities of fertilizer subsidy."**

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Further Comments of the Committee

1.7 The Committee are very much concerned to note the Action Taken Reply given by the Department of Fertilizers that the reason for carryover liabilities of

fertilizer subsidy is inadequate budgetary allocation and that the annual budget allocation for fertilizer subsidy has been consistently less compared to the requirement projected by the Department. As per the reply given by the Department, 100% subsidy is released by it to the fertilizers manufacturing / importing companies by Direct Benefit Transfer (DBT) based on the actual sales. All the DBT payments are being processed in a time bound manner, though paucity of sufficient budgetary allocation is a major challenge for time bound payments. Similarly, Non DBT subsidy payments are being affected due to lack of sufficient budgetary allocation. This has resulted in continuing Carryover Liabilities of fertilizer subsidy. For the financial year 2020-21, the Department had projected a requirement of Rs. 100349.50 Crore. However, Ministry of Finance has allocated only Rs.73975 Crore. Eventhough the Department had taken up the matter at Secretary and Minister levels, the Ministry of Finance reduced the budgetary allocation keeping in view the overall fiscal space and priorities of the government. In Committees' view, agriculture is a priority area and the fertilizer subsidy is very much necessary for making fertilizers affordable to the farmers. In case of any difficulties in this regard, it may affect the crop productivity and yield. The Committee, therefore, strongly recommend again that there should not be any cut in the fertilizer subsidy budget from 2021-22 onwards being a priority sector. As far as the necessity of funds for 2020-21 is concerned, the Department should seek additional funds required to meet the subsidy expenditure at supplementary demand stage and the same should be provided by the Ministry of Finance without any cut so as to eliminate the continuing liabilities of fertilizer subsidy. This recommendation of the Committee should also be sent to the Ministry of Finance for its compliance.

Recommendation No.7

<u>Quantum of allocation of gas for fertilizer industry</u>

1.8 **"The Committee note that out of 32 urea manufacturing plants, 30 were converted into gas based plants and the remaining two which are presently using Naphtha as feed stock, are in the process of conversion.**

Since Naphtha is an expensive feed stock, the Government took initiative and converted the plants into gas based Plants. Total production of gas in the country is 71 MMBTU. Out of this, the requirement for gas based fertilizer manufacturing units is 48 MMBTU. Out of this requirement, although the Government makes allocation of 31.5 MMBTU, only 16 MMBTU is being actually provided to fertilizer industry after meeting the requirements of city gas, power sector etc. Since the fertilizer industry is not getting the allocated quantum of gas, the gap between the demand and supply is met by the import of RLNG which is costlier than domestically produced gas resulting in increased subsidy bill due to increase in cost of production. Since this is an important sector concerning agricultural productivity, the Committee recommend that the entire quantum of gas allocated for fertilizer manufacturing industry should be provided for use by fertilizer industry to ward off import of RNLG. The Department of fertilizer should take up issue with the concerned Ministry at the highest level in this regard and the recommendation made by this Committee should also be conveyed to it for compliance."

REPLY OF THE GOVERNMENT

1.9 The Action Taken Reply is as under:-

During the meeting of Empowered Group of Ministers (EGoM) on Gas Pricing and Commercial Utilization of gas held on 23.08.2013, it has been decided that the supply of domestic gas to the fertilizer sector to be maintained at 31.5 mmscmd. The details of supply of domestic gas to urea manufacturing units during the months of November 2019, December 2019 and January, 2020 as against the allocation of 31.5 MMSCMD of gas in tabular form is as under:

(in MMSCMD)

Month	**November 2019**	**December 2019**	**January, 2020**
Total Supply	43.421	43.801	43.776
Supply of Domestic Gas	14.090	13.025	11.047

It is evident from the above table that as against the total gas supply of around 43-44 mmscmd of gas and the allocated quantity of 31.5 mmscmd of gas, the urea sector is currently being supplied domestic gas only at the level of 11-15 mmscmd. Vide D.O letter 4th October, 2018, Hon'ble MoS for Ministry of Chemicals & Fertilizers has written to Hon'ble Minister of Petroleum & Natural Gas to ensure the supply of domestic gas at least to the extent of 31.5 mmsmcd to the urea sector as per EGoM decision dated 23.08.2013. Vide letters dated 22nd October, 2018 and 5th February, 2020, the matter regarding shortfall in supply of domestic gas has been again taken up with M/o P&NG.

In view of the aforesaid facts, vide DO letter dated 28th April, 2020,the issue has been taken up again with Hon'ble Minister of Petroleum & Natural Gas at the level of Hon'ble Minister of Chemicals & Fertilizers to intervene in the matter and ensure that the immediate steps may be taken for supplying domestic natural gas to urea manufacturing units at least to the extent of 31.5 mmscmd.

Further, the matter has been recently discussed in a high level meeting in the NITI Aayog under the chairmanship of the CEO, NITI Aayog on 18th March, 2020. During the meeting certain changes in the existing mechanism for the procurement of gas for the urea units has been recommended which are under consideration in consultation with the Ministry of Petroleum and Natural Gas.

It is evident from the above, that matter has been already taken up with the concerned Ministry from the highest level. Further, as recommended by the Committee the recommendation has been also forwarded to the concerned Ministry for its compliance vide OM dated 1st June, 2020

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Further Comments of the Committee

1.10 **The Committee are constrained to note the Action Taken Reply furnished by the Department that the shortfall in supply of domestic gas to urea manufacturing units continues despite of taking up the matter at Minister level with the Ministry of Petroleum and Natural Gas. It is a matter of concern that the urea sector is currently being supplied domestic gas only at the level of 11-15 mmscmd against the allocated quantity of 31.5 mmscmd of gas. Rest of the requirement of gas for fertilizer units is being met through import which is costlier, thereby increasing the cost of production of fertilizers and the subsidy bill. In view of the above, the Committee would like to seek a compliance report of the Ministry of Petroleum and Natural Gas on the earlier recommendation of the Committee that the entire quantum of gas allocated for fertilizer manufacturing industry should be provided for use by fertilizer industry to ward off import of RNLG, within three months from the date of presentation of this Report. Action Taken Reply of the Ministry further indicates that a meeting was held to discuss this matter under the Chairmanship of the CEO, NITI Aayog on 18th March, 2020 wherein certain changes in the existing mechanism for procurement of gas for the Urea units have been recommended which are under consideration by the Department in consultation with the Ministry of Petroleum and Natural Gas. The details of the recommendations made in the NITI Ayog meeting alongwith the final decision taken by the Department on the basis of those recommendations may be conveyed to the Committee.**

Recommendation No.9

<u>System of sale of fertilizers to Farmers</u>

1.11 "The Committee note that presently the government is implementing Direct Benefit Transfer (DBT) system. Under this system 100% subsidy on various fertilizer grades is released to the fertilizer companies on the basis of actual sales made by retailers to the beneficiaries. Sale of all subsidized fertilizers to the farmers/buyers is made through Point of Sale (POS) devices installed at each retailer shop and the beneficiaries are identified through Aadhaar Card, Kishan Credit Card, voter Identity Card etc. Under this DBT system, subsidized fertilizer is sold through POS devices on no denial basis with no fixed purchase quantity limit. One farmer is permitted to purchase fertilizers on behalf of many farmers after biometric verification. Presently there is no system to verify that the fertilizer purchased on behalf of other farmers actually reaches them or diverted elsewhere. In this regard it is pertinent to note here that there is possibility of subsidized urea diverted for use by chemical industries which may be around 10 lakh tones or 3.5 percent of total urea supplied in the system throughout the country. The Committee are of the view that the current system of fertilizer subsidy is inherently inefficient to administer. Although a fairly elaborate IT system has been put in place to monitor the movement of fertilizers from the point of manufacture/import to the farmer, there is no system in place to prevent its diversion and misuse. The Committee do not agree with the views of the Ministry that the quantity reported to be diverted/misused is only a small proportion of the total quantity manufactured. Since the present system is prone to misuse by miscreants, the Committee recommend that the Department may issue instructions that the retailer may obtain the list of farmers along with their signature/thumb impression and the quantum of fertilizers required by each of them for verification purposes. State Governments may also be requested to keep a vigil on diversion/misuse of subsidized fertilizer and for the purpose Integrated Fertilizer Management System may be used by the authorities concerned. The Department of Fertilizers may also undertake random scrutiny of activities in this regard to find out any possible misuse of subsidized fertilizers."

REPLY OF THE GOVERNMENT

1.12 "System of sale of fertilizers to farmers The Department has developed a dashboard which can be accessed at http://urvarak.nic.in. The Dashboard facilitates easy monitoring by State Agriculture Departments, District Collectors and State Marketing Federations by providing various reports like list of top 20 buyers (State-wise, District-wise), which is available for the State Agriculture Dept. The State Governments have been empowered to take appropriate action as per FCO after examining each case.

Further, vide letter No. D(FA)/DBT-NIC/2017-Pt. dated 22.04.2019, Department has written to all States to closely monitor fertilizer distribution &

availability to ensure smooth implementation of DBT in all States using the services of iFMS and DBT Dashboards."

Further Comments of the Committee

1.13 The Committee are dismayed to note that the reply furnished by the Department is silent on the recommendation of the Committee that the Department may issue instructions so that the retailer may obtain the list of farmers along with their signature/thumb impression and the quantum of fertilizers required by each of them for verification purposes. Eventhough the Dashboard developed by the Department facilitates monitoring by State and district authorities, it is not clarified by the Department whether the information available in the Dashboard enables the State and district authorities to verify whether the fertilizer purchased by a farmer on behalf of others actually reaches them or diverted somewhere else. Since it is very much necessary to ensure that the subsidized fertilizer reaches the needy farmers so as to enable them reap the benefits of the system, the Committee reiterate the earlier recommendation and expect that the Department would give suitable instructions as recommended by the Committee to ensure credibility and transparency in the system. The Committee also hope that the Department of Fertilizer would undertake random scrutiny of activities in this regard to find out any possible misuse of subsidized fertilizers.

Recommendation No.12

Scheme for promotion of City compost

1.14 "The Committee are happy to note that a policy on promotion of city compost was notified by the Department of Fertilizers on 10.02.2016 under which Market Development Assistance (MDA) in the form of fixed amount of Rs. 1500/- per tonne of city Compost is provided on the sale of city compost to fertilizer Marketing companies as well as to city compost manufactures. This policy aims at conversion of city wastes into compost manure for use by farmers in place of chemical fertilizers. Since city compost is a unique Bio organic soil enricher and its use reduces the use of chemicals fertilizers, the Committee recommend that that the Department of fertilizers should take necessary steps for increasing the production and use of city compost on a large scale so as to reduce the use of chemical fertilizers in the country. The Committee also recommend that the Department of Fertilizers should examine the feasibility of involving all fertilizer companies in the production and distribution of city compost along with chemicals fertilizers. Freight subsidy may also be considered for city compost The Committee has taken note of the problems associated with the use of excessive quantities of fertilizers by the farmers. The Committee has analysed the literature available on long-term environmental consequences of such excessive use of chemical fertilizers. While the Department has a scheme for providing financial assistance for city composting units, the Committee feels that the effort is too little to make a significant positive environmental impact. The Committee observe that the flagship programme of the Government Swachh Bharat Abhiyan, is having a deeper penetration and is leading to significant changes in the manner in which urban solid waste is handled. The Committee note that there are a large number of good opportunities available for dove-tailing the city composting scheme by the Department with the urban waste management projects so that the

dependence on chemical fertilizers gets reduced and as a society we are able to utilize the urban waste properly. The Committee recommend that the Department should constitute an inter-Ministerial body comprising of the Ministry of Agriculture and Farmers Welfare, Ministry of Housing and Urban Development, Ministry of Drinking Water and Sanitation as well as the Department of Fertilizers to set a clear roadmap for vastly expanding the city composting systems and taking the farmers to shift from using chemical fertilizers to using compost for their agriculture. The Committee advise the Department to take up this issue in the national interest immediately and set out a time frame of not more than six months for this inter-Ministerial Committee to submit its recommendations. "

REPLY OF THE GOVERNMENT

1.15 (i) The Department of Fertilizers has taken various steps to promote and use of city compost on large scale. With the concerted efforts of DoF, the sale of city compost has increased over the years. The sale of city compost on which Marketing Development Allowance has been claimed during last 4 years has increased and is given below:

Year	Total sale (in MT)
2016-17	96584.00
2017-18	199061.91
2018-19	306630.47
2019-20	326772.72

(ii) As per the policy on promotion of city compost, all fertilizer companies are allowed to market city compost. At present, 22 marketing companies are involved in sale/distribution of city compost and 49 manufacturing companies have also permitted for bulk direct sale of city compost to farmers. Vide guidelines dated 10.10.2016, any fertilizer company (manufacturer of Urea and P&K Fertilizer) is allowed to produce city compost and market as its own brand and claim MDA. However, no major chemical fertilizer company has yet come forward to produce city compost as it is a different sector and technology.

(iii). The very little amount of city compost are produced in the various cities which are easily distributed and consumed in the local nearby areas of the city and hence consideration of freight subsidy for city compost is not required.

(iv) A Committee of Joint Secretaries of Department of Fertilizers, Ministry of Housing and Urban Affairs and Department of Agriculture, Cooperation & Farmers Welfare has already been set up to resolve the coordinated related issues and promotion of city compost. A communication has been sent to M/o DW&S for nomination of an officer for inclusion in the aforesaid Committee."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Further Comments of the Committee

1.16 The Committee are happy to note that the sale of **city compost on which Marketing Development Allowance has been claimed has increased from 96584 Metric Tons in 2016-17 to 326772.72 Metric Tons in 2019-20. However, the quantum of city compost produced in various cities is very little and the same is consumed in nearby areas of the cities. Hence, there is very vast scope for large scale production of city compost in urban and semi urban areas of this hugely populated country. Since the city compost is a unique Bio-Organic soil enricher, its large scale production and use by the farmers should be encouraged particularly due to the long term ill-effects of excessive use of chemical fertilizers. Keeping in view of the above, the Committee emphasized the necessity of dove-tailing the city composting scheme with the urban waste management projects and further recommended that an Inter-Ministerial Body be constituted immediately, which may submit its Report within 6 months time, to frame a roadmap for expanding the city composting system. In this regard, the Committee note that** a **Committee of Joint Secretaries of Department of Fertilizers, Ministry of Housing and Urban Affairs and Department of Agriculture, Cooperation & Farmers Welfare has been set up to resolve the related issues and promotion of city compost and the Ministry of Drinking Water and Sanitation has been requested to nominate an officer in this Committee. The Committee hope that this Committee would look into all issues relating to promotion of city compost including dovetailing/converging of the City Compost Scheme with urban/semi urban waste management schemes/projects within six months time to frame a road map for large scale production and use of City Compost in the country.**

Recommendation No.13

Education to Farmers for use of Soil Specific Fertilizers

1.17 "The Committee feel that the nutrients based system (NBS) for fertilizer subsidy is far too complicated. Simultaneously, the Committee observes that there is very little knowledge and understanding available with the farmers on the use of appropriate nutrients in view of the soil conditions as well as the cropping patterns. The Committee have come to know of

situations where the farmers are being encouraged to use a particular group of nutrients even when their soil or cropping pattern does not warrant so. It is suspected that this may be happening due to inappropriate promotion of use of fertilizers by some of the manufacturers who keep in view the amount of subsidy available on the basis of the nutrients contained in the fertilizers produced by them. The Committee observe that the Government has successfully expanded the use of soil health cards across the country and therefore it should be possible to educate the farmers on the appropriate combination of nutrients which may be required to administer in their farms. The Committee therefore, recommend that the Department should take up this subject with the Ministry of Agriculture and Farmers Welfare and come up with a firm plan of action so that the use of nutrients by individual farmers gets rationalised on the basis of scientific analysis. The Committee also recommend that steps be taken to identify States/UTs where fertilizers especially urea is used by farmers in a very high distorted ratio against the desirable NPK ratio of 4:2:1. Further, suitable preventive mechanism be evolved by the Movement Division of Department of Fertilizers to preclude supply of very high quantity of subsidized fertilizers to States/UTs based on their projection of annual demand for fertilizers. The Kisan Call Centres (KCC) may also be involved for tendering appropriate advice to the farmers regarding judicious use of soil specific fertilizers."

REPLY OF THE GOVERNMENT

1.18 "Department of Fertilizers has taken a initiative to jointly organize the Fertilizer Application Awareness Programme for farmers biennially before Rabi and Kharif Seasons with Department of Agriculture Cooperation & Farmers Welfare (DAC&FW), Department of Agricultural Research & Education (DARE) to disseminate knowledge on optimum usage of fertilizer nutrients based on various parameters to sustain the agriculture productivity and to make farmers aware of new developments in the field of fertilizer usage and management along with State Governments. Accordingly, the programme has been launched by Hon'ble Minister of Chemicals and Fertilizers and Hon'ble Minister of Agriculture Cooperation and farmer's welfare on 22.10.2019 before Rabi Season.

Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW) assessed the requirement/demand of fertilizers for Kharif and Rabi seasons in bi-annual Zonal Conferences in consultation with the representatives of fertilizers companies, Fertilizer Association of India, Ministry of Railways, State Governments, Department of Fertilizers (DoF) and other concerned agencies.

The projected requirement is communicated to DoF. DoF ensures availability of all fertilizers at State level as per requirement projected by DAC&FW."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Further Comments of the Committee

1.19 **The Committee note that the Department of Fertilizers has launched a joint biennial Fertilizer Application Awareness Programme along with the concerned Departments of the Ministry of Agriculture for educating farmers before Rabi and Kharif Seasons every year. In Committee's view, dissemination of knowledge to farmers on optimum usage of fertilizer nutrients based on various parameters to sustain the agriculture productivity should be a regular feature rather than merely a biennial event. In this regard, the Committee recommend that a coordinated programme should be launched by the concerned Central Ministries, State Governments' agricultural departments, field organizations like Krishi Vigyan Kendras, Kisan Call Centres, etc. for the continuous education of farmers throughout the year about the balanced and soil specific use of fertilizers so as to attain the desired results in this regard. Moreover, the Committee also recommend that the over use of any particular fertilizer in any State may be taken into account while assessing the requirement/demand of fertilizers for Kharif and Rabi seasons in bi-annual Zonal Conferences organized by the Department of Agriculture, Cooperation & Farmers Welfare in which the representatives of Department of Fertilizers are also participating along with the other stake holders.**

CHAPTER – II

OBSERVATIONS / RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No.1

Fertilizer Subsidy Policy:

"The Committee note that chemical fertilizer is an essential component of modern agriculture. Timely availability of fertilizer at affordable price to farmers is vital for the growth of agriculture sector in the country. Fertilizer subsidy schemes have been an integral part of the Government policy to sustain agricultural productivity which in turn plays critical role in ensuring the food security in the country and in promoting rural livelihood and employment. Presently the government is implementing separate subsidy schemes for urea, P&K fertilizers and city compost. The Government is also providing freight subsidy for the movement of urea and P&K fertilizers. As far as urea is concerned, the government is fixing maximum Retail price and it has been left to fertilizer companies to fix the MRP of P&K fertilizers. The difference in concession rate/import price and net market realization is given as subsidy by the government to the fertilizer industry. Farmers are the actual beneficiaries of the Subsidy schemes as they are getting the fertilizers at affordable prices. Implementation of fertilizer subsidy schemes has resulted in tremendous growth of agricultural productivity which was necessary to meet the food security of the huge population of the country. However, there are some negative effects of use of Chemical fertilizes viz over-use of fertilizers, imbalanced use of fertilizers and the resultant soil degradation etc. In this regard, the Committee note that a committee of Secretaries headed by Cabinet Secretary has suggested to study the existing subsidy regime and to suggest any improvement or change in the policy. NITI Ayog has also constituted a Committee to examine the feasibility of providing agriculture subsidy on area basis through Direct Benefit Transfer system. 57 Draft Report of this committee has been circulated to various stake holders. Since any drastic change in the extant fertilizer subsidy policy would have huge bearing on the food security of the country, the committee would like to make the following recommendations:-

i. **Fertilizers subsidy policy of the Government helped the country in ensuring food security to the people of the country and any drastic change in the policy must be effected only after wider consultations and in depth study and no hasty decision should be taken in this regard.**
ii. **Both the Department of Fertilizers and NITI Ayog should consult all the stake holders viz concerned Departments of the Union government, state Governments, fertilizer industry, farmers' Associations, individual farmers, etc. before making any decision on change in the existing fertilizer subsidy policy.**

iii. **Interests of small and marginal farmers should be firmly kept in mind while bringing in any change in the extant policy.**

iv. **Education and awareness of farmers about the over use of any particular fertilizer and balanced use of fertilizers should be an integral part of fertilizer subsidy policy.**

v. **Best practices in other countries should also be carefully studied while considering any change in the extant fertilizers subsidy policy."**

REPLY OF THE GOVERNMENT

"So far as the policies related with the urea subsidy scheme is concerned, it is the usual practice to consult all of the stake holders while framing the policies related to the urea subsidy scheme. Most of the policies have been prepared based on the report/suggestions/recommendations of the committee/Group of Minister/Committee of Secretaries constituted specifically for that particular task. While submitting its report/recommendation/suggestions these committee use to consult with every stakeholder. Further, all of the major policies/amendments have been introduced only after due examination in consultation with PDIL, Fertilizer Association of India, urea manufacturing units and stake holding Departments/Ministries including NITI Aayog.

As the MRP of urea is statutorily controlled, consultation with farmers are not required if there is no major change in the MRP, availability and quality of urea to which farmers are concerned. Department of Fertilizers is in process of doing evaluation of its urea subsidy scheme by engaging a third party which will also consult to the farmers for the collection of primary data for preparing its report. While making any major revision/change in the existing policy provision the third party evaluation report will be taken into care.

As regards to last point, it is stated that while making policies relating to the the domestic urea manufacturing units it is always taken care that the energy efficiency, installed capacity, technologies etc. should be at par with the other countries."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Recommendation No.4

<u>Delay in Settlement of Subsidy Claims and Carry-forward Liabilities:</u>

"The Committee are concerned to note the huge carry-over liabilities of the Department of Fertilizers on subsidy expenditure at the end of each financial year due to non-payment of subsidy bills received from companies. As on 31.03.2018, 2688 subsidy bills amounting to Rs. 19362.54 crore were pending for settlement and as on 31.03.2019, 9223 subsidy bills amounting to Rs. 30,243.93 crore were pending for payment. As per policy guidelines, DBT claims are to be settled within 7 working days from the

date of submission of the claims and there is no time limit prescribed for settlement of non-DBT claims. There is no provision for payment of interest in case of delay in settlement of subsidy claims. According to Department of Fertilizers, non-receipt of Proforma B1/B2 from the concerned State, non submission of requisite documents/data by fertilizers companies as per policy guidelines and paucity of funds are the reasons for delay in settlement of arrears of subsidy claims. In Committee's view, the paucity of funds due to inadequate budgetary allocation is the major reason for delay in settlement of subsidy arrears. To avert the financial difficulties of fertilizer manufacturing companies, the Government allows the fertilizer companies to take loans against the receivables of subsidies from the banks and the government to bear the cost of interest. There is also a proposal to allow public sector fertilizer companies to borrow from National Small Saving Fund as a temporary measure with the bearing of interest by the Government. The Committee has taken note of the delays in settlement of subsidy claims. The Committee have strongly taken note of the specific cases brought out by some of the Members where the delay in payment of subsidy to the manufacturer is unusually long. The Committee have also taken note of the fact that very often the amount held up due to such delays is fairly high while the amount that is disputed in the individual claim may be a small proportion of the total amount of subsidy claim by manufacturer. Since the present situation is not conducive for the smooth functioning of fertilizer subsidy system, the Committee recommend the following:-

(i) The Committee strongly recommend that the Department should develop a system by which a certain proportion of the amount of claim is paid to the manufacturer automatically within a period of seven working days. This amount could be 75% of the total claim of subsidy. The remaining amount should also be paid off in a fixed period of time subject to the completion of all documentation and clarifications by the manufacturer/importer. It is to be noted that the automatic payment should be really automatic and not subject to any scrutiny beyond a basic calculation checking. Such a system will eliminate financial stress on the manufacturers which is often caused due to delay in payment of subsidy amounts. This will also bring in transparency and accountability on the Department and improvement in the governance standards.

(ii) The Department should impress upon the Ministry of Finance at the highest level to make adequate amount of funds in the form of budgetary allocation for subsidy schemes and it is the responsibility of the Department of Fertilizers to place before that Ministry of Finance the exact requirement of funds for meeting the expenditure on fertilizers subsidies in a financial year. Sentiments expressed by this committee for the allocation of adequate amount of funds for subsidy schemes should be conveyed to the Ministry of Finance.

(iii) One time Additional supplementary budgetary allocation to completely dismantle the recurring carry over liabilities may be sought from the Ministry of Finance particularly to avoid

unnecessary expenditure on interest on loans borrowed by fertilizer companies to manage the situation arising out of delays in payment of subsidies by the Government.

(iv) Department should initiate strong steps to settle the subsidy claims under DBT within 7 working days as stipulated under the policy guidelines. Definite time limit should also be fixed for non DBT subsidy claims and the progress made in this regard should be intimated to the Committee.

(v) Before settlement of subsidy claims submitted by fertilizer companies, 30 days are presently given for B-1 proforma certification by the concerned state regarding short and substandard quantity of fertilizer supplied by fertilizer companies and 180 days are allowed for state certification for quality under B-2 proforma. This may be examined by the Department whether these many days are necessary for certification as this may be one of the reasons for carry-over liabilities and appropriate action may be taken for reducing the number of days required for these certifications by the concerned states. "

REPLY OF THE GOVERNMENT

(i) "As of now 100% subsidy is released to the fertilizers manufacturing / importing companies by Direct Benefit Transfer based on the actual sales. Periodical monitoring is being done to avoid any delay through Bill Monitoring module.

The reason for delay in the subsidy payments is lack of sufficient budgetary allocation.

(ii) The Department of Fertilizers has time and again impressed upon the Ministry of Finance about the financial hardships faced by the fertilizers companies. In the current financial year i.e. 2020-21 also, this department took up the matter at the level of Secretary and Minister. Further, it is stated that Standing Committee on Chemicals and Fertilizers in its 7th Report dated 20.03.2020 recommended that henceforth there should be no cut on the fertilizer subsidy budget sought by the Department of Fertilizers so that fertilizer companies are able to operate in a healthy environment and directed Department of Fertilizers to convey the recommendation to Ministry of Finance. The same has been conveyed to Ministry of Finance vide this Dep*artment's D.O. No. 1(6)/2019-Fin.I dated 15th May, 2020.*

(iii) The Department had projected a requirement of Rs. 100349.50 Crore for the financial year 2020-21. However, Ministry of Finance has allocated only Rs.73975 Crore keeping in view the overall fiscal space and priorities of the government. As on 1.04.2019, the carry over liabilities in fertilizer subsidy were to the tune of Rs.32488.54 Crore, the Department has wiped up the carry over liabilities from the budget allocation of 2019-20. In the absence of adequate budget allocation for 2020-21, the Department would seek additional allocation in the supplementary demands and if required it would seek the Special Banking Arrangement also besides any other measures.

(iv) All the DBT payments are being processed in a time bound manner, though paucity of sufficient budgetary allocation is a major challenge for time bound payments.

Periodical monitoring is being done to avoid any delay through Bill Monitoring module for DBT payments.

Similarly, Non DBT subsidy payments are being affected due to lack of sufficient budgetary allocation.

(v) The Direct Benefit Transfer system was implemented w.e.f. 1.10.2016 for the fertilizer subsidy initially in 17 districts and gradually has covered all the districts in the country. In DBT system, there is no requirement of submission of certificates (B1 and B2 proforma) as 100% subsidy on various fertilizer grades is released to the fertilizer companies, on the basis of actual sales made by the retailers to the beneficiaries

The reason for carryover liabilities of fertilizer subsidy is inadequate budgetary allocation. The annual budget allocation for fertilizer subsidy has been consistently less compared to the requirement projected by D/o Fertilizers. **This has resulted in continuing Carryover Liabilities of fertilizer subsidy."**

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Comments of the Committee

(Please see Para No.1.7 of Chapter- I of the Report)

Recommendation No.7

Quantum of allocation of gas for fertilizer industry

"The Committee note that out of 32 urea manufacturing plants, 30 were converted into gas based plants and the remaining two which are presently using Naphtha as feed stock, are in the process of conversion. Since Naphtha is an expensive feed stock, the Government took initiative and converted the plants into gas based Plants. Total production of gas in the country is 71 MMBTU. Out of this, the requirement for gas based fertilizer manufacturing units is 48 MMBTU. Out of this requirement, although the Government makes allocation of 31.5 MMBTU, only 16 MMBTU is being actually provided to fertilizer industry after meeting the requirements of city gas, power sector etc. Since the fertilizer industry is not getting the allocated quantum of gas, the gap between the demand and supply is met by the import of RLNG which is costlier than domestically produced gas resulting in increased subsidy bill due to increase in cost of production.

Since this is an important sector concerning agricultural productivity, the Committee recommend that the entire quantum of gas allocated for fertilizer manufacturing industry should be provided for use by fertilizer industry to ward off import of RNLG. The Department of fertilizer should take up issue with the concerned Ministry at the highest level in this regard and the recommendation made by this Committee should also be conveyed to it for compliance."

REPLY OF THE GOVERNMENT

During the meeting of Empowered Group of Ministers (EGoM) on Gas Pricing and Commercial Utilization of gas held on 23.08.2013, it has been decided that the supply of domestic gas to the fertilizer sector to be maintained at 31.5 mmscmd. The details of supply of domestic gas to urea manufacturing units during the months of November 2019, December 2019 and January, 2020 as against the allocation of 31.5 MMSCMD of gas in tabular form is as under:

(in MMSCMD)

Month	**November 2019**	**December 2019**	**January, 2020**
Total Supply	43.421	43.801	43.776
Supply of Domestic Gas	14.090	13.025	11.047

It is evident from the above table that as against the total gas supply of around 43-44 mmscmd of gas and the allocated quantity of 31.5 mmscmd of gas, the urea sector is currently being supplied domestic gas only at the level of 11-15 mmscmd. Vide D.O letter 4th October, 2018, Hon'ble MoS for Ministry of Chemicals & Fertilizers has written to Hon'ble Minister of Petroleum & Natural Gas to ensure the supply of domestic gas at least to the extent of 31.5 mmsmcd to the urea sector as per EGoM decision dated 23.08.2013. Vide letters dated 22nd October, 2018 and 5th February, 2020, the matter regarding shortfall in supply of domestic gas has been again taken up with M/o P&NG.

In view of the aforesaid facts, vide DO letter dated 28th April, 2020,the issue has been taken up again with Hon'ble Minister of Petroleum & Natural Gas at the level of Hon'ble Minister of Chemicals & Fertilizers to intervene in the matter and ensure that the immediate steps may be taken for supplying domestic natural gas to urea manufacturing units at least to the extent of 31.5 mmscmd.

Further, the matter has been recently discussed in a high level meeting in the NITI Aayog under the chairmanship of the CEO, NITI Aayog on 18th March, 2020. During the meeting certain changes in the existing mechanism for the procurement of gas for the urea units has been recommended which are under consideration in consultation with the Ministry of Petroleum and Natural Gas.

It is evident from the above, that matter has been already taken up with the concerned Ministry from the highest level. Further, as recommended by the Committee the recommendation has been also forwarded to the concerned Ministry for its compliance vide OM dated 1st June, 2020

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Further Comments of the Committee

(Please see Para No.1.10 of Chapter- I of the Report)

Recommendation No.10

Monitoring of Maximum Retail Price(MRP) of Phosphatic & Potassic Fertilizers:

"The Committee note that Nutrient Based Subsidy Policy is being implemented by Government of India for P&K fertilizers w.e.f. 01.04.2010. Presently 21 grades of P&K fertilizers are covered under this policy. Government provides a fixed rate of subsidy (in Rupees per Kg basis) on each nutrient of subsidized P&K fertilizers. Unlike Urea, MRP of P&K fertilizers has been left open and fertilizer manufacturers/ marketers are allowed to fix the MRP at reasonable rates. The country is fully dependent on imports in Potassic sector and to the extent of 90% in Phosphatic sector. As such, prices of P&K fertilizers are fluctuating on the basis of international market prices. The Committee are concerned to note the submission of the Department of Fertilizers that the prices of P&K fertilizers had gone up substantially on account of increase in prices of raw materials/ finished fertilizers in international market, depreciation of Indian Rupee w.r.t. US Dollar and also due to larger profit margins by the companies. In this regard, the Committee note that it has been made mandatory for all the fertilizer companies to submit cost data along with their claims of subsidy so as to monitor the MRPs of P&K fertilizers. In Committee's view it is very much necessary to monitor the MRP fixed by fertilizer companies on P&K fertilizers so as to protect the interests of farmers. The Committee, therefore, recommend the following:-

(i) Cost data of all P&K fertilizer companies should be scrupulously examined at the time of submission of their subsidy claim and necessary action should be taken against those companies which indulge in over pricing of P&K fertilizers.

(ii) Department of Fertilizers quickly finalize the guidelines for recovery of profit earned over and above 12% of companies above MRP on fertilizers and found to be unreasonable and implement the provisions of the guidelines in a time bound manner.

(iii) Department of Fertilizers should take all possible steps to encourage indigenous production of Potassic and Phosphatic fertilizers including strengthening of Research and Development in the field of these fertilizers."

REPLY OF THE GOVERNMENT

10 (i) and (ii): The guidelines for evaluation of reasonableness of MRP of P&K fertilizers and recovery of unreasonable profit have been issued on 15.11.2019 (copy enclosed). The follow-up action is a continuous process and is regularly been done. Recovery orders are also being issued for the companies whose MRP are not found reasonable.

10 (iii): The Country is dependent on imports on different fertilizers either in the form of finished fertilizers or their raw material due to non-availability/scarce availability of resources as per details below:

i.	Phosphatic fertilizers	upto 90%
ii.	Potassic Fertilizers	upto 100%

In view of almost complete dependency of the country on raw materials, it is not possible to do much to increase domestic production of non-urea fertilizers. Further, all non urea fertilizers are covered under Open General License regime and its import is being done by companies on commercially viable terms.

However, in order to encourage indigenous production of P&K fertilizers the Department has taken up with the Ministry of Finance for reduction of customs duty on raw materials vide D.O Dated 31.3.2015, 28.10.2016 and 01.06.2020, which may help improve the production of these P&K Fertilizers indigenously more viable vis-à-vis import of these fertilizers."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Recommendation No. 12

Scheme for promotion of City compost:

"The Committee are happy to note that a policy on promotion of city compost was notified by the Department of Fertilizers on 10.02.2016 under which Market Development Assistance (MDA) in the form of fixed amount of Rs. 1500/- per tonne of city Compost is provided on the sale of city compost to fertilizer Marketing companies as well as to city compost manufactures. This policy aims at conversion of city wastes into compost manure for use by farmers in place of chemical fertilizers. Since city compost is a unique Bio organic soil enricher and its use reduces the use of chemicals fertilizers, the Committee recommend that that the Department of fertilizers should take necessary steps for increasing the production and use of city compost on a large scale so as to reduce the use of chemical fertilizers in the country. The Committee also recommend that the Department of Fertilizers should examine the feasibility of involving all fertilizer companies in the production and distribution of city compost along with chemicals fertilizers. Freight subsidy may also be considered for city compost The Committee has taken note of the problems associated with the use of excessive quantities of fertilizers by the farmers. The Committee has analysed the literature available on long-term environmental consequences of such excessive use of chemical fertilizers. While the Department has a scheme for providing financial assistance for city composting units, the Committee feels that the effort is too little to make a significant positive environmental impact. The Committee observe that the flagship programme of the Government Swachh Bharat Abhiyan, is having a deeper penetration and is leading to significant changes in the manner in which urban solid waste is handled. The Committee note that there are a large number of good opportunities available for dove-tailing the city composting scheme by the Department with the urban waste management projects so that the dependence on chemical fertilizers gets reduced and as a society we are able to utilize the urban waste properly. The Committee recommend that the Department should constitute an inter-Ministerial body comprising of the Ministry of Agriculture and Farmers Welfare, Ministry of Housing and Urban Development, Ministry of Drinking Water and Sanitation as well as the Department of Fertilizers to set a clear roadmap for vastly expanding the city composting systems and taking the farmers to shift from using chemical fertilizers to using compost for their agriculture. The Committee advise the Department to take up this issue in the national interest immediately and set out a time frame of not more than six months for this inter-Ministerial Committee to submit its recommendations. "

REPLY OF THE GOVERNMENT

(i) The Department of Fertilizers has taken various steps to promote and use of city compost on large scale. With the concerted efforts of DoF, the sale of city compost has increased over the years. The sale of city compost on which Marketing Development Allowance has been claimed during last 4 years has increased and is given below:

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(iii). The very little amount of city compost are produced in the various cities which are easily distributed and consumed in the local nearby areas of the city and hence consideration of freight subsidy for city compost is not required.

(iv) A Committee of Joint Secretaries of Department of Fertilizers, Ministry of Housing and Urban Affairs and Department of Agriculture, Cooperation & Farmers Welfare has already been set up to resolve the coordinated related issues and promotion of city compost. A communication has been sent to M/o DW&S for nomination of an officer for inclusion in the aforesaid Committee."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Further Comments of the Committee

(Please see Para No.1.16 of Chapter- I of the Report)

Recommendation No.13

Education to Farmers for use of Soil Specific Fertilizers:

"The Committee feel that the nutrients based system (NBS) for fertilizer subsidy is far too complicated. Simultaneously, the Committee observes that there is very little knowledge and understanding available with the farmers on the use of appropriate nutrients in view of the soil conditions as well as the cropping patterns. The Committee have come to know of situations where the farmers are being encouraged to use a particular group of nutrients even when their soil or cropping pattern does not warrant so. It is suspected that this may be happening due to inappropriate promotion of use of fertilizers by some of the manufacturers who keep in

view the amount of subsidy available on the basis of the nutrients contained in the fertilizers produced by them. The Committee observe that the Government has successfully expanded the use of soil health cards across the country and therefore it should be possible to educate the farmers on the appropriate combination of nutrients which may be required to administer in their farms. The Committee therefore, recommend that the Department should take up this subject with the Ministry of Agriculture and Farmers Welfare and come up with a firm plan of action so that the use of nutrients by individual farmers gets rationalised on the basis of scientific analysis. The Committee also recommend that steps be taken to identify States/UTs where fertilizers especially urea is used by farmers in a very high distorted ratio against the desirable NPK ratio of 4:2:1. Further, suitable preventive mechanism be evolved by the Movement Division of Department of Fertilizers to preclude supply of very high quantity of subsidized fertilizers to States/UTs based on their projection of annual demand for fertilizers. The Kisan Call Centres (KCC) may also be involved for tendering appropriate advice to the farmers regarding judicious use of soil specific fertilizers."

REPLY OF THE GOVERNMENT

"Department of Fertilizers has taken a initiative to jointly organize the Fertilizer Application Awareness Programme for farmers biennially before Rabi and Kharif Seasons with Department of Agriculture Cooperation & Farmers Welfare (DAC&FW), Department of Agricultural Research & Education (DARE) to disseminate knowledge on optimum usage of fertilizer nutrients based on various parameters to sustain the agriculture productivity and to make farmers aware of new developments in the field of fertilizer usage and management along with State Governments. Accordingly, the programme has been launched by Hon'ble Minister of Chemicals and Fertilizers and Hon'ble Minister of Agriculture Cooperation and farmer's welfare on 22.10.2019 before Rabi Season.

Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW) assessed the requirement/demand of fertilizers for Kharif and Rabi seasons in bi-annual Zonal Conferences in consultation with the representatives of fertilizers companies, Fertilizer Association of India, Ministry of Railways, State Governments, Department of Fertilizers (DoF) and other concerned agencies. The projected requirement is communicated to DoF. DoF ensures availability of all fertilizers at State level as per requirement projected by DAC&FW."

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Further Comments of the Committee

(Please see Para No.1.19 of Chapter- I of the Report)

Recommendation No.14

<u>Discrepancies in figures on consumption of fertilizers:</u>

"The Committee find some discrepancies in the figures provided by the Department of Fertilizers about the quantum of consumption of fertilizers in the country. As per figures given to show the pattern of consumption of fertilizers from 2000 to 2019, it has been stated that 526.46 Lakh metric tonnes (LMTs) of fertilizers have been consumed during 2018-19. At some other place, it has been mentioned that 537.09 LMTs of fertilizers were consumed during 2018-19. Since it is very important to maintain correct figures of consumption of fertilizers for effective implementation of fertilizer subsidy schemes, the Committee recommend that the Department should develop a foolproof method of collection of exact data on production and consumption of various fertilizer in the country."

REPLY OF THE GOVERNMENT

"The recommendation of the Committee is noted for compliance in the future."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

CHAPTER – III

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

Recommendation No.3

Innovative Methods to contain expenditure on Subsidy:

"The Committee note that the quantum of consumption of fertilizer in the country and the corresponding expenditure on fertilizers subsidy has been increasing over the years. During the last two financial years subsidy was given to the tune of Rs. 69198 crore and Rs. 73435 crore respectively and the estimated expenditure for 2019-20 is Rs. 83476 crore. However, the Committee are satisfied to note that the government was able to contain the quantum of expenditure on subsidy that goes to the fertilizer industry by rationalizing the energy norms for urea manufacturing companies under New Pricing schemes and New Urea policy, 2015 without any adverse impact on fertilizers prices in the country. In this regard, the Committee are of the firm view that it is necessary to make available fertilizer to farmers at affordable prices so as to safeguard the food security of the country and it is the responsibility of the government to contain this expenditure by adopting innovative ways without increasing the price of fertilizers. The Committee, therefore, recommend that the Government should take all possible steps to reduce the expenditure on fertilizer subsidy by adopting best manufacturing practices, strict energy norms, modernization of fertilizers manufacturing plants and a strong research and development base for continuously upgrading the manufacturing 60 technology so as to reduce the manufacturing cost of fertilizers thereby reducing the fertilizer subsidy expenditure to the Government."

REPLY OF THE GOVERTNMENT

"With the objective to make available fertilizer to farmers at affordable prices in the country, urea is provided to the farmers at a statutorily notified Maximum Retail Price (MRP). The MRP of 45 kg bag of urea is Rs.242 per bag (exclusive of charges towards neem coating and taxes applicable) and the MRP of 50 kg bag of urea is Rs.268 per bag (exclusive of charges towards neem coating and taxes applicable). The difference between the delivered cost of urea at farm gate and net market realization by the urea units is given as subsidy to the urea manufacturer/importer by the Government of India. Accordingly, all farmers are being provided urea at the subsidized rates."

Based on CCEA decision, Department of Fertilizers had notified New Urea Policy-2015 (NUP-2015) on 25th May, 2015 with the objective of maximizing indigenous urea production, promoting energy efficiency in urea production and rationalizing subsidy burden on the government.

As per NUP-2015, based on the pre-set energy norms, 25 gas based urea units were classified into 3 groups and Energy norms of all 25 units were revised. The 25 urea units were also given target energy consumption norms for the year 2018-19. However, only 11 urea units could achieve the target energy consumption norms. Therefore, vide notification dated 28th March, 2018, target energy norms were enforced with effect from 1st April, 2018 in respect of 11 urea manufacturing units and for remaining 14 urea manufacturing units existing norms were extended for further period of 2 years i.e. till 31st March, 2020 with certain penalties. The aforesaid target energy norms would continue upto 31st March, 2025.

As per NUP-2015, urea units are incentivized to maximize their production beyond RAC. For production beyond RAC, the units are 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 average of other incidental charges which the government incurs on the import urea. Accordingly, NUP-2015 has led to additional production of approximately 20 LMT as compared to 2014-15, from the existing gas based urea plants and the total production of urea during the year 2015-16 was 244.75 LMT, i.e. the highest ever urea production in the country. The indigenous urea production for the years 2016-17, 2017-18 & 2018-19 was 242.01 LMT, 240.23 LMT & 240 LMT respectively which is significantly higher than the production in 2014-15.

With the implementation of revised energy norms under NUP-2015, there has been mopping up of energy upto RAC resulting in savings in subsidy outgo. The additional production of 20 LMT during 2015-16 has led to less import to that extent resulting in saving in foreign exchange.

Naphtha based urea units are governed by Policy Notification dated 17th June, 2015 which allows these units to produce urea using Naphtha as feedstock till gas availability and connectivity to these three units either by gas pipeline or by any other means. These units were also given target energy norm from 2018- 2019, which has been extended vide notification dated 28.03.2018 for another two years i.e. till 31stMarch, 2020. It may be mentioned here that after getting the gas pipeline connectivity, MFL-Manali has started its production on natural gas feedstock since 29th July, 2019. As on date, only two units viz., MCFL-Mangalore and SPIC-Tuticorin are naphtha based.

Further, the Department of Fertilizers notified the New Investment Policy (NIP)-2012 on 2nd January, 2013 in order to facilitate fresh investment in urea sector and to reduce import dependency. NIP-2012 (read with its amendment) has resulted in setting up of 7 Greenfield/Brownfield/Revival Urea manufacturing units in the country. Out of which one unit namely Chambal Fertilizers & Chemicals Limited (CFCL)-Gadepan-III has started its commercial production on 1st January, 2019.While the Matix Fertilizers & Chemicals Ltd., Panagarh is non-operational due to non-availability of the CBM/Natural Gas. Remaining 5 units are revival units, setting up of which are under progress having the installed capacity of production of urea of 12.7 LMT/Year each. With the operationalization of all the aforementioned project, there will be additional production of urea of around 89 LMT/Year."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Recommendation No.5

New Investment Policy:

"The Government announced 'New Investment Policy (NIP) – 2012' on 02-01- 2013 to facilitate fresh investment in urea. Under NIP-2012, new plants are categorized as (i) Revamp projects, (ii) Expansion or Brownfield projects, (iii) Revival of closed urea units and (iv) Greenfield Projects. Separate floor and ceiling price (variable cost) is allowed for calculating the concession rate of urea produced from the new urea units. An amendment to NIP 2012 notified on 7th October 2014 provides inter-alia that subsidy is permissible only on domestic sale for 8 years from the date of production. Setting up of seven urea projects were approved under NIP2012. Out of these seven projects, two are in private sector and rest of the five are in public sector. In this regard, the Committee are concerned to note that NIP, 2012 could attract private investments for only two projects. Out of these two projects, the Matix Fertilizers and Chemicals Limited at Panagarh which started commercial production in on 01.10.2017 is presently non-functional due to non-availability of Coal Bed Methane / Natural gas. As such the success of NIP-2012 cannot be rated highly. In this regard, the Committee would recommend that provisions made in NIP 2012 should be revisited for suitable amendments so as to attract private investments in this crucial sector. The committee also note that five projects for setting up of fertilizer manufacturing units under public sector are under progress which are Ramagundam, Talcher, Sindri and Gorakhpur units of FCIL and Barauni units of HFCL. In this regard, the Committee recommend that concrete steps should be taken to complete these projects within the stipulated time period so as to meet the country's requirements of urea domestically without resorting to imports. The Committee are of the view that self sufficiency in urea products would help in reducing subsidy burden."

REPLY OF THE GOVERNMENT

"The Government had announced New Investment Policy – 2012 on 2nd January, 2013 to facilitate fresh investment in urea sector and to make India self-sufficient in the urea sector.NIP-2012 (read with its amendment) has resulted in setting up of 7 Greenfield/Brownfield/Revival Urea manufacturing units in the country. Out of which one unit namely Chambal Fertilizers & Chemicals Limited (CFCL)-Gadepan-III has started its commercial production on 1st January, 2019.While the Matix Fertilizers & Chemicals Ltd., Panagarh is non-operational due to non-availability of the CBM/Natural Gas. Remaining 5 units are revival units, setting up of which are under progress. It stated that all the aforementioned have installed capacity of production of urea of 12.7 LMT/Year each. With the operationalization of all the aforementioned project, there will be additional production of urea of around 89 LMT/Year. It is mentioned here that during 2019-20, all the existing urea units (31 units) produced around 245 LMT of Urea. The requirement of urea as assessed by Department of Agriculture, Cooperation & Farmers Welfare in consultation with State Governments, is met through the indigenous production and the gap between demand and supply is met through imports. Therefore, it is likely that the country will become self-sufficient with the operationalization of all the revival projects. Therefore, it can be concluded that the objective of NIP i.e. to achieve self-sufficiency would be achieved in near future.

DoF is facilitating revival of four closed units of FCIL viz. Talcher, Ramagundam, Sindri and Gorakhpur and one closed unit of HFCL viz. Barauni by setting up New Ammonia Urea plant of 12.7 LMTPA capacity each. DoF is closely monitoring the revival process of these five units. In this connection, Secretary (Fertilizers) takes monthly meetings to review the status of above mentioned five revival projects, thereby extending all the necessary approvals / clearance required from Departments / Ministries or State Governments etc. Further, utmost efforts are being made so that these revival plants are commissioned within stipulated time period.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Recommendation No.6

Frequent changes in Urea Subsidy Policies

"The Committee note that Urea Subsidy for indigenous urea is paid to urea manufacturing units through concession rates (Normative Cost of production under extant Urea Policies) comprising of two major components namely Fixed Cost and Variable Cost, which includes the cost of feedstock (Gas/Naphtha). The concession rates vary from unit to unit depending upon their vintage, energy norms, water norms, electricity, bag rates etc. The mode and methodology of computation and disbursement has been laid down in various policies (approved by CCEA) issued from time to time. Retention Price Scheme was implemented till 31st March, 2003. It was replaced by the New Pricing Scheme-I (NPS-I) implemented from 01-04-2003 to 31-03-2004, New Pricing Scheme-II (NPS-II), was implemented from 01-04-2004 to 30-09-2006, Subsequently, New Pricing

Scheme-III (NPS-III) which was made effective from 01-10-2006 to 31-03-2010 was notified on 08th March 2007. Thereafter, the Modified NPS-III notified on 02-04-2014 to compensate the existing urea units, could not be implemented due to ambiguities in the notification. In the meantime, New Urea Policy (NUP) – 2015 was introduced for 25 existing gas based urea units from 1st June, 2015 with the objective of (i) maximizing indigenous urea production; (ii) promoting energy efficiency and (iii) rationalizing subsidy burden. The duration of NUP-2015 has been extended from 01-04-2019 till further orders. Under NUP-2015, 25 existing Gas based urea units were initially classified into three groups based on their preset energy norms and for attaining target energy norms in the range of 5.5 G Cal/MT to 6.5 G Cal/MT w.e.f. 1st April, 2018. Further the aforesaid Target Energy Norms have been revised vide notification dated 28-03- 2018 under which 11 units are to attain the Target Energy Norms w.e.f. 01-04-2018. For the remaining 14 units the existing energy norms are extended for further period of 2 years i.e, till 2020 with penalty provisions of 2% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the first year i.e. 2018-19 and 5% for the second year. The aforesaid target energy norms may be continued upto 31st March, 2025 and an expert body under NITI Aayog would be engaged to recommend the energy norms to be achieved from 01st April, 2025. The Committee have been informed that since the concession rates are determined separately for each urea producing plant, the subsidy payable to different urea producing plants varies from unit to unit. The variation in subsidy will be minimized once the plants attain the Target Energy Norms. However, the Committee observe that at present, the subsidy rate is the highest for Chambal fertilizers and chemicals Ltd.- Gadepan (CFCL-III) which has been set up under New Investment Policy-2012. Further, the issue of compensation for 25 gas based urea units proposed under Modified NPS-III remains pending due to ambiguities. Under such circumstances, the Committee are of the view that frequent changes in pricing schemes may create difficulties for urea manufacturing companies in scrupulously adhering to the norms set under each pricing scheme. Moreover, frequent changes in urea subsidy schemes may be also be a hindrance for attracting private investment in urea sector. The Committee, therefore, recommend that the frequent changes in the fertilizer subsidy Policies may be avoided and that the fertilizer subsidy polices should be amended only after in depth study in consultation with all the stakeholders including fertilizer industry and the representatives of farmers for implementing simplified, streamlined and effective fertilizer subsidy policies."

REPLY OF THE GOVERNMENT

"New Pricing Scheme (NPS) was introduced w.e.f. 1st April, 2003. The Stage-I of NPS was of one-year duration from 1st April, 2003 to 31st March, 2004 and Stage-II was of two-year duration from 1st April, 2004 to 31st March, 2006. With the Stage-III of NPS being implemented w.e.f. 1st October, 2006, the Stage-II of NPS stood extended upto 31st September, 2006.

Department of Fertilizers had notified the policy for Stage-III of New Pricing Scheme for urea manufacturing units w.e.f. 01.10.2006 to 31.03.2020 on 08.03.2007. The provisions of this Policy were extended upto 31.03.2010 till further orders.

The Government had notified the Modified NPS-III for existing urea units on 2nd April, 2014 in order to address the issue of under recoveries of the existing urea units due to freezing Fixed Cost at the level of costed year 2002-03. The policy provides for the maximum additional fixed cost (towards increase in the four components, viz., salaries & wages, contract labour, selling expensed and repair & maintenance) of Rs.350/MT to existing urea units or actual increase in above four components of fixed cost during the year 2012-13 as compared to the year 2002-03, whichever is lower. However, in respect of KFCL and BVFCL-II units, for which cost data of four components is not available either for the year 2002-03 or 2012-13, the actual increase in these four components as per the certified cost data for the latest year over and above Rs. 521/MT (weighted industry average during 2002-03) subject to maximum of Rs.350/MT is allowed.

Further, in order to protect the efficient units which have converted to gas and are more than 30 years old, the policy has the provision of compensating these units by way of grant of the special compensation of Rs.150/MT.

Therefore, the under recoveries in fixed cost were addressed through Notification dated 2.4.2014. Subsequently, with the approval of CCEA, NUP-2015 was issued by DoF which specifically dealt with the energy norms prescribed for the urea units. As per NUP-2015, based on the pre-set energy norms, 25 gas based urea units were classified into 3 groups and Energy norms of all 25 units were revised. The 25 urea units were also given target energy consumption norms for the year 2018-19. However, only 11 urea units could achieve the target energy consumption norms. Therefore, vide notification dated 28th March, 2018, target energy norms were enforced with effect from 1st April, 2018 in respect of 11 urea manufacturing units. However, for remaining 14 urea manufacturing units existing norms were extended for further period of 2 years i.e. till 31st March, 2020 with certain penalties. The aforesaid target energy norms would continue upto 31st March, 2025.

The Naphtha based urea units are governed by Policy Notification dated 17th June, 2015 which allows these units to produce urea using Naphtha as feedstock till gas availability and connectivity to these three units either by gas pipeline or by any other means. These units were also given target energy norm from 2018-2019, which has been extended vide notification dated 28.03.2018 for another two years i.e. till 31st March, 2020.

The Department of Fertilizers notified the New Investment Policy (NIP)-2012 on 2nd January, 2013 in order to facilitate fresh investment in urea sector and to reduce import dependency. Concession rates of the units which have been set up under NIP-2012 is determined as per policy provisions of the NIP-2012.

In the nut shell broadly, the urea pricing policy has not been changed frequently. It may be seen from the above illustration that after NPS-III in 2007, MNPS-III was introduced was issued in 2014 which only talked about fixed cost. Thereafter, NUP was issued in 2015 where only the energy norms have been revised. Therefore, there has not been any overall change in the policy.

Further, all of the major policies/amendments have been introduced only after due examination in consultation with PDIL, Fertilizer Association of India, urea manufacturing units and the various stake holding Departments/Ministries including NITI Aayog."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Recommendation No.11

<u>Nutrient based subsidy for imported P&K fertilizers</u>:

"The Committee note that under the Nutrient Based Subsidy (NBS) scheme, an Inter-Ministerial Committee (IMC) chaired by Secretary (Fertilizers) recommends per nutrient subsidy for 'N', 'P', 'K' and 'S' before the start of the financial year for decision by the Government (Department of Fertilizers). The IMC also recommends a per tonne additional subsidy on fortified subsidized fertilizers carrying secondary (other than 'S') and micro- nutrients. According to Department of Fertilizers, the basic principle adopted in fixation of subsidy rates for different nutrients, is the identification of benchmark international prices of major consuming fertilizers viz. Urea, DAP and MOP. Based on these benchmark prices, the delivered prices of these fertilizers are determined taking into account the prevailing exchange rate. NBS rates are same for imported and indigenous P&K fertilizers. Any company registered under NBS Scheme is eligible to get subsidy. There is no restriction on the entities to import P&K fertilizers as these fertilizers are placed under Open General License (OGL). However, the Committee feel that the NBS rates are notified annually but the price of NBS fertilizers may fluctuate on weekly and monthly basis. Taking these factors into account, the committee have apprehensions that in case of lower cost at international market for imported P&K fertilizers as compared

to cost price of domestically produced P&K fertilizers, private agencies which get import licence for P&K fertilizers, are better placed to make profits as they will be getting NBS subsidy in addition to profit margin due to lower prices in international market. Further, such eventuality will also make domestic production of P&K fertilizers economically unviable. The Committee, therefore, recommend that the Department of Fertilizers shall take steps for continued monitoring the cost price of P&K fertilizers in the international market and in case of long-prevailing cheaper cost price for P&K fertilizers in the international market, necessary steps be taken to protect the interests of existing domestic companies."

REPLY OF THE GOVERNMENT

"The NBS Policy for P&K fertilizers is being implemented w.e.f. 1.4.2010 by the Department of Fertilizers with one of the objectives to promote competitions amongst the industry leading to efficiencies in production and import. Under the said policy, a fixed amount of subsidy decided on annual basis, is provided on each grade of subsidized Phosphatic & Potassic (P&K) fertilizers (both for indigenously produced and imported) depending on its Nutrient Content. As the P&K fertilizers are decontrolled, the Maximum Retail Price (MRP) is fixed by Companies as per market dynamics at reasonable level.

The evaluation of reasonableness of MRP is being done for both indigenously produced and imported P&K fertilizers wherein the average costs over a year is used to do the exercise. The international prices are being monitored by DoF time to time. Since, the reasonability evaluation of MRPs is ensured, any reduced international cost automatically gets factored in the reduced MRP of the P&K fertilizers which benefits the farmers."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

CHAPTER – IV

OBSERVATION/RECOMMENDATION IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION.

Recommendation No.9

System of sale of fertilizers to Farmers:

"The Committee note that presently the government is implementing Direct Benefit Transfer (DBT) system. Under this system 100% subsidy on various fertilizer grades is released to the fertilizer companies on the basis of actual sales made by retailers to the beneficiaries. Sale of all subsidized fertilizers to the farmers/buyers is made through Point of Sale (POS) devices installed at each retailer shop and the beneficiaries are identified through Aadhaar Card, Kishan Credit Card, voter Identity Card etc. Under this DBT system, subsidized fertilizer is sold through POS devices on no denial basis with no fixed purchase quantity limit. One farmer is permitted to purchase fertilizers on behalf of many farmers after biometric verification. Presently there is no system to verify that the fertilizer purchased on behalf of other farmers actually reaches them or diverted elsewhere. In this regard it is pertinent to note here that there is possibility of subsidized urea diverted for use by chemical industries which may be around 10 lakh tones or 3.5 percent of total urea supplied in the system throughout the country. The Committee are of the view that the current system of fertilizer subsidy is inherently inefficient to administer. Although a fairly elaborate IT system has been put in place to monitor the movement of fertilizers from the point of manufacture/import to the farmer, there is no system in place to prevent its diversion and misuse. The Committee do not agree with the views of the Ministry that the quantity reported to be diverted/misused is only a small proportion of the total quantity manufactured. Since the present system is prone to misuse by miscreants, the Committee recommend that the Department may issue instructions that the retailer may obtain the list of farmers alongwith their signature/thumb impression and the quantum of fertilizers required by each of them for verification purposes. State Governments may also be requested to keep a vigil on diversion/misuse of subsidized fertilizer and for the purpose Integrated Fertilizer Management System may be used by the authorities concerned. The Department of Fertilizers may also undertake random scrutiny of activities in this regard to find out any possible misuse of subsidized fertilizers."

REPLY OF THE GOVERNMENT

"System of sale of fertilizers to farmers The Department has developed a dashboard which can be accessed at http://urvarak.nic.in. The Dashboard facilitates easy monitoring by State Agriculture Departments, District Collectors and State Marketing Federations by providing various reports like list of top 20 buyers (State-wise, District-wise), which is available for the State Agriculture Dept. The State Governments have been empowered to take appropriate action as per FCO after examining each case.

Further, vide letter No. D(FA)/DBT-NIC/2017-Pt. dated 22.04.2019, Department has written to all States to closely monitor fertilizer distribution & availability to ensure smooth implementation of DBT in all States using the services of iFMS and DBT Dashboards."

Further Comments of the Committee

(Please see Para No.1.13 of Chapter- I of the Report)

CHAPTER – V

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

Recommendation No.2

Direct transfer of Subsidy to Farmers:

"The current system of providing subsidy to the manufacturer, which is based on complex parameters of technologies and inputs used by the manufacturers, is economically and technologically lopsided. This is apparent from the variation in per metric tonne subsidy being given to different plants which ranges from Rs.5744 per metric tonne to Rs.25772 per metric tonne. The Committee note that a number of plants have been operating with very old technology and systems and the subsidy based on the technology used has not encouraged these plants to shift to modern methods. As a result, we continue to manufacture the fertilizers not necessarily with highest efficiency and the Government continues to bear the cost of this inefficiency in terms of higher subsidy. While the Committee strongly feel that there is a need to continue subsidizing the fertilizers as they constitute the most critical input for the farmers, the Committee also believe that in an ideal situation, the farmers should get this subsidy directly in their accounts while the fertilizer manufacturers should be set free to manufacture, supply and sell the fertilizers as per their own system. The farmer should have a choice of buying from various brands of fertilizers while getting a subsidy amount credited to his bank account directly on producing the purchasing vouchers, which as the Committee understands, are now linked through the PoS machines. The Committee are of the view that such a system will push the manufacturers to produce and sell the fertilizers in the most cost effective manner and it will also push the inefficient manufacturers/importers out of the system.

The Committee observe that the system of direct subsidy to the beneficiary has been incorporated into a number of schemes by the Government under various Ministries. This has been possible due to an efficient expansion of the unique 59 identifier, AADHAR, as well as an aggressive expansion of the reach of banking system to the farthest corners of the country. The Committee feel that time has come for the Government to set out a clear and firm roadmap to switch over from the current system of subsiding fertilizers to a system where the subsidy amounts get credited directly to the account of the farmers and the manufacturing/importing of fertilizers is set free to the market forces."

REPLY OF THE GOVERNMENT

"Direct Transfer of Subsidy to farmers As recommended by Committee of Secretaries (CoS) headed by Cabinet Secretary, the Department has constituted a Nodal Committee to formulate policy relating to implementation of Direct Cash

Transfer of Fertilizer subsidy to farmers comprising of Dept. of Fertilizers, DAC&FW, NITI Aayog, D/o Expenditure, Cabinet Secretariat etc. The further actions initiated will be informed in the due course."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

Recommendation No.8

Freight Subsidy:

"The Committee note that Government of India provides freight subsidy for all subsidized fertilizers to facilitate timely and easy availability of fertilizers in all parts of the country especially distant/remote corners of the country. The Department of Fertilizers implemented Uniform Freight Policy (UFP) with effect from April 1, 2008. Under the Uniform Freight Subsidy policy, movement of fertilizers is categorized into two categories namely Primary Movement and Secondary Movement. Primary movement by road is allowed upto maximum distance of 500 Kms and by rail upto a maximum distance of 1400 Kms. Secondary movement is by road from Railwayrake-point to District / Block Headquarters. Freight subsidy on primary movement is provided for Urea and NBS covered P&K fertilizers excluding SSP. Freight subsidy on secondary movement is provided for urea only. In case of road journey, the Department of Fertilizers annually notifies the Per Tonne Per Kilometre (PTPK) slab rates for primary movement and PTPK rates for secondary movement. The said rates are escalated/de-escalated based on Tariff Committee recommendations for the same. Since it is very much necessary to eliminate carry –forward liabilities of subsidy payment, the Committee recommend that the annual PTPK slab-rates for primary movement for a year may be notified before the start of the financial year so that arrear calculation exercises are avoided and subsidy claims and payments are completed within the financial year and not carried forwarded to next financial year for want revised rates. Further, steps may be taken to ensure that the retail-sale facility is also available at all Rail-rake-points by opening new retail-outlets / Model Fertilizer Shops, wherever necessary."

REPLY OF THE GOVERNEMNT

"Policy for Uniform freight subsidy dated 17th July, 2008, states that the normative per KM rate is annually escalated/de-escalated based on a Composite Road Transport index (weighted average of the WPIs of HSD oil, Motor Tyres, Truck Chassis and All Commodities). The Composite Road Transport Index is calculated at the end of the financial year. Therefore, it is not feasible to notify the annual PTPK slab rates for primary movement for a year before the start of the financial year.

On suggestions of the Committee for ensuring retail-sale facility at Rail-rake points by opening new retail-outlets/Model Fertilizer Shops, the Fertilizer manufacturers will be requested to provide a feasibility plan."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers) O.M. No. H-11021/8/2020-Parl. Dated 11.06.2020]

New Delhi; **KANIMOZHI KARUNANIDHI**

Chairperson

8 February, 2021 **Standing Committee on**

19 Magha, 1942 (Saka) **Chemicals and Fertilizers**

<u>Appendix – II</u>

(*Vide* Para 1.2 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIFTH REPORT (SEVENTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2019-20) ON THE SUBJECT 'STUDY OF SYSTEM OF FERTILIZERS SUBSIDY' OF THE MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS).'

I.	Total No. of Recommendations	14
II.	Observations / Recommendations which have been accepted by the Government: (Recommendation Nos. 1, 4, 7, 10, 12, 13 & 14)	07
	Percentage of Total	50.00%
III.	Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply:- (Recommendation Nos. 3, 5, 6, & 11)	04
	Percentage of Total	28.57%
IV.	Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (Recommendation No. 9)	01
	Percentage of Total	07.14%
V.	Observations / Recommendations in respect of which final replies of the Government are still awaited: (Recommendation Nos. 2, & 8)	02
	Percentage of Total	14.28%

MINUTES OF THE FIRST SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2020-21)

The Committee sat on Monday, the 12th October, 2020 from 1100 hrs. to 1145hrs. in Committee Room 'B', Parliament House Annexe, New Delhi

Ms. Kanimozhi Karunanidhi - Chairperson

MEMBERS
LOK SABHA

2. Shri Deepak Baij
3. Shri Ramesh Chandappa Jigajinagi
4. Shri Kripanath Mallah
5. Shri Satyadev Pachauri
6. Shri Arun Kumar Sagar
7. Shri Uday Pratap Singh
8. Shri Indra Hang Subba

RAJYA SABHA

9. Shri M.V. Shreyams Kumar
10. Shri Jaiprakash Nishad
11. Shri Anthiyur P. Selvarasu
12. Shri Arun Singh
13. Shri A.D. Singh
14. Shri Vijay Pal Singh Tomar
15. shri K. Vanlalvena

SECRETARIAT

1. Shri Manoj K. Arora - Officer on Special Duty (LSS)
2. Shri Anil Kumar Srivastava - Director
3. Shri Panna Lal - Under Secretary

Session I

XXXX XXXX XXXX

Session-II

XXXX XXXX XXXX

2. The Committee thereafter took up for consideration and adoption of following draft Action Taken Reports:

(i) Action Taken Report on Demands for Grants 2019-20 (Department of Chemicals and Petrochemicals);

(ii) Action Taken Report on Demands for Grants 2019-20 (Department of Fertilizers);

(iii) Action Taken Report on Demands for Grants 2019-20 (Department of Pharmaceuticals);

(iv) Action Taken Report on Study of System of Fertilizer Subsidy (Department of Fertilizers).

(v) Action Taken Report on Demands for Grants 2020-21 (Department of Chemicals and Petrochemicals);

(vi) Action Taken Report on Demands for Grants 2020-21 (Department of Fertilizers);

(vii) Action Taken Report on Demands for Grants 2020-21 (Department of Pharmaceuticals).

3. After deliberations, the Committee adopted the draft Action Taken Report(s) unanimously without any change/amendments. The Committee also authorized the Chairperson for finalize and present the Action Taken Reports to the Parliament.

4. The Committee also decided to hold its next sitting tentatively in the second week of November, 2020.

The Committee then adjourned.

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matters not related to this report.