



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

FOURTEENTH LOK SABHA

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

PRODUCTION, PROCUREMENT AND MOVEMENT OF FERTILIZERS

NINETEENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

May, 2007/Vaisakha, 1929 (Saka)

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Presented to Lok Sabha on 17.05.2007

Laid in Rajya Sabha on 17.05.2007



**LOK SABHA SECRETARIAT
NEW DELHI**

May, 2007/Vaisakha, 1929 (Saka)

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

Shri Anant Gangaram Geete - Chairman

Members
Lok Sabha

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

Rajya Sabha

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

Secretariat

- | | | | |
|----|---------------------------|---|-----------------------------------|
| 1. | Shri M. Rajagopalan Nair | - | <i>Additional Secretary</i> |
| 2. | Shri A.K. Singh | - | <i>Joint Secretary</i> |
| 3. | Shri A.S. Chera | - | <i>Director</i> |
| 4. | Shri A.K. Srivastava | - | <i>Deputy Secretary-II</i> |
| 5. | Smt. Balwant Kaur Saimbhi | - | <i>Under Secretary</i> |
| 6. | Smt. Madhu Bhutani | - | <i>Senior Executive Assistant</i> |

* Nominated w.e.f. 31.08.2006.

§ Nominated w.e.f. 25.09.2006

@ Nominated w.e.f. 04.10.2006

Nominated w.e.f. 08.12.2006

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

% Nominated w.e.f. 03.05.2007

COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS

(2005-06)

Shri Anant Gangaram Geete

-

Chairman

***Members
Lok Sabha***

- 2 Shri Afzal Ansari
- *3 Shri S. Bangarappa
- 4 Shri Prahlad Joshi
- **5 Shri Sunil Khan
- 6 Sardar Sukhdev Singh Libra
- 7 Shri Tek Lal Mahato
- 8 Shri Punnu Lal Mohale
- 9 Shri A.K. Moorthy
- 10 Shri P. Rajendran
- 11 Shri Anantha Venkata Rami Reddy
- 12 Shri T. Madhusudan Reddy
- 13 Shri Akshyay Pratap Singh
- 14 Shri Narsingrao H. Suryawanshi
- 15 Shri V.K. Thummar
- 16 Shri Bhanu Pratap Singh Verma
- 17 Shri Mansukhbhai Dhanjibhai Vasava
- 18 Shri A.K.S.Vijayan
- 19 Shri Bhal Chandra Yadav
- 20 Vacant
- 21 Vacant

Rajya Sabha

22. Shri B.S.Gnanadesikan
23. Shri Raj Mohinder Singh Majitha
24. Shri Ajay Maroo
25. Shri Gireesh Kumar Sanghi
26. Shri R. Shunmugasundaram
- ***27. Shri Shreegopal Vyas
28. Shri T.R. Zeliang
- \$29. Vacant
- \$\$30. Vacant
- \$\$\$31. Vacant

Secretariat

1. Shri P. Sreedharan - *Joint Secretary*
2. Shri Brahm Dutt - *Director*
3. Shri S.C. Kaliraman - *Under Secretary*
4. Smt. Madhu Bhutani - *Senior Executive Assistant*

* Nominated w.e.f. 14.02.2006

** Nominated w.e.f. 20.01.2006.

*** Nominated w.e.f. 21.04.2006

\$ Consequent upon his expulsion from Rajya Sabha, Dr. Chhatrapal Singh Lodha ceased to be member of this Committee w.e.f. 23rd December, 2005 (vide Rajya Sabha Bulletin Part-II-No-42733 dated 23.12.2005).

\$\$ Shri Raju Parmar ceased to be Member of this Committee w.e.f. 2nd April 2006 after his retirement from Rajya Sabha.

\$\$\$ Become vacant due to sudden demise of Shri Vasant Chavan, MP, Rajya Sabha on 11th July, 2006.

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2006-07) having been authorised by the Committee to submit the Report on their behalf present this Nineteenth Report on 'Production, Procurement and Movement of Fertilizers'.

2. The subject was selected for examination by the erstwhile Standing Committee on Chemicals and Fertilizers (2005-06). The Committee considered the information sought from the Ministry of Chemicals and Fertilizers (Department of Fertilizers) on the subject and were briefed on the subject by the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) at their sitting held on 4th January, 2006. As the examination of the subjects remained inconclusive during the year 2005-06, the subject was again selected by the Committee (2006-07) for examination and Report. The present Committee (2006-07) took evidence of the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) at their sitting held on 5th December, 2006.

3. The Committee (2005-06) also heard the views of the representatives of the Fertilizer Association of India (FAI) at their sitting held on 20th June, 2006.

4. The Committee considered and adopted this Report at their sitting held on 15th May, 2007.

5. The Committee wish to express their thanks to the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and the Fertilizer Association of India (FAI) for placing their views before them and furnishing the information desired in connection with the examination of the subject.

6. The Committee place on record their deep appreciation for the work done by the Standing Committee on Chemicals and Fertilizers (2005-06) on the subject.

7. The Committee also place on record their appreciation for the invaluable assistance rendered to them by the Officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi;
May 15, 2007

Vaisakha 25,1929 (Saka)

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

ACRONYMS

1.	APM	Administered Price Mechanism
2.	BVFCL	Brahmaputra Valley Fertilizer Corporation Ltd.
3.	CFQC&TI	Central Fertilizers Quality Control Training Institute
4.	COS	Committee of Secretaries
5.	DAC	Department of Agriculture & Cooperation
6.	DAP	Di-Ammonium Phosphate
7.	DOF	Department of Fertilizers
8.	ECA	Essential Commodities Act
9.	FACT	Fertilizers & Chemicals Travancore Ltd.
10.	FAI	Fertilizer Association of India
11.	FCO	Fertilizer Control Order
12.	IGFL	Indio Gulf Fertilizers Limited
13.	IPL	Indian Potash Limited
14.	K	Potash
15.	KRIBHCO	Krishak Bharti Cooperative Limited
16.	LFS	Lead Fertilizer Supplier
17.	LNG	Liquified Natural Gas
18.	LRAC	Long Run Average Cost
19.	LRMC	Long Run Marginal Cost
20.	MFL	Madras Fertilizers Limited
21.	MOP	Muriate of Potash
22.	MOPNG	Ministry of Petroleum & Natural Gas
23.	MRP	Maximum Retail Price
24.	N	Nitrogen
25.	NABARD	National Bank for Agriculture and Rural Development
26.	NCDC	National Cooperative Development Corporation
27.	NFL	National Fertilizers Limited

28.	NG	Natural Gas
29.	NPS	New Pricing Scheme
30.	OGL	Open General License
31.	OMIFCo	Oman India Fertilizer Company
32.	P	Phosphate
33.	RCF	Rashtriya Chemicals & Fertilizers Limited
34.	RLNG	Regasified LNG
35.	RPS	Retention Pricing Scheme
36.	SPIC	Southern Petrochemicals Industries Corporation
37.	STC	State Trading Corporation
38.	STES	State Trading Enterprises
39.	TCL	Tata Chemicals Limited
40.	UOTA	Urea Off Take Agreement

CHAPTER – I

INTRODUCTORY

India is the third largest producer and consumer of fertilizers in the world with installed capacity of 12.25 million tonnes of nitrogen and 5.5 million tonnes of phosphate. Agriculture accounts for nearly 1/4th of India's GDP and about 2/3rd of the country's population is dependent on agriculture and allied activities for their livelihood. Five Year Plans have also stressed on self sufficiency and self-reliance in foodgrains production and concerted efforts in this direction have resulted in substantial increase in agriculture production and productivity. In India's success in the agriculture sector, chemical fertilizers played the significant role in meeting the total requirements of foodgrains and also generating exportable surpluses.

1.2 Keeping in view the vital role played by chemical fertilizers in the success of India's green revolution and self-reliance in foodgrain production, the Government of India has been consistently pursuing policies conducive to the increased production, availability and consumption of fertilizers in the country. As a result the annual consumption of fertilizers in nutrient terms (N,P&K) has increased from 0.7 lakh MT in 1951-52 to 203.40 lakh MT in 2005-06. Since there are no commercially viable sources of potash (K) in the country, its entire requirement is met through imports.

1.3 The installed capacity of nitrogen was 120.61 lakh MT and phosphate nutrient was 56.20 lakh MT as on 31.10.2005. The rapid build up of fertilizer production capacity in the country has been achieved as a result of a favourable policy environment facilitating large investments in the public, cooperative and public sectors.

1.4 Out of three main nutrients namely nitrogen, phosphate and potash, required for various crops, indigenous raw materials are available mainly for nitrogenous fertilizers. The Government's policy has hence aimed at achieving the maximum possible degree of self-sufficiency in the production of nitrogenous fertilizers based on utilization of indigenous feedstock. Prior to 1980, nitrogenous fertilizer plants were mainly based on naphtha. There are 57 large fertilizer plants in the country manufacturing a wide range of nitrogenous, phosphatic and complex fertilizers. Out of these, 29 units produce urea, 20 units produce DAP and complex fertilizers, 13 plants manufacture Ammonia Sulphate (AS), Calcium Ammonium Nitrate (CAN) and other low analysis nitrogenous fertilizers. Besides, there are about 68 medium and small-scale units in operation producing SSP.

1.5 The production of fertilizers during 2004-05 was 113.38 lakh MT of nitrogen and 40.67 lakh MT of phosphate. The production target for 2005-06 has been fixed at 118.07 lakh MT of nitrogen and 47.02 lakh MT of phosphate, representing a growth rate of 4.4% in nitrogen and 15.6% in phosphate, as compared to the actual production in 2004-05. Production target for nitrogenous fertilizer was less than the installed capacity due to low production by Rashtriya Chemicals & Fertilizers (RCF) Trombay and Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) Namrup due to gas limitations and equipment problems. Similarly, production of phosphate fertilizer was less than installed capacity due to constraints in availability of raw materials/ intermediates which are substantially imported.

1.6 The domestic fertilizer industry has by and large attained levels of capacity utilization comparable with others in the world. The capacity utilization during 2004-05 was 94.0% for nitrogen and 72.2% for phosphate. The estimated capacity utilization during 2005-06 is 94.9% of nitrogen and 73.2% of phosphate. Within this gross capacity utilization, the capacity utilization in terms of the urea

plants was 104.2% in 2004-05 and is estimated to be 103.7% in 2005-06. The capacity utilization of the fertilizer industry, particularly in respect of urea, is expected to improve further through revamping/ modernization of the existing plants.

1.7 Based on the inputs received from Department of Agriculture & Cooperation, 50 per cent production of fertilizer units is allocated under ECA Allocation for different states. Fertilizer units are free to sell their remaining 50 percent production. To meet the gap between production and demand, fertilizer is imported. At present, the Minerals and Metals Trading Corporation Limited (MMTC) and Indian Potash Limited (IPL) are designated institutions for import of urea and imported urea is handled by agencies appointed by the Government of India (GOI) every year on contract basis. These handling agencies are also responsible for undertaking distribution of fertilizers in accordance with the allocations made for each crop season under Essential Commodities Act (1955).

1.8 Marketing of fertilizers has been subjected to Government regulation for a long period. The Government of India had established the 'Central Fertilizer Pool (CFP)' for marketing of fertilizers. The objective of the pool was to ensure equitable distribution of fertilizers in all parts of the country at fair prices. Fertilizers from the pool were distributed in various parts of the country through agricultural cooperatives and the State Government outlets.

1.9 All the major fertilizers were covered under the statutory prices and movement control till 24.8.1992. The Government was ensuring availability of these fertilizers by giving allocation under Essential Commodities Act. All phosphatic and potassic fertilizers were decontrolled w.e.f. 25.8.1992 on the recommendations of Joint Parliamentary Committee. Urea was the only fertilizers, left under statutory price and movement control of the Government. Later on, imports of DAP and MOP were also decanalised. Under the existing arrangement, manufacturers of DAP, all complex fertilizers and SSP are free to sell their material

in whichever market place they please and they are free to move them as and when they like. Anyone is free to import DAP and sell it at any place in India. This is also true in the case of MOP and SSP. Calcium Ammonium Nitrate (CAN), Ammonium Sulphate (AS) and Ammonium Sulphate Nitrate (ASN) were again decontrolled w.e.f the 10th June, 1994. Thus, ECA allocations are applicable for urea.

CHAPTER – II

PRODUCTION OF FERTILIZERS

(i) Capacity Build-up and Production of Urea

Out of the three main nutrients namely nitrogen (N), phosphate (P) and potash (K), raw materials are available indigenously only for nitrogenous fertilizers. In case of phosphates, significant rock phosphate deposits are not available and due to this rock phosphate and phosphoric acid are being imported. Since there are no commercially exploitable source of potash in the country, entire requirement is imported

2.2 The indigenous annual capacity for fertilizer production at the end of the Eighth and Ninth Five Year Plans and the annual capacity at the end of the year 2005-06 are indicated below:-

(in lakh tonnes)

Fertilizer Nutrient	Capacity at the end of the terminal year (1996-97) of Eighth Plan	Capacity at the terminal year (2001-02) of Ninth Plan	Capacity at the beginning of 4th year of Tenth Plan (2005-06)
Nitrogen	97.77	120.58	120.61
Phosphate	29.05	52.31	56.20

The target and actual production of fertilizers and percentage of achievement against the targets during the last 3 years are as under:-

(In lakh tonnes)

Year	Nitrogen			Phosphate		
	Target	Actuals	% age achievement	Target	Actuals	% age achievement
2003-04	111.81	109.36	97.81	46.41	38.00	81.88
2004-05	114.06	113.35	99.38	49.26	40.67	82.56
2005-06	118.11	113.54	97.60	46.63	42.21	90.72

2.3 There was a shortfall in production of Urea/DAP to the extent of 4.57 LMT and 4.42 LMT respectively with regard to the target fixed for the year. The production of nitrogenous fertilizers was less than the target due to constraints in supply and quality of natural gas, equipment breakdowns and delay in commissioning of Namrup-II. RCF-Trombay-V and DIL- Kanpur remained under unscheduled shutdown. The Production of phosphatic fertilizers was less than the target due to constraints in availability of raw materials/intermediates, which are substantially dependent on imports.

2.4 Asked about the production targets of fertilizers for the year 2006-07 and to what extent these have been met, the Department of Fertilizers, in a written reply, stated that the details of production targets of fertilizers in the country in nutrient terms are as under:-

Quantity	Target for the year	Target upto 31.10.2006	Actual production upto 31.10.2006
Nitrogen	11448.3	6628.2	6570.7
Phosphate	4820.8	2779.8	2565.3

It may be observed from the above table that till 31st October, 2006 the production is marginally less than the target. This is primarily attributable to the fact that in August, 2006 urea production was less due to heavy rains and floods in various parts of Gujarat leading to disruption in gas supply in HBJ pipeline. The production of phosphatic fertilizers was less than the target due to constraints in availability of raw materials/intermediates, which are substantially dependent on imports.

2.5 The following table shows the production and consumption of all fertilizers in terms of quality and estimated value of production of urea:-

Production		Year				
		2000-01	2001-02	2002-03	2003-04	2004-05
UREA	Production (LMT)	196.51	191.73	187.27	192.03	202.63
	Value (in crores)	18520.44	17564.9	16835.14	17796.14	20424.09
	Consumption (LMT)	191.86	199.17	184.93	197.67	206.65
DAP	Production (LMT)	48.89	50.94	52.35	47.33	51.84
	Consumption (LMT)	58.84	61.81	54.73	56.24	62.56
*MOP	Consumption (LMT)	18.29	19.93	19.12	18.41	24.06
SSP	Production (LMT)	27.62	26.25	23.73	24.78	23.87
	Consumption (LMT)	28.60	26.05	24.99	25.44	25.49
Complexes	Production (LMT)	47.44	49.09	48.59	45.07	53.61
	Consumption (LMT)	47.80	49.64	48.10	47.57	55.08

* The entire quantity of MOP is being imported.

2.6 As per Annual Report only one fertilizer plant has come up in 2005 of the gap of 6-7 years. The last capacity addition was 2.4 lakh tonne through revamping of BVFCL - Namrup-II which was completed in 2005. As per the report of the Working Group on Fertilizers for the Tenth Plan, the estimated demand by the end of terminal year of 11th Plan would be 281 lakh tonnes of urea and 121 lakh tonnes of DAP.

2.7 On being enquired by the Committee about the reasons for stagnated production capacity particularly during the 10th Five Year Plan, the Department of Fertilizers in their written reply stated as under:-

“As per Industrial Policy Resolution dated 24th July, 1991 no license is required for setting up/expansion of fertilizer plants and entrepreneurs are free to set up/expand fertilizer projects anywhere in the country subject to environmental clearance. As the MRP of fertilizers is statutorily fixed/indicated, fertilizer manufacturers are compensated by way of subsidy/concession as the difference between the cost of production as assessed by the Government and the MRP. Keeping this in view, approval of Government is required for new/expansion projects in the context of the cost of production to be recognized for purposes of the subsidy/concession.

The report of the Working Group on Fertilizers for the 10th plan had envisaged a urea demand of 242.14 LMTPA by the year end 2006-07. It had envisaged that inter-alia, RCF-Thal Expansion Project, KRIBHCO Hazira Expansion Project, Revamp of Namrup plant of HFC and Revamp of Sindri Plant of FCI will take place in the 10th Five Year Plan. The Joint Venture Indo-Oman Project in Oman was also targeted to be commissioned during the 10th Plan.

However, the actual domestic production in 2005-06 has been 201 LMT. Besides, OMIFCO plant was commissioned in July, 2005. Therefore, presently, the indigenous urea capacity of 28 functional units is 197.0034 LMT besides OMIFCO capacity of 16.52 LMTPA. Therefore, the target envisaged in 10th Plan period have not been fully achieved. While, BVFCL Revamp Project stands commissioned in November, 2005, FCI, Sindri has not been revamped consequent upon the closure of FCI by the Government in September, 2002. As far as RCF, Thal (11.55 LMT) and KRIBHCO, Hazira expansion projects (10.56 LMT) are concerned, the projects have not made further progress due to uncertainty regarding supply of NG/LNG to them. However, it is expected that the position of supply of NG/LNG to all gas based fertilizer plants will improve in the 11th Plan and KRIBHCO and RCF Expansion projects will be able to come on stream. The Government is also considering the revival of closed fertilizers plants in Eastern India during the 11th Plan period.”

2.8 As per Annual Report the following nine urea plants are presently closed/ under shutdown due to various reasons, inter-alia, on account of technological obsolescence, feedstock limitation, non-viability of unit/ company and heavy financial losses.

Sl. No.	Name of the Company/ Unit	Date of closures	Annual Installed Capacity (in Lakh MT)
1.	FCI: Gorakhpur	10.06.1990	2.85
2.	FCI: Ramagundam	01.04.1999	4.95
3.	FCI: Talcher	01.04.1999	4.95
4.	FCI: Sindri	16.03.2002	3.30
5.	HFC: Durgapur	01.07.1997	3.30
6.	HFC: Barauni	01.01.1999	3.30
7.	RCF: Trombay-I	01.05.1995	0.98
8.	NLC: Neyveli	31.03.2002	1.53
9.	FACT: Cochin-I	15.05.2001	3.30
	Total		28.46

Note: Two urea units have suspended production for the last three years namely RCF-Trombay-V (3.3 LMT) due to shortage of natural gas and DIL – Kanpur (7.22 LMT) due to financial constraints.

2.9 Further, the Secretary, Department of Fertilizers submitted before the Committee during evidence, as under:

“We are likely to revive the eight units of fertilizer corporation of India and the Hindustan Fertilizer Corporation because gas is likely to be available. We are also seeking the approval of the Government for the in-principle approval to reopen these units because these were closed in pursuant to the Cabinet decision. Therefore, we are going back to the Government and we expect that this approval will be given, after which we will initiate the process of revival.”

2.10 The Committee note with concern that only one fertilizer plant has come up in 2005 and that too with 2.4 lakh million tonne capacity. Further, the capacity addition and production target has not been fully achieved in the Tenth Five Year Plan. The reasons given by the Department viz., (i) Late Commissioning of BVFCL Namrup II (ii) Non revamping of Namrup plant of HFC and Sindri Plant of FCI (iii) Less progress in RCF – Thal expansion project and (iv) Non-availability of gas to fertilizer units. The Committee are of the view that while fixing the target, Government should have made proper planning and provide requisite infrastructure in order to achieve target and augment capacity building. The Committee also express its displeasure over the closure of nine urea plants in the country on account of technological obsolescence, feedback limitation, non-viability of units and heavy financial losses. The Committee, therefore, recommend to revive the closed units by providing them managerial and technical support, feedstock and adequate infrastructure.

(Recommendation Sl. No.1)

(ii) **Di-Ammonium Phosphate (DAP) and Single Super Phosphate (SSP)**

2.11 Di-ammonium Phosphate (DAP) and Single Super Phosphate (SSP) are the decontrolled phosphatic fertilizers which are covered under the concession scheme. Majority of raw materials/intermediates for manufacturing these fertilizer excluding SSP are imported. The basic raw materials/intermediates required for manufacturing of these fertilizers are phosphoric acid, ammonia and rock phosphate. These are imported because of limited sources in the country.

2.12 Basic raw materials for the production of phosphatic fertilizers viz. rock phosphate and/or phosphoric acid i.e. P_2O_5 are imported because of limited sources in the country. The tight position of availability in the international market, has created constraints leading to lower than the targeted production. However, all efforts are being made to improve the situation, including encouraging Indian companies to enter into Joint Ventures with foreign suppliers of raw materials to ensure smooth flow of raw materials into the country. Manufacturers are now free to import the fertilizer, raw material/intermediates required for manufacturing these fertilizer directly.

2.13 A representative, Department of Fertilizers, submitted before the Committee during the evidence as under:-

“The installed capacity of DAP is grown in this manner from 26.2 lakh tonnes in 1995-96 to about 72.99 lakh tonnes in the current year. But the production has never been achieved at these levels. The highest production which we have seen has been 52.36 lakh tonnes in the year 2002-03 and last year it was 51.85 lakh tonnes. It is primarily because of the constraints in raw material. Every year, there is a substantial significant amount of imports which would bridge the gap between the indigenous manufactured DAP and the demand.”

2.14 On being asked by the Committee that what are the main reasons for huge import of DAP during the year 2005-06, the Fertilizer Association of India submitted in a written note as under:-

“The production of DAP was 4.55 million tonnes against the target of 6.01 million tonnes during 2005-06. Against good demand, the shortfall in the domestic production led to huge import of DAP during 2005-06.”

2.15 To reduce dependence on the import of DAP in the country, Fertilizer Association of India (FAI) as under:-

“The domestic capacity of DAP is about 7 million tonnes and the capacity utilization was only 65% during 2005-06. To run the plants at the full capacity, there is a need for the arrangement of raw materials and intermediates well in time. There should be timely announcement of concession.”

2.16 On being enquired by the Committee the details of phosphatic fertilizers plants in the country, their installed capacity and capacity utilization for 2005-06 and 2006-07, the Department of Fertilizers, in a written reply stated that the details of fertilizer plants in the country indicating the installed capacity and utilization, state-wise are as follows:-

Name of State/ Plant	Installed Capacity (01.04.2006)	Production ('000' MT)		Percentage capacity utilisation	
		2005-06 -	2006-07 (Estimated)	2005-06	2006-07 (Estimated)
Andhra Pradesh		-			
CFL:Vizag	166.0	244.3	233.5	147.2	140.7
GFCL:Kakinada	308.2	419.7	427.2	136.2	138.6
Kerala					
FACT:Udyogamandal	29.7	28.6	34.8	96.3	117.2
FACT:Cochin-II	97.0	120.5	118.4	124.2	122.1
Karnatka					
MCF:Mangalore	82.8	82.3	91.9	99.4	111.0
Tamil Nadu					
MFL:Chennai	142.8	34.9	57.2	24.4	40.1
SPIC:Tuticorin *	218.5	178.6	154.3	81.7	70.6
CFL:Ennore	48.0	50.2	49.1	104.6	102.3

Goa					
ZIL:Goa	197.4	202.3	199.0	102.5	100.8
Maharashtra					
RCF:Trombay	45.0	64.6	61.5	143.6	136.7
RCF:Trombay-IV	75.1	46.3	34.7	61.7	46.2
RCF:Trombay-V	151.8	0.0	0.0	0.0	0.0
DFPCL:Taloja	52.9	12.5	31.3	23.6	59.2
Gujarat					
IFFCO:Kandla	910.0	962.0	815.6	105.7	89.6
GSFC:Vadodara *	75.9	85.9	75.7	113.2	99.7
GSFC:Sikka-I	270.5	149.3	222.5	55.2	82.3
GSFC:Sikka-II	182.2	148.9	153.4	81.7	84.2
GNFC:Bharuch	28.5	40.7	40.8	142.8	143.2
Hindalco:Dahej *	184.0	96.9	145.8	52.7	79.2
Rajasthan					
HCL:Khetri	30.1	0.0	0.0	0.0	0.0
Orissa					
IFFCO:Paradeep *	802.8	73.8	439.5	9.2	54.7
PPL:Paradeep *	331.2	494.3	474.2	149.2	143.2
West Bengal					
TCL:Haldia	336.9	275.7	385.8	81.8	114.5

* These plant produce DAP based on captive phos acid route, i.e. through imported rock.

Some of these plants are producing DAP from both captive phos acid as well as imported phos acid.

2.17 Further, when the Committee asked the details of import of finished fertilizer viz. Di-ammonium Phosphate (DAP) during the years 2005-06 and 2006-07 (estimated), the Department of Fertilizers, in a written replies, give the following details:-

DAP Import (lakh MT)	
2005-06	24.36
2006-07 (Upto November, 2006)	24.88

(iii) **Single Super Phosphate (SSP)**

2.18 Single Super phosphate (SSP) is one of the decontrolled Phosphatic and potassic fertilizers on which Department of Fertilizers is providing subsidy to the manufacturers for selling it to the farmers at the MRP fixed by the State Governments. In order to ensure the quality of SSP, the manufacturers are required to use the specified Rock Phosphate procured from sources notified by Department of Fertilizers in order to be eligible for concession under the guidelines dated 5.8.2002 on the Concession Scheme. Rajasthan State Mines and Minerals Limited (RSMML), M.P. State Mining Corporation Limited are the notified suppliers of Rock Phosphate in India. The Rock Phosphate from Jordan, Syria, Egypt, and Israel is also notified. The production of the SSP depends mainly on the availability of the Rock Phosphate to the manufacturers.

2.19 When the Committee desired to know about the strategies chalked out by the Department of Fertilizers for better and more availabilities of SSP in the coming years, the Department of Fertilizers replied, in a written note, as under:-

“Keeping in view the scarcity of Rock Phosphate and with the objective of increasing the availability of the same, Department of Fertilizers modified the guidelines dated 05.08.2002 on the concession scheme with effect from 10.8.2005 allowing the manufacturers to procure the requisite grade of Rock Phosphate from the sources other than the notified ones. Department also notified three grades/sources of Rock Phosphate thereafter by virtue of which the supply of the Rock Phosphate has increased for the manufacture of SSP.”

2.20 Further, in order to enhance the production and sale of SSP, Department of Fertilizers has laid down in the guidelines dated 5.8.2002 to grant marketing arrangements to the manufacturers for selling their product through other manufacturers having larger dealer network. 20 manufacturers of SSP have already tied up for marketing their product with large manufacturers in 2006-2007.

2.21 The enhancement of the amount of subsidy from Rs.650 per MT to Rs.975 per MT with effect from 1.9.2005 have also given considerable relief to the manufacturer to address their increased cost of production.

2.22 A representative of DOF submitted before the Committee during the evidence that there has been a decline in production of SSP. Commonly known as poor man's fertilizer because of non-viability of units in the industry and also issues related to quality because these are produced in small and medium scale industries where the quality control is slightly difficult to enforce. However, Government has taken initiatives in this and an additional concession of about Rs. 325 has been announced from 1st October so we feel that might improve the production of SSP which would supplement the pre-nutrient in a significant manner.

2.23 Further, elaborating a policy on subsidy on SSP and timely revision of concession rate on SSP, the Fertilizer Association of India (FAI) in a written note, submitted as under:-

“FAI has been sending representations to the Government from time to time formulate a policy on subsidy on SSP on the lines of DAP/complex fertilizers instead of making announcement of the concession on ad-hoc basis. The changes in the variable cost (cost of rock phosphate, sulphur, bag, etc.) and transportation cost should be reflected in the normative cost for working out concession periodically and the concession amount should be adjusted accordingly after taking into account the maximum retail price fixed by the State Governments.”

2.24 The amount of concession on SSP works out to less than 1.5% of the total amount of concession for all fertilizers taken together. Whenever, there are disruptions in the payment of concession either on account of inadequate budgetary provision or delay in the certification, etc. SSP units find it difficult to meet their working capital requirements. The problem could be sorted out to some extent if the amount required for concession to SSP units is set aside for SSP units only out of the total provision made for indigenous decontrolled fertilizers.

2.25 When the Committee desired to know as to what extent it will help the SSP units to become viable and to reduce their cost of production, FAI, in a written reply, submitted:-

“Timely announcement of concession and fixation of concession based on the changes in the input cost from time to time, on the lines of DAP/complex fertilizers, will greatly help the SSP units to become viable. Currently, there is large under utilization of capacity. The present capacity of SSP is 6.1 million tonnes and the production is about 2.6 million tonnes. This is a result of years of neglect of the industry. However, when the pricing/subsidy policy was favourable, the industry performed quite well. In the past, during 1997-98 and 1998-99 when the pricing/subsidy policy for SSP was favourable, the SSP industry produced more than 3.8 million tonnes. The SSP industry has the capability to produce more provided the pricing policy becomes conducive for the industry to produce more.

Use of indigenous rock phosphate minimizes dependence on imports and reduces cost of the production to a certain extent. However, the availability of indigenous rock is limited. The total requirement of rock phosphate is about 2.1 million to maintain a production level of about 4 million tonnes of SSP. Indigenous availability of rock phosphate suitable for production of SSP is about a million tonne. The balance quantity is needed to be imported to enhance SSP production.”

2.26 Further a representative of FAI informed the Committee during the evidence that our production capacity is 60 lakh tonnes and we are producing only 25 to 26 lakh tonnes, which is very less than our ideal capacity.

2.27 Regarding the availability of Di-Ammonium Phosphate (DAP) and Single Super Phosphate (SSP), the Committee have been informed that these are imported because of limited sources in the country. Manufacturers are free to import the fertilizer, raw material/ intermediates required for manufacturing of these fertilizers directly. Similarly, production of SSP depends on the availability of Rock Phosphate to the manufacturers and to enhance the production and sale of SSP, Department of Fertilizers had laid down the guidelines dated 05.08.2002 to grant marketing arrangements to the manufacturers for selling their product through other manufacturers having larger dealer network. The Committee are happy to note that the Government has enhanced the amount of subsidy of SSP from Rs.650/- per MT to Rs. 975/- per MT w.e.f. 01.09.2005. However, the Committee desire that in order to reduce the dependence on import of DAP and SSP, Government should make arrangements for procuring raw materials and intermediates in time. The Committee also recommend for periodic and timely revision on concession rate of SSP so as to make SSP units viable and fully productive.

(Recommendation Sl. No.2)

(iv) **Expansion/ Revamping/ De-bottlenecking programmes**

2.28 The Department of Fertilizers in a written note furnished the status of expansion projects for production of urea which have been planned for implementation during the 11th Five Year Plan as follows:-

Sl. No.	Name of the PSU/Cooperative	Proposed location	Estimated capital cost (Rs. in crore)	Production envisaged		Period of completion (in months)
				Product	Capacity (Lakh MTPA)	
1.	Krishak Bharati Cooperative Ltd. (KRIBHCO) (Third stream ammonia-urea expansion project)	Hazira Gujarat	1750	Urea	10.56	33
2.	RCF (Thal-III Expansion project)	Thal-III Maharashtra	2239	Urea	11.55	33
3.	IGFL, Jagdishpur Expansion Project	Jagdishpur UP	1693	Urea	11.385	33
Total			5682		33.50	

2.29 The Department of Fertilizers has informed that in case of urea in January, 2004 the Government had notified (a) the pricing policy for investment to be made in new and expansion projects of urea and (b) policy in respect of additional urea capacity arising from de-bottlenecking/revamp/modernization of existing units.

2.30 As a result of the aforesaid policy notifications, the following de-bottlenecking/expansion proposals of urea plants were received by the Department of Fertilizers and are under consideration:-

Sl No	Name of the PSU/ Cooperative	Proposed Location	Estimated capital cost (Rs in Cr)	Production envisaged		Status	Period of completion after approval (in months)
				Product	Capacity (lakh MTPA)		
1	Krishak Bharati Cooperative Ltd.(KRIBHCO) (Third stream ammonia-urea expansion project)	Hazira, Gujarat	1750	Urea	10.56	Under consideration PIB approval obtained. KRIBHCO requested to come with actual project cost.	33
2	IGFL, Jagdishpur (De-bottlenecking)	Jagdishpur UP	157.43	Urea	2.442	Under consideration	14
3	TCL, Babrala (De-bottlenecking).	Babrala UP	264.64	Urea	2.90	-do-	22
4	IGFL, Jagdishpur Expansion Project.	Jagdishpur UP	1693	Urea	11.385	-do-	33
5.	IFFCO (De-bottlenecking projects)	Aonla-I Aonla-II Phulpur-I Phulpur-II	110.15 107.45 147.66 115.43 480.69	Urea	1.353 1.254 1.254 1.254 5.115	-do-	24
6.	RCF (Thal-III Expansion Project)	Thal Maharashtra	1841	Urea	10.56	-do-	33
7.	CFCL (De-bottlenecking Project)	Gadepan II	310.03	Urea	2.244	-do-	22
8.	NFCL (De-bottlenecking Project)	Kakinada (Unit I) Kakinada (Unit II)	289.32 262.64	Urea Urea	2.60 2.60	-do-	24
	Total		7048.75		50.40		

2.31 When the Committee desired to know the views of Fertilizer Association of India in this regard. FAI stated as under:

“Fertilizer companies submitted proposals for debottlenecking the capacity of urea production to the tune of 22.29 lakh tonnes. The proposals for 3 expansion projects with capacity of the order of 33.5 lakh tonnes were also submitted. These are pending with the Government for approval.”

2.32 As written reply furnished by Department of Fertilizers the following projects are debottlenecking projects:-

Sl. No.	Name of the PSU/Cooperative	Proposed location	Estimated capital cost (Rs. in crore)	Production envisaged		Period of completion (in months)
				Product	Capacity (Lakh MTPA)	
1.	Indo-Gulf Fertilizers (IGFL)	Jagdishpur UP	157.43	Urea	2.442	14
2.	Tata Chemicals Ltd. (TCL)	Babrala UP	264.64	Urea	2.90	22
3.	Indian Farmers & Fertilizers Cooperative Ltd. (IFFCO)	Aonla-I	110.15	Urea	1.353	24
		Aonla-II	107.45		1.254	
		Phulpur-I	147.66		1.254	
		Phulpur-II	115.43		1.254	
		Total	480.69		5.115	
4.	Chambal Fertilizers Chemicals Ltd. (CFCL)	Gadepan I	375.57	Urea	2.90	22
		Gadepan II	310.03		2.244	
		Total	685.60		5.144	
5.	Nagarjuna Fertilizers Chemicals Ltd. (NFCL)	Kakinada I	289.32	Urea	2.60	24
		Kakinada II	262.64		2.60	
		Total	551.96		5.20	
6.	Shriram Fertilizers & Chemicals Ltd. (SFC)	Kota	51.00	Urea	0.415	
7.	Rashtriya Chemicals & Fertilizers Ltd. (RCF)	Thal	604.23	Urea	3.97	24
	Total		2795.55		25.186	

2.33 On the aspect of policy for debottlenecking, the Fertilizer Association of India has further informed the Committee, as under:

“Department of Fertilisers (DOF) had notified the policy for de-bottlenecking of capacity vide circular dated 29.01.2004. Fertiliser units submitted proposals for de-bottlenecking the capacity with details of investments. However, DoF had responded to two of the units after considerable lapse of time. DoF imposed additional conditions in its letter

dated 21.12.2005 to these fertilizer units. The FAI had given its comments of DoF regarding the policy for de-bottlenecking vide its letter dated 5.1.2006. It was broadly suggested that the DoF should adhere to its policy presented in its circular dated 29.01.2004 and not put additional conditions. The proposals for de-bottlenecking would become unviable due to fresh restrictions imposed.

2.34 When the Committee desired to know the number of de-bottlenecking/revamping projects approved by the Government so far based on 2004 policy and their latest stage of implementation, the Department of Fertilizers, in a written reply stated as under:

“Two debottlenecking/revamping urea projects have been approved by the Government in December, 2005 namely, Tata Chemicals Ltd. (TCL), Babrala and Indo Gulf Fertilizers Limited (IGFL), Shahjahanpur. However, these two companies have not carried out the revamp but have raised certain queries. Based upon these representations and other feedback received from Fertilizer Industry and other stakeholders, the Government is formulating a policy to incentivize additional urea production as a part of NPS stage-III Policy.”

2.35 When the Committee asked about the reasons on account of which the Government put additional conditions for revamp project particularly the condition of minimum 25% capacity addition, the Department of Fertilizers in a written reply stated as under:

“The policy for debottlenecking applies if capacity addition is more than 10%. There were apprehensions that there may be surplus capacities in various Urea Plants to the extent of 15-20% and thus there was apprehension that some of the plants may make a few cosmetic changes in their plants and showing their existing surplus capacities as debottlenecked capacities. Such an eventuality could defeat the objective of increasing urea capacity by incentivizing debottlenecking projects. Hence, the requirement of 10% capacity addition to be eligible for incentives under debottlenecking policy was not found feasible. Now, the entire policy on incentivizing additional urea production is being examined as a part of policy for Stage III of New Pricing Scheme.”

2.36 Further, when the Committee asked whether Department propose to review and revise the conditions to make scheme more attractive and investor friendly, Department of Fertilizer in a written reply stated as under:

“A Policy on de-bottlenecking/revamp and modernization of urea units was announced by the Government in January, 2004. Feedback and suggestions on the Policy on de-bottlenecking have been received from the industry and other stakeholders. These suggestions have been considered by the Department and the Working Group constituted to formulate policy for Stage-III of New Pricing Scheme of urea units. A Policy on incentivizing additional urea production is being examined as a part of formulating a Policy for Stage-III of NPS.”

2.37 In this regard, Secretary, Department of Fertilizers submitted before the Committee during evidence, as under:

“It is true that some de-bottlenecking proposals were presented in the year 2004. Frankly, none of them have taken off today. Part of the reason was that we are being scrutinized. Even when approvals were given they have not actually come forth. They had some objections to the conditions that we imposed.”

2.38 He further added:

“We are likely to revive the eight units of Fertilizer Corporation of India and the Hindustan Fertilizer Corporation because gas is likely to be available. We are also seeking the approval of the Government for the in-principle approval to reopen these units because these were closed in pursuant to the Cabinet decision. Therefore, we are going back to the Government and we expect that this approval will be given, after which we will initiate the process of revival.”

2.39 The Committee note that proposals for debottlenecking/ expansion of various urea plants were received by the Department of Fertilizers but these are either pending or under consideration of the Government. The Department of Fertilizers had also notified the policy for debottlenecking of capacity vide circular dated 29.01.2004. However, the Department of Fertilizers also imposed additional conditions to the fertilizer units vide their letter dated 21.12.2005. But FAI submitted that due to imposition of fresh restrictions, the proposals for debottlenecking would become unviable. The Committee, therefore, recommend that the Department should help these units in their revamping by modifying the fresh restrictions. The Committee also reiterate their earlier recommendation made in their 12th Report (14th Lok Sabha) and strongly recommend that the process of seeking the approval of Government/ Cabinet decision regarding debottlenecking and expansion of fertilizer units should be completed well in time.

(Recommendation Sl. No.3)

(v) Market Share of Fertilizer Companies

2.40 The market share of public sector fertilizers companies is 28 and 7 per cent for nitrogen (N) and phosphate (P) respectively, while private sector's share for N and P is 47 and 76 per cent respectively as on 01.04.2005.

2.41 In this regard, the representative of the Department of Fertilizers, submitted before the Committee during evidence as under:-

“As regards, the market share, in terms of production capacities that have been already installed, is concerned, in respect of urea, the private companies has the largest share followed by the Government and then the Cooperatives. In respect of the decontrolled fertilizers, once again, the private sector has the target share followed by the Cooperatives and Government.”

2.42 When the Committee asked about the details in this regard during the last five years upto 2005-06, the Department of Fertilizers, in a written reply to the Committee submitted as under:-

Year	Public Sector				Co-operative Sector				Private Sector				Total		Total	
	Capacity (Lakh tonne)		%age sector		Capacity (Lakh tonne)		%age sector		Capacity (Lakh tonne)		%age sector		Capacity (Lakh tonne)		%age sector	
	N	P	N	P	N	P	N	P	N	P	N	P	N	P	N	P
2001-02	38.73	8.32	32.12	15.42	26.65	5.61	22.10	10.39	55.2	40.04	45.78	74.19	120.58	53.97	100.00	100.00
2002-03	34.68	4.32	29.00	7.89	27.72	7.25	23.18	13.25	57.19	43.16	47.82	78.86	119.59	54.73	10.00	100.00
2003-04	34.68	4.32	28.90	7.75	28.11	8.25	23.43	14.80	57.19	43.16	47.67	77.44	119.98	55.73	100.00	100.00
2004-05	33.87	4.2	28.34	7.47	28.44	9.1	23.80	16.19	57.19	42.9	47.86	76.33	119.50	56.20	100.00	100.00
2005-06	34.98	4.32	29.00	7.64	31.69	17.13	26.27	30.28	53.94	35.13	44.72	62.09	120.61	56.58	100.00	100.00

2.43 On being enquired by the Committee whether the Government have taken any concrete steps to increase the market share of public sector units through expansion projects and adding new units, the Department of Fertilizers, in a written reply, stated as under:-

“The PSUs have been encouraged to reduce their cost of production and expand the capacities so as to become economically viable and sustainable. The performance of the PSUs is under constant examination by the Government through its representatives in the Board of Directors,

periodic performance review in the Ministry, signing of MOUs every year, annual plan discussions etc. The Policy announced by the Government for new and expansion projects as well as de-bottlenecking/revamp/modernization of urea units in January, 2004 is also applicable to Government sector fertilizer companies. The Government has already received proposals from RCF, Thal, KRIBHCO as well as a pre-feasibility Report from BVFCL for Namrup-IV plant for expansion of their urea capacities by 10.56 LMTPA, 10.56 LMTPA and 8.64 LMTPA respectively. These proposals are presently under consideration.”

(vi) Joint venture projects in fertilizer sector

2.44 Due to constraints in the availability of gas, which is the preferred feedstock for production of nitrogenous fertilizers and the near total dependence of the country on imported raw materials for production of phosphatic fertilizers, the Government has been encouraging Indian companies to establish joint venture production facilities with buy back agreement, in other countries, which have rich reserves of natural gas and rock phosphate.

2.45 Asked about the existing joint ventures/cooperatives formed abroad for production of fertilizers, the Department of Fertilizers furnished the following information:-

“Oman India Fertilizer Company (OMIFCO) at Oman and Industries Chimiques Du Senegal (ICS Senegal) at Senegal are the two joint venture companies formed abroad for production of urea and phosphoric acid through partnership by cooperatives.

Oman India Fertilizer Company's (OMIFCO) project in Oman is a joint venture fertilizer project promoted by IFFCO and KRIBHCO from the Indian side and Oman Oil Company from the Omani side. The Indian sponsors together hold 50% of the equity of OMIFCO and have contributed US \$ 80 million each (approximately Rs. 370 crore each) and the remaining equity of US \$ 160 million is held by Oman Oil Company. The Indian sponsors have a major role in setting up, operation and maintenance of this plant in Oman.

This joint venture in the fertilizer sector has been set up at a total cost of US \$ 969 million (approximately Rs. 4,450 crore) at Sur in Oman. The

plant will produce 16.52 lakh tonnes of urea and 2.48 lakh tonnes of ammonia per annum. The Government of India has entered into a long term buy back arrangement for 15 years for the urea produced by OMIFCO at fixed long term price of US\$ 114 per MT urea upto 16.52 LMT per annum and IFFCO has entered into a long term buy back arrangement for 10 years at a fixed price of US \$ 100 per tonne for the surplus ammonia produced by the plant.

The Govt. of India, Indian Farmers Fertilizer Cooperative Ltd (IFFCO) and Southern Petrochemical Industries Corpn. Limited (SPIC) are equity partners and are collectively holding 27.27% (GOI-7.71%, IFFCO-18.35% and SPIC-1.22 %) of the share in the joint venture company in ICS Senegal named Industries Chimiques DU Senegal . The company produces phosphoric acid and finished phosphatic fertilisers in its plants located in Darou & M,Bao in Senegal. The phosphoric acid produced in the plant is being utilised for production of phosphatic fertilizers by IFFCO through buy back arrangement. “

2.46 When the Committee asked whether the fertilizer produced by Joint Ventures and brought in the country are cheaper than those which are produced in the country, the Department of Fertilizers, in a written note, informed the Committee as under:-

“The urea produced by OMIFCO project and brought to the country are cheaper than those produced in the country from the same vintage plant.

The weighted average delivered cost of indigenously produced urea is Rs. 10439/MT. The following statement gives the fixed urea prices committed by GOI under the long term buy back arrangement with OMIFCO:-

Year of Operation	Fixed Urea Price US\$/MT
1	149.60
2.	135.40
3.	130.80
4.	131.00
5.	131.20
6.	123.60
7.	123.80
8.	124.00

9.	115.10
10.	115.30
11.	86.30
12.	84.80
13.	90.00
14.	89.00
15.	90.80

2.47 Further, when the Committee enquired the quantum of fertilizers being procured annually from the joint ventures and to what extent it is cheaper than the open market imports, the Department of Fertilizers, in a written reply, stated as under:-

“A total of 13.25 lakh MT of urea was imported by the Government under Urea Off Take Agreement during the year 2005-06 and about 11.34 lakh MT of urea has been imported during April – October 2006, from Oman. The weighted average price of urea imported from Oman during the year 2005-06 was US\$155.23 C&F per MT as against the weighted average price of US\$258.56 C&F per MT from Other sources. Similarly, the weighted average urea import price from Sur, Oman during 2006-07 (up to October 2006) was US\$174.61 as against a weighted average price of US\$247.33 C&F per MT for imports during the same period from other sources.”

2.48 When the Committee enquired whether the Department of Fertilizers have any plans to set up any joint venture or to have buy-back agreement and what is the time period for these joint ventures, the Secretary, Department of Fertilizers, submitted before the Committee during evidence, as under:-

“.....We have four joint ventures, first of all, there is OMIFCO which produces about 16 lakh tonnes to 17 lakh tonnes of urea and we get it at a very reasonable price. Against the import price of \$250 per tonne, we get it at \$150 per tonne. In the years to come, we will get it at about \$80 per tonne. We have three units from which we get raw material, other units, Indo-Jordan, Indo-Morocco phosphate in Morocco and ICS in Senegal, we get some amount of phosphoric acid. We are not exploring the possibilities of joint ventures in a number of other countries both in UAE, Iran as well as in Egypt and Tunisia. In addition, we are looking at collaboration with Kuwait, Nigeria and other countries.”

2.49 The Committee note that gas is a preferred feedstock for production of nitrogenous fertilizers and raw materials are required for production of phosphatic fertilizers. Due to less availability of rock phosphate, our country is dependent on imported raw material for production of phosphatic fertilizers. The Committee are happy to note that Government has been encouraging Indian companies to establish joint venture production facilities with buy back agreement in other countries. The Committee were informed by the Department that at present Department of Fertilizers have four joint ventures. First is OMIFCO, from which Department is getting urea from 16 lakh to 17 lakh tonnes at a very reasonable price. The remaining three units are producing raw material. The Government are also exploring possibilities of joint ventures in other countries like UAE, Iran, Egypt, Tunisia, Kuwait and Nigeria. The Committee recommend that during the Eleventh Five Year Plan Government should encourage more Indian companies for setting up joint ventures abroad to fulfil our future requirement.

(Recommendation Sl. No.4)

(vii) Investment in Fertilizer Sector

2.50 The country has achieved near self-sufficiency in production capacity of urea with the result that India could substantially manage its requirement of nitrogenous fertilizers through the indigenous industry. The installed capacity as on 31.10.2005 has reached a level of 120.61 lakh MT of nitrogen and 56.20 lakh MT of phosphatic nutrient, making India the third largest fertilizer producer in the world. The rapid build up of fertilizer production capacity in the country has been achieved as a result of a favourable policy environment facilitating large investments in the public, cooperative and private sectors.

2.51 The Fertilizer Association of India (FAI) also deposed before the Committee during the evidence that due to lack of investment friendly scenario in the fertilizer sector, no new industry has been set up in this sector during the last decade. According to them, there is a lack of clear policy for the fertilizer industry. The Association has suggested that the Government should frame such policies which attract investment in this sector.

2.52 When the Committee asked what are the comments of Department of Fertilizer in this regard and how the Government propose to attract fresh investment in fertilizer sector in the country so as to meet the growing demand of our agriculture sector, the Department in their written reply stated:

“The Department has in January 2004 formulated a pricing policy for investment made in new and expansion projects of urea. Pursuant to the formulation of this policy, three fertilizer companies have proposed setting up of expansion projects with total additional capacity of 33.50 lakh metric tonnes. Moreover, the Department is also in the process of formulating a policy, as part of policy for Stage-III of New Pricing Scheme (NPS), to incentivise additional production by existing urea units. Further, revival of closed urea units of HFC and FCI is also under consideration of the Government. With a view to exploit the cheap sources of feedstock abroad, the Department is working towards setting up joint venture urea projects and/or entering into long term buy back arrangements in those countries where cheap gas is available.”

2.53 The Committee were informed by the Fertilizer Association of India that due to lack of investment friendly scenario in the fertilizer sector, no new industry has been set up during the last decade. The Committee note that the Government has formulated a pricing policy for investment in new and expansion projects of urea. The Committee also note that with a view to exploit the chief sources of feedstock abroad, the Department is making arrangements with those countries where cheap gases are available. While appreciating the efforts being made by the Government, the Committee recommend that Government should frame such policies in consultation with industries so as to attract investment in this core industry. The Committee are of the opinion that in this regard public - private partnership can play a crucial role which can also revive defunct units or increase their capacity.

(Recommendation Sl. No.5)

(viii) New Pricing Scheme (NPS)

2.54 A New Pricing Scheme (NPS) for Urea Units has been enforced w.e.f. 01.04.2003 replacing the erstwhile Retention Pricing Scheme (RPS) Stage-I of NPS was of one year duration i.e. w.e.f. 1.4.2003 to 31.3.2004. Stage-II of NPS has commenced w.e.f. 1.4.2004 and will end on 31.3.2006. Stage-III will be implemented from 1.4.2006 after review of the implementation of Stage-I and Stage-II.

2.55 The aim of NPS is to ensure greater uniformity, transparency and efficiency in disbursement of subsidy to urea units and inducing them to take cost reduction measures on their own to be competitive. NPS also provides that there shall neither be any reimbursement of the investment made by a unit for improvement in operations nor any mopping up of gains of the units as a result of operational efficiency.

2.56 NPS has promoted efficiency and induced urea units to cut down their costs and improve their profitability. Due to increased level of energy efficiency and production, there has been a general improvement in the profits of various urea units during 2003-04 as compared to the preceding year.

2.57 The Department of Fertilizers has constituted a Working Group under the chairmanship of Dr.Y.K. Alagh to review the effectiveness of Stage-I and II of New Pricing Scheme for urea units and to formulate a policy for urea units for Stage-III commencing from 1.4.2006. The terms of reference of the Working Group are as follows:

- (i) Review of performance of Stage-I and Stage-II of New Pricing Scheme for urea units.
- (ii) Formulation of policy for urea units for Stage-III commencing from 1.4.2006.

- (iii) Formulation of feedstock policy especially with regard to nature, pricing and availability.
- (iv) Consideration of the demand and supply of urea upto the end of 11th Five Year Plan.
- (v) Fixing milestones for conversion of existing naphtha and FO/LSHS based units to NG/LNG.
- (vi) Consideration of the mode of determination and methodology of payment of concession to urea units.
- (vii) Examination of issues pertaining to de-control of movement and distribution of urea.
- (viii) Achievement of balanced fertilization through urea pricing; and
- (ix) Any other matter which may be assigned to the Working Group by DoF or which the Group considers germane to the above issues.

2.58 The Fertilizer Association of India, in a written submission to the Committee, stated as follows:-

“The FAI had sent detailed comments on the recommendations made in the report of the Working Group headed by Dr. Y.K. Alagh vide its letter dated 25.01.2006. We had mentioned there that option I in the report had not been given any serious thought during discussions of the Working Group. The option had presented the move to the Long Run Marginal Cost (LRMC) or Long Run Average Cost (LRAC).”

2.59 We had also expressed serious reservations regarding some of the recommendations in option III eg. Upward revision of energy consumption norms, reworking of net fixed assets, non-revision of the variable costs. etc.

2.60 When the Committee desired to know the latest position regarding formulation and implementation of a policy for stage-III of NPS based on the report of Dr. Y.K. Alag and whether this new policy will attract investment in the fertilizer sector, the Department of Fertilizers in a written reply submitted as under:

“Recommendations made by the Working Group constituted under the Chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage I & II of New Pricing Scheme and to formulate a policy for Stage III of NPS beyond 31.3.2006 have been examined in the Department in consultation with the fertilizer industry, concerned Ministries/Departments with a view to formulate a policy for Stage III of NPS. The proposed policy, will inter alia, give priority to conversion of non-gas based units to gas, incentivising additional urea production, rationalizing freight reimbursement, rationalizing distribution and movement of urea in all parts of the country and encouraging joint venture fertilizer projects abroad.

It is expected that the proposed policy will open avenues for fresh investment in the fertilizer sector.”

2.61 Further, Secretary, Department of Fertilizers on the same issue deposed before the Committee during evidence as follows:

“I have to inform you that it is at a very advanced stage. We have proposed to extend NPS-II to 30th September, 2006. When NPS went to the Government for consideration, we were advised to make certain changes, changes were made in consultation with the Fertilizer Association of India and the constituent units. After a good deal of consensus, we are proposing to go back to the Government for approval. I should expect, at this stage, this should be cleared in about a month's time. It would be effective, if what we have proposed is approved, from the 1st of October, 2006. Till 30th September, 2006, we have proposed to extend the NPS-II.”

2.62 Ministry of Chemicals and Fertilizers, Department of Fertilizers vide their letter No.12012/3/2006-FPP dated 8th March, 2007 has informed the Committee that the Policy for NPS Stage-III will be effective from 1.10.2006 to 31.3.2010. Stage-II Policy has been extended upto 30.9.2006. The policy for incentivizing additional production of urea during Stage-III of NPS will be applicable from the

date of notification and till then the additional production of urea by units beyond 100% of their capacity will be governed by the existing policy of sharing of the net gain between the Government and the unit in the ratio of 65:35.

2.63 The Committee observe that a New Pricing Scheme (NPS) for urea units has been enforced w.e.f. 01.04.2003 replacing the erstwhile Retention Pricing Scheme (RPS) Stage-I of NPS which was of one year duration and completed on 31.03.2004. Stage-II of NPS has commenced on 01.04.2004 and ended on 31.03.2006. Stage-III was likely to be implemented from 01.04.2006 after review of the implementation of Stage-I and Stage-II.

However, the Committee were informed during the course of evidence in December, 2006 by Secretary, Department of Fertilizers that NPS was at a very advanced stage and they had proposed to extend the NPS-II till September, 2006. Further the Committee were informed by the Department of Fertilizers that the policy for NPS Stage-III has been made effective from 1.10.2006 to 31.3.2010. Stage II policy had been extended upto 30.9.2006. The Committee hope that the Government would implement Stage-III of NPS in letter and spirit so that fertilizer industry becomes an industry friendly sector and much needed investment is put in the growth of the fertilizer sector. The Committee also desire the Government to constantly review the progress in regard to implementation of Stage III of NPS by taking corrective measures wherever necessary.

(Recommendation Sl. No.6)

(ix) Availability of domestic natural gas

2.64 Natural gas is the preferred feedstock for production of urea over other feedstocks viz. Naphtha and FO/LSHS because it is a more efficient and clean source of energy and cheaper and more cost effective in terms of manufacturing cost of urea as compared to the other feedstocks, which also has a direct impact on the quantum of subsidy on urea.

2.65 A policy for conversion of the existing Naphtha, FO/LSHS based urea units to natural gas/LNG as feedstock has been formulated in January, 2004, which encourages early conversion to Natural Gas/LNG. Due to dwindling supplies of Administered Price Mechanism (APM) gas, gas based units have been facing shortage of natural gas. Against the total requirement of 33.01 MMSCMD of gas for the existing gas based units, the actual average supply during 2004-05 was 23.79 MMSCMD only. With the commissioning of the LNG terminal of Petronet LNG Limited and commencement of supplies of RLNG to consumers w.e.f. 01.04.2005, the average actually supply of gas to urea units during April-September, 2005 increased to 28.0089 MMSCMD.

2.66 On being pointed out by the Committee on the issue of subsidy and availability of gas, the representative of Department of Fertilizers deposed before the Committee during evidence as under:-

“.....we do not have gas currently available to make production available at international prices. The subsidy is not given for that purpose. The subsidy is given to make sure the product is available and to ensure that they sell the product at prices determined by the Government. So, subsidy would have to continue to be there.”

2.67 When the Committee asked about the latest position in regard to availability of gas to fertilizers industry, the Fertilizer Association of India, in a written note, informed the Committee as under:-

“Urea units located in Gujarat and those located along HBJ pipeline signed firm contracts for procurement of regasified LNG (RLNG) w.e.f. 1.4.2005 to make up for the shortfall in supply of domestic natural gas. This has reduced the shortfall. However, units which are not connected by the pipeline to supply RLNG, continue to face severe shortage of gas. The latest supply position is given as follows:-

Year	Requirement	Actual Gas Supply in MMJSCMD (Calorific Value 8500/sm ³)					Gap/ shortfall in supply
		APM	Joint Venture	R-LNG	Others	Total	
2003-04	33.32	22.13	0	0	1.11	23.24	10.08
2004-05	33.32	20.23	Included in APM	Included in others	3.56	23.79	9.22
2005-06	35.05*	15.84	3.28	7.78	1.19	28.09	7.41

* including CFCL-Gadepan-II

Further, FAI informed that they have taken up this issue from time to time both with the Department of Fertilizers and Ministry of Petroleum & Natural Gas (MoPNG). We have written several letters to the MoPNG regarding reduction in supply of APM gas and supply of RLNG from terminal planned at Kochi. The Working Group for urea policy under the Chairmanship of Dr. Y.K. Alagh had set up 6 sub-committees including one on Supply and Pricing of Feedstock. FAI was represented on the Sub-Committee. The Sub-Committee had recommended that the Government set up a nodal agency with mandate for gas procurement to be supplied to fertilizer plants.”

2.68 On being enquired by the Committee as to whether the subsidy to the fertilizers industry can be given at feedstock level than fertilizer level and how this can lead to lessen the total subsidy amount of the nation, the Department of Fertilizers, in a written reply, stated as under:-

“The Natural Gas, LNG, Naphtha, Fuel Oil, LSHS and Coal are main feedstock and fuel used in the manufacture of urea. Under New Pricing Scheme (NPS), the cost of feedstock and fuel is reimbursed to urea units on actual basis subject to pre-set energy norms. The present policy provides for incentives and disincentives with regard to energy consumption, which would not be possible if the subsidy payments are made directly to oil and gas companies supplying feedstock to urea companies. Furthermore, the Government is in the process of formulating a policy providing conversion of all urea units to gas within a stipulated time period. After conversion of all non-gas units to gas, the entire production of urea would be based on a single feedstock and that time, the option of payment of subsidy directly to feedstock companies can be thought of.”

2.69 Further, Secretary, Department of Fertilizers, on the issue deposed before the Committee during the evidence as under:-

“.....we will try to make the gas available by 2008-09. As far as pipelines are concerned, we are asking all the fertilizer units in the country other than these 12 who are in the HBJ pipelines to enter into specific agreements in the next six months with GAIL or Reliance. So, within the next six months, there will be a definite agreement between the fertilizer company and the gas supply agency both for laying the pipeline and making gas available.”

2.70 The Committee were informed that natural gas is the preferred feedstock for production of urea in comparison to other feedstocks as it is more efficient and clean source of energy, cheaper and more cost effective in terms of manufacturing cost of urea. But due to dwindling supplies of Administered Price Mechanism (APM) gas, gas based units have been facing shortage of natural gas. The Committee were also informed by the Fertilizer Association of India (FAI) during the evidence that in the year 2005-06 the total requirement of gas was 35.05 MMSCMD, therefore, actual gas supply was only 28.09 MMSCMD and shortfall in supply was 7.41 MMSCMD. It was also informed to the Committee by Secretary, Department of Fertilizers during the evidence that they would try to make gas available by 2008-09 and they are asking all the fertilizer units in the country to enter into specific agreements with GAIL or Reliance in the next six months. While appreciating the various measures taken by the Department, the Committee hope that Government would leave no stone unturned for making the availability of gas to the fertilizer sector by 2008-09.

(Recommendation Sl. No.7)

(x) **Bio Fertilizers**

2.71 Bio-Fertilizers have tremendous utility in promoting agricultural production as they are eco-friendly and cost effective fertilizers. Some of the Public Sector Undertakings like National Fertilizers Limited (NFL) Madras Fertilizers Limited (MFL), Rashtriya Chemicals Fertilizers Limited (RCF) and Fertilizers & Chemicals Travancore Limited (FACT) are producing bio-fertilizers. Besides these PSUs, two cooperative societies viz., IFFCO and KRIBHCO are also producing these fertilizers.

2.72 When the Committee asked about the production of bio-fertilizers in various states during the years 2004-05 and 2005-06, the Department of Fertilizers furnished a statement as under:-

Statement indicating State-wise Production of Bio-fertilizers during 2004-05 and 2005-06

(In tonnes)

S. No	State	Production during the year	
		2004-05	2005-06
	South Zone		
1.	A&N Islands	0	0
2.	Andhra Pradesh	2019.50	2246.43
3.	Daman & Diu	0	0
4.	Karnataka	1135.86	612.00
5.	Kerala	213.25	8.34
6.	Lakshadweep	0	0
7.	Pondicherry	0	7.78
8.	Tamil Nadu	1564.94	2207.57
	Total	4933.55	5082.12

	West Zone		
9	Chhatisgarh	0	0
10	Gujarat	943.00	1371.60
11	Goa	0	0
12	Madhya Pradesh	1333.94	823.07
13	Maharashtra	3049.98	2098.96
14	Rajasthan	30.64	430.59
15	D&N Haveli	0	0
	Total	5357.56	4724.22
	North Zone		
16	Delhi	1.37	1.23
17	Chandigarh	0	0
18	Haryana	20.16	23.48
19	Himachal Pradesh	10.30	9.59
20	Jammu & Kashmir	0	0
21	Punjab	0.37	2.27
22	Uttar Pradesh	130.27	486.30
23	Uttaranchal	0	0
	Total	162.47	522.87
	East Zone	0	
24	Bihar	15.00	41.00
25	Jharkhand	0	9.00
26	Orissa	32.62	65.97
27	West Bengal	74.30	194.60
	Total	446.86	310.57
	North East Zone		
28	Arunachal Pradesh	0	0
29	Assam	25.20	107.60
30	Manipur	0	0
31	Meghalaya	0	0
32	Mizoram	0	0
33	Nagaland	0	17.03
34	Sikkim	0	0
35	Tripura	0	0
	Total	25.2	124.63
	Grand Total	10594.90	10764.42

2.73 Different type of training and field demonstrations are conducted under Central Sector Scheme 'National Project on Organic Farming' to promote use of bio-fertilizers.

2.74 When the Committee asked the impact of Central Sector Scheme 'National Project on Organic Farming' in promoting the use of bio-fertilizers during the last three years, the Department of Fertilizers stated in a written note:

"The Central Sector Scheme "National Project on Organic Farming has been taken up from October, 2004. Under the scheme, following funds have been made available to National Bank for Agriculture and Rural Development (NABARD) and National Cooperative Development Corporation (NCDC) for providing credit linked and back ended subsidy to the organizations interested in setting up bio-fertilizer production units.

(Rs. in lakhs)

Sl. No	Year		
	2004-05	2005-06	Total
1. NABARD	40.00 (2)	180.00 (9)	220.00 (11)
2. NCDC	-	100.00 (5)	100.00 (5)
Total	40.00(2)	280.00 (14)	320.00 (16)

() indicate number of units.

So far, NABARD has released subsidy amounting to Rs.80.815 lakh for setting up 8 bio-fertilizer units. The progress from NCDC is awaited.

Apart from the above, financial assistance has been provided directly to the State Governments/State Agencies for setting up 5 bio-fertilizer production units, one each in Himachal Pradesh, Manipur, Tamil Nadu, Uttar Pradesh and Andhra Pradesh."

2.75 On being pointed out by the Committee that what steps are being taken by Department of Fertilizers to augment bio-fertilizers production in the North and North Eastern region, the representative of Department of Fertilizers, submitted before the Committee during evidence as under:

"We had a scheme when we had National Centre for development of bio-fertilizers and now we have a national Centre for organic farming. Under our programme of organic farming, there is a component of setting up of new capacities for production of bio-fertilizers for which we give 25 percent subsidy. So any entrepreneur whether Government, private or public anyone can set up such units and we give subsidy of 25 percent."

2.76 Bio-Fertilizers is useful in promoting agricultural production as they are eco-friendly and cost effective fertilizers. The Committee are happy to note that the overall production of bio-fertilizers has increased during the year 2005-06 as compared to 2004-05. The production of bio-fertilizers was 10594.90 tonnes in the year 2004-05 and 10764.42 tonnes in 2005-06. However, the Committee express their displeasure that the zonewise production has declined as some States in each zone have nil production of bio-fertilizers during the years 2004-05 and 2005-06. The Committee, therefore, recommend that Government should take adequate steps to raise the production of Bio-fertilizers zone-wise and educate farmers about the advantages of bio-fertilizers and thereby encourage them to use it. The Committee also recommend that Ministry of Chemicals and Fertilizers should take up the issue with Ministry of Agriculture and Ministry of Finance so as to provide incentive to farmers and others producing bio-fertilizers. The Committee feel that such a step would encourage the use of bio-fertilizers.

(Recommendation Sl. No.8)

CHAPTER-III

PROCUREMENT OF FERTILIZERS

(i) Requirement and supply

For sustained agriculture growth and to promote balanced nutrient application, it is imperative that fertilizers are made available to farmers at affordable prices. With this objective, urea is presently the only controlled fertilizers and is sold at statutorily notified uniform sale price and decontrolled phosphatic and potassic fertilizers are sold at indicative maximum retail prices (MRPs). Allocation of urea was restricted to 50% of production of installed capacity of each manufacturer during Kharif 2005 and Rabi 2005-06. The manufacturers are free to sell the remaining quantity of urea to the farmers anywhere in the country at notified retail price (MRP).

3.2 The requirement of major fertilizers namely Urea, DAP and MOP for each State and Union Territory are assessed by the Department of Agriculture & Cooperation (DAC) for each crop season. The Department of Agriculture & Cooperation holds Zonal Conferences for inputs for each crop season namely Kharif (April – September) and Rabi (October – March) with the representatives of the State Governments, the manufacturers and the agencies handling and distributing imported fertilizers. Requirement of each State for urea, DAP and MOP for the ensuing cropping season is assessed in these Conferences.

While assessment of demand for each crop season is made by the Department of Agriculture & Cooperation (DAC) for urea, DAP and MOP, the supply plan is drawn by the Department of Fertilizers (DOF) only for urea, since it is under partial distribution control. The annual target of fertilizers consumption is also given by the DAC. The total requirement is worked out by adding 5% of annual requirement towards pipeline stock to the assessed quantities.

3.3 The Department of Fertilizers has an elaborate and meticulous system of supply of urea under the Essential Commodities Act (ECA) and other decontrolled fertilizers to various States and UTs for maintenance of uninterrupted flow of fertilizers to farmers at reasonable prices throughout the country. At present, arrangement of supplies of urea is made from indigenous availability and imports (in case the demand is higher than the indigenous availability) as under:-

- (i) The manufacturers/ suppliers are permitted to sell the stocks held by them in different States/UTs in the beginning of the season in that State/UT.
- (ii) ECA allocation is made from estimated 50% of indigenous production from manufacturers during the respective crop season.
- (iii) The manufacturers are permitted to distribute the remaining 50% production in any State/UTs of their choice.
- (iv) The gap, if any, in any State/ UT between the demand and indigenous availability is met through imports made through nominated State Trading Agencies namely IPL, MMTC and STC on commercial considerations. They are handled and distributed by handling agents appointed by the Central Government on open tender basis.

The supply linkages (ECA allocation) to States/ UTs are made to have economical and reliable supply on the following principles:-

- (i) Each major state is provided with supply from multiple units to ensure adequate availability even in case on failure of nay particular unit. Similarly, allocation from each unit is made to at least two states.
- (ii) Supply linkages follow to an extent the pattern of rail movement capacity to optimize the rail road infrastructure.

Mid-term adjustments in ECA allocation are made, in view of evolution of demand on account of monsoon performance and production performance by the

manufacturers, for each manufacturer and also the dispatches of the deregulated quantities to various States.

A movement plan for each manufacturer for the 50% production of each month is issued for ensuring supply of urea to States of allocation so as to meet the requirement of the month of each State if full. While doing so, the dispatches of 50% deregulated urea by manufacturers is also taken into account and corrections are introduced as and when required.

In case of decontrolled fertilizers, however, the States are requested to tie up supplies with manufacturers, importers well in advance and intimate to Department of Fertilizers (DOF) for monitoring. DOF also facilitates joint meetings with States and suppliers as and when required to see that the States needs are adequately served.

In addition, DOF is also operating buffer stocking scheme in some States to take care of exigent situations.

3.4 When the Committee asked about the allocation system of urea to various States from the fertilizer plants by the Department of Fertilizers, the Department, in a written note, submitted to Committee as under:-

“At present urea is the only fertilizer which is under price and partial distribution control of the Government of India. Allocation of urea under Essential Commodities Act has been restricted to 50% of production of manufacturing units at present.”

3.5 While assessment of demand for each crop season is made by the Department of Agriculture & Cooperation (DAC), the supply plan is drawn by the Department of Fertilizers (DOF) only for urea, since it is under partial distribution control.

3.6 The supply linkages (EAC allocation) to States/UTs are made with a view to ensuring economical and reliable supply on the following principles:-

- (i) Each major state is provided with supply from multiple units to ensure adequate availability even in case of failure on the part of any particular unit. Similarly, allocation from each unit is made to at least two States.
- (ii) Supply linkages follow, to the extent feasible, the pattern of rail movement capacity to optimize the rail road infrastructure.

3.7 Mid-term adjustments in EAC allocation are made dynamically during the season, in view of change in demand on account of monsoon performance, production performance by the manufacturers and also the dispatches of the deregulated quantities to various States, etc.

ECA allocation is made from estimated 50% of indigenous production from manufacturers during each respective crop season.

The manufacturers are permitted to distribute the remaining 50% production in any State/UTs of their choice.

The gap, if any, in any State/UT between the demand and indigenous availability is met through imports made through imports made through nominated State Trading Agencies namely IPL, MMTC and STC. Imports are handled and distributed by handling agents appointed by the Central Government.

3.8 On being enquired by the Committee regarding the system of availability of decontrolled fertilizers viz. phosphatic and potassic at reasonable prices particularly to the small and marginal farmers and what are the responsibilities of the Ministry of Agriculture, Department of Fertilizers and State Government in this regard, the Department of Fertilizers, in a written note, submitted to the Committee as under:-

“All the major fertilizers were covered under the statutory price and movement control till 24.08.1992. Government was ensuring the availability of these fertilizers by giving allocation under Essential Commodities Act. All Phosphatic and Potassic fertilizers were decontrolled w.e.f. 25.08.1992 on the recommendations of the Joint Parliamentary Committee and urea was the only fertilizer, left under statutory price and movement control of the Government.

Immediately after decontrol, Government had announced the ad-hoc Concession Scheme from Rabi 1992-93 for these decontrolled P&K fertilizers to ensure availability of these fertilizers to the farmers at reasonable prices, as well as to promote balance nutrient application. The fertilizers covered under the Concession Scheme were DAP (Both indigenous & imported), MOP, SSP and various grades of Complex fertilizes. The concession for these fertilizers was announced and paid on ad-hoc basis to the manufacturers/importers on the sales of these fertilizers made by them after verification of the same by State Governments. Maximum Retail Prices (MRPs) under the Scheme were also announced by the respective State Governments till 1996-97.

Government of India, to ensure uniform price of these fertilizers throughout the country started announcement of indicative MRPs of these fertilizer under the Concession Scheme except for SSP w.e.f. 01.04.1997. The MRP of SSP is being announced by the State Governments. These decontrolled fertilizers except SSP are available to all the farmers including small and marginal farmers at uniform indicative MRP throughout the country. The present MRPs of decontrolled fertilizers are as under:-

(Rs./per MT)

Product	MRP as on date
DAP	9350
MOP	4455
Complexes	6980-9080
SSP	MRP fixed by State Governments.

At present, there is no movement control on these phosphatic and potassic fertilizers. State Governments are required to tie up the required quantities of these fertilizers with the manufacturers/importers of these fertilizers to ensure adequate availability in their States. However, the demand of major fertilizers namely urea, DAP and MOP is assessed by the Department of Agriculture & Cooperation, Ministry of Agriculture for Kharif and Rabi seasons separately at the beginning of each season. The demand for these fertilizers is finalized in consultation with State Governments, lead fertilizer suppliers, Department of Fertilizers and other concerned Departments. The demand & availability position of major fertilizers is monitored regularly by Department of Fertilizers.”

3.9 When the Committee asked about the figures of assessment of requirements of various types of fertilizers in the country and their allocation/actual utilization during each of the last five years, the Department of Fertilizers, in a written note submitted that the following table shows the requirement and actual utilization/sales of urea, DAP and MOP during the last five years:-

(000MTS)

Year	Urea		DAP		MOP	
2000-01	21525.00	19495.00	7497.44	5666.19	2383.10	1790.80
2001-02	21305.70	19746.00	7494.58	6168.97	2374.30	1993.70
2002-03	21368.00	18677.00	7288.81	5433.33	2371.60	1861.30
2003-04	21160.00	19600.00	7189.20	6681.43	2373.30	1647.10
2004-05	21408.00	20253.00	7060.21	6019.16	2321.00	2310.20

3.10 The Committee were also informed by Fertilizer Association of India, in a written note, as under:-

“Accurate assessment of demand is very essential for efficient supply management. In order to have an accurate assessment of the demand of fertilizers of each state, the Government of India introduced the concept of LFS in Kharif 1987. Under the system, the Government of India nominates one of the fertilizer manufacturers, generally which has the maximum volume of sales in the State, as the Lead Fertilizer Supplier (LFS) for that State. The main functions of the LFS are to help in estimating the consumption of fertilizers, both in terms of nutrients and products for the just concluded season and make projections for the coming season in consultation with all the manufacturers operating in the State and the Director of Agriculture of the State concerned. The product-wise projections were, for the first time, made in Kharif 1988 only. The demand projections so made have worked very well. After the decontrol of phosphatic and potassic fertilizers in 1992, the detailed exercise is carried out only in respect of Urea. In case of other fertilizer products, only a mention is made about their gross requirement.”

3.11 On being enquired by the Committee regarding the system of monitoring by the Department of Fertilizers to ensure availability of fertilizers to farmers in every nook and corner of the country, the Department of Fertilizers, in a written note, submitted as under:-

“Demand for major fertilizers i.e. urea, DAP and MOP is assessed in consultation with DAC as well as State Governments through the zonal conferences organized at the beginning of the each season. Thereafter, in respect of urea, linkages are established with manufacturers and ECA allocation finalized.

The demand and availability position is monitored regularly in consultation with State Governments as well a leading fertilizer companies so that mid term allocations wherever necessary are made.

In respect of de-controlled fertilizers like DAP and MOP, each State is expected to draw up a supply plan in consultation with fertilizer manufacturers/suppliers. The DOF maintains a buffer stock to meet any emergent requirement and assessed the State Government’s requirement in meeting their demand.

To improve the monitoring mechanism, the DOF has recently introduced the Fertilizer Monitoring System (FMS), which is a web-based and on line system capable of tracking movement of fertilizers from manufacturing centres upto the State/District level. This will better facilitate monitoring of flow of fertilizers both by the DOF as well as the State Government and help in pre-empting shortages.

A grievance cell is also functioning under the DOF, which maintains contact with State Governments and fertilizer industry to keep track of implementation of the supply plans and identify areas of shortages well in time.”

3.12 The Committee were informed that the Department of Fertilizers has an elaborate and meticulous system of supply of urea under the Essential Commodities Act (ECA) and other decontrolled fertilizers to various States and UTs for maintenance of uninterrupted flow of fertilizers to farmers at reasonable prices throughout the country. The demand and availability position is also being monitored regularly in consultation with State Governments and other leading fertilizer companies. Besides, drawing up a supply plan in respect of decontrolled fertilizers i.e. DAP and MOP, introducing the web-based Fertilizer Monitoring System (FMS) and functioning of a Grievance Cell under the Department of Fertilizers are the efforts made by the Department for proper movement of fertilizers and identifying the shortage areas. The Committee appreciate that these are very good steps taken by the Department of Fertilizers in the interests of Indian farmers all over the country and hope that this exercise will continue in future as well. The Committee also recommend that Centre should devise a foolproof mechanism to contain the adulteration of fertilizers so that farmers obtain unadulterated supply of fertilizers.

(Recommendation Sl. No.9)

(ii) **Import of Fertilizers**

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

(Quantity in lakh tonnes)

Year	Urea	DAP	MOP
2003-04	0.00	7.34	25.80
2004-05	6.41	6.44	34.09
2005-06 (Upto Dec. 2005)	14.75	22.42	36.73

3.14 The Department of Fertilizers, in a written note, informed the Committee as under:-

“Urea is the only fertilizer under the statutory price & partial movement control of the Government. Under the existing import/export policy urea is imported through the State Trading Enterprises (STEs) namely M/s. MMTC Ltd. (MMTC), The State Trading Corporation of India Limited (STC) and M/s. Indian Potash Limited (IPL). Import of urea, for direct use as manure, is being made on Government Account only. However, phosphatic fertilizer manufacturers are also importing urea for use in production of complex fertilizers with prior permission of the Government.

The import of urea on Government account is made to bridge the gap between assessed demand & supply. Steering Committee of Secretaries (COS) after reviewing the demand/ supply position decides the quantity of urea to be imported on Government account. The State Trading Enterprises arrange imports of urea on behalf of government. The import so arranged by these STE's are handled and distributed by the handling agencies appointed by the Government at different ports based on the approved tender rates and contracts awarded on a year-to-year basis to the lowest bidders. The ownership of imported urea is then transferred to these handling agencies at high sea.

Government of India has also entered into a Urea Off Take Agreement (UOTA) with Oman India Fertilizer Company (OMIFCO), a joint venture company of KRIBHCO, IFFCO and Oman Oil Company, to lift its entire production of granular urea (16.50 lakh MT approximately per annum) in the first 15 years. The company has started production and imports have also started from June 2005. The granular urea from Oman is imported & distributed through IFFCO & KRIBHCO.

Imports of all other fertilizers are free. Imports of DAP and MOP made for direct use as fertilizers are covered under the concession scheme. The importers are importing these fertilizers after assessing the market conditions.”

3.15 When the Committee asked the value of imports during each of the last five years, the Department of Fertilizers, in a written reply, stated as under:-

“Import of urea is restricted and permitted through State Trading Enterprises. Import of urea, for direct use as fertilizers, is being made only on Government Account. The value of urea imported in Government account during the last five year is as under:-

Year	Qty. in Lakh MT	Weighted average price (US \$ PMT)	Value in lakh US \$
2001-02	2.20	107.05	235.51
2002-03	0.00	0.00	0.00
2003-04	0.00	0.00	0.00
2004-05	6.41	237.88	1524.83
2005-06	7.31	258.56	1890.07
2005-06 (From Oman under long Term Urea Off Take Agreement)	13.25	155.09	2054.94

Imports of all other fertilizers are freely allowed under Open General License (OGL) and importers import these fertilizers at mutually agreed terms and conditions as per their commercial decision. However, Government is paying Concession on imported DAP & MOP under the Concession Scheme for decontrolled P&K fertilizers, by taking a representative import price for each quarter. Based on the simple average of the C&F price of imported DAP & MOP adopted for working out concession rates of these fertilizers the value of imports during the last five years is worked out as per details given below: -

Year	Qty. (in LMT)	Avg. C&F price (US\$ /MT)	Value	Qty. (in LMT)	Avg. C&F price (US\$ /MT)	Value (in Lakh US\$)
	Imported DAP			MOP		
2001-02	9.33	171.23	1597.58	28.34	120.90	3426.31
2002-03	3.70	182.50	675.25	25.33	120.00	3039.60
2003-04	7.34	202.67	1487.60	25.80	123.00	3173.40
2004-05	6.44	258.64	1665.64	34.09	185.05	6308.35
2005-06	24.38	286.82	6992.67	45.78	208.90	9563.44

3.16 On being enquired by the Committee as to what efforts have been made by the Government to reduce the foreign exchange outgo on this account, the Department of Fertilizers, in a written reply, stated as under:-

“The phosphatic industry in the country is almost entirely dependent on imported raw materials and intermediates for production of the fertilizers in the country, due to limited rock phosphate reserves in the country. We are also deficient in Potash reserves and the entire demand of potash in the country has to be met through imports. The Urea production in the country is based on natural gas and LNG, which is also being imported from outside the countries.”

However, Government is encouraging indigenous production of Urea, DAP & other fertilizers. The government provides incentives for indigenous Urea production above 100% of the capacity in all Units producing below Import parity price. The capacity addition in the present units, expansion of Urea units and setting up of new Urea plants in the country is being encouraged through a more investment friendly policy. The Phosphatic Industry is being encouraged by compensating for the disadvantages to the industry vis-à-vis the international industry. The indigenous industry is also being encouraged to invest abroad in resource rich countries for ensuring sustained supply of raw materials and finished fertilizers to the country at reasonable prices.”

(iii) **Consumption of fertilizers**

3.17 The Department of Fertilizers, in a written note, informed the Committee about the consumption pattern of fertilizers in various regions as under:-

“During 2004-05, Consumption of fertilizers has been the highest after remaining stagnant for the last many years. Urea remains the most consuming fertilizer product in the country. Out of total fertilizer consumption, 54% are Urea followed by DAP (18%) and SSP (9%). Similar scenario is depicted at regional level also during 2004-05, Urea, DAP and MOP consumption has increased by 4.5%, 11% and 31% respectively.

In Southern zone, Andhra Pradesh, Karnataka and Tamil Nadu are the major consuming State. Andhra Pradesh was the third highest consumer of Urea during 2004-05. Besides straight fertilizers, consumption of Complexes are also high. About 45% of country's total complex

consumption are used in this region. SSP is also consumed in substantial quantity in Andhra Pradesh, Karnataka and Kerala. Maharashtra, Gujarat, Madhya Pradesh and Rajasthan are the major States in Western zone. Low use of DAP, Complexes and MOP than that of Urea in these States, has resulted in distorted NPK consumption ratio. Among other products, SSP consumption is very high.

Northern Zone is the highest consumption zone in the country due to large scale consumption in Uttar Pradesh, Punjab and Haryana in the region. Similar to West Zone, consumption of Urea is comparatively very high than other fertilizers. About 70% of total urea consumption in the country was consumed in this zone during 2004-05. Complexes and MOP consumption increased whereas others registered decline during 2004-05 over the last year.

In East Zone, fertilizer consumption is mainly consumed in West Bengal, Bihar and Orissa. Consumption in Jharkhand is comparatively low. In this Zone also, urea consumption is significantly higher than other fertilizer products. DAP, Complexes and MOP are other fertilizers which are in great demand and use. During 2004-05, DAP, complexes and MOP consumption has increased by 15%, 25% and 25% respectively whereas Urea consumption has increased marginally in the region as whole.

North-East Zone, fertilizers are mainly consumed in Assam. Manipur, Tripura and Meghalaya also consume some fertilizers, whereas consumption in other States are very low. During 2004-05, consumption has declined over the last year.”

3.18 When the Committee desired to know the consumption pattern of different fertilizers in the different regions of the country during 2005-06 and 2006-07, the Department of Fertilizers, in a written reply, stated as under:-

“A statement containing consumption of different fertilizers in the country State-wise for the year 2005-06 is at Annexure-I. Statements containing sale and availability figures for Kharif 2006 and assessed requirement for Rabi 2006-07 are at Annexures II & III. Month-wise requirement of Urea, DAP & MOP for the months of December, 2006 to March, 2007 is at Annexure-IV .”

3.19 When the Committee asked about the reasons for low consumption of fertilizers in North-East zone in comparison to other zones and steps taken to

increase the consumption of fertilizers in North East zone, the Department of Fertilizers, in a written reply, stated as under:-

“The North Eastern zone is characterised with hilly undulating topography and high rainfall, thereby, subjected to high leaching and run off losses of applied fertilizers. Secondly, the soils of this region are acidic in nature giving poor crop response to applied fertiliser. So, North-Eastern zone is traditionally low consumption areas of chemical fertilisers. State Governments in the region have preferred organic farming and some of them like Sikkim has declared as Organic State.

In order to make fertilizers available in inaccessible areas/hilly and difficult terrain, sale of fertilizers is promoted through small bags up to 5 kg packing and empowering the State Governments to grant exemption to the dealers for marketing fertilizer in small packing under FCO, 1985. Further the DAC in the Notification S.O. No. 285(E) dated 12.3.2003 also permitted sale of fertilizers (Urea) in 2 kg, 5 kg , 10 kg and 25 kg packing. These provisions of sale of fertilizers in small packing are applicable in North-Eastern States also.

For promoting fertilisers specially in remote and inaccessible areas, DAC had advised the State Govts. In the year 1988 to consider exempting small dealers having fertilisers upto 2 tonnes at a time from the requirement of dealership registration certificate. In February, 1990 State Governments were further advised to consider exemption of dealer for stocking of fertiliser upto 10 tonnes at a time.”

3.20 The Committee observe that there is not much difference in availability and consumption of fertilizers in South, West, North and East Zone for the year 2005-06 and 2006-07. However, the Committee note that North East is low consuming zone of fertilizer as compared to other Zones. The Committee agree with the reasons given by the Department of Fertilizers for low consumption of fertilizers in North-East zone. The Committee also note with concern that even after lapse of sixteen years, State/UT Governments have not considered the advice given by the Department of Agriculture & Cooperation regarding exemption of small dealers having fertilizers upto 2 tonnes at the time of requirement of dealership registration certificate. The Committee, therefore, recommend that State/UT Governments should consider the advice of Department of Agriculture & Cooperation and implement the same to make fertilizer available in hilly and remote area. The Committee also recommend for preferring organic farming in most of the North-Eastern States.

(Recommendation Sl. No.10)

CHAPTER - IV

MOVEMENT OF FERTILIZERS

Under the allocation of Business Rules, the Department of Fertilizers has been entrusted the responsibility of ensuring movement, distribution and allocation of controlled fertilizer i.e. urea from various fertilizer plants and parts in accordance with the state-wise assessment made by the Department of Agriculture & Co-operation (DAC). The distribution of imported urea is made keeping in view the requirements of each of the states. The major share in transportation of fertilizers is of the Railways. Judicious management of the demand supply balance has helped in reducing the average lead of fertilizer movement by rail. During 2004-05 the average lead was 845 kms. During the current year, the average lead for the period April-September, 2005 is 824 kms whereas it was 831 kms during the corresponding period last year.

4.2 The Department of Fertilizers in a written note informed the Committee as under:

“The Essential Commodities Act, 1955 (10 of 1955), is an Act to provide, in the interest of the general public, for the control of the production, supply and distribution of, and trade and commerce, in certain commodities.

The Fertilizer (control) Order, 1985 and the Fertilizer (Movement Control) Order, 1973 are based on the Essential Commodities Act, 1955 (10 of 1955). The Fertilizer (Control) Order, 1985 – Clause 6 authorizes the Government to issue allocation orders for each State/UT and to each manufacturer/ importer about the quantities to be sold in a specified period. Similarly, Fertilizer (Movement) Control Order, 1973 authorises the Government for movement of urea. The Department of Fertilizers gives monthly movement order under ECA to ensure dispatch of specific quantity of urea to the State.”

4.3 In this connection, during evidence, the representative of the Department of Fertilizers apprised the Committee that in respect of urea, we have certain mechanism in which allows us not only to monitor the production, but also to ensure its even distribution throughout the country. Presently, we have an assessment of 11 States, out of 18 States, as deficit States in terms of product

capacities within the State and there are seven States which we classify as surplus States. For efficient movement of urea from surplus States to the deficit States, we have a zonal conference, which is organized by the Department of Agriculture and the States and manufacturers are represented in this. This is a conference which is held prior to the agriculture season. A demand assessment is made in that zonal conference after very detailed and minute kind of interaction and based on this demand assessment, the planning for that particular season takes place. As the season progresses, this assessment at the zonal level is reviewed and updated and wherever shortages are identified, necessary corrective steps are taken. There is a steering committee of Secretaries chaired by the Secretary, Fertilizer, which is primarily tasked with the job identifying any major shortages that may occur. They are mandatory to take decisions with regard to imports.

4.4 At present, urea is the only fertilizer which is under price and partial distribution control of the Government Allocation of Urea Under Essential Commodities Act (ECA) has been restricted to 50% of production of manufacturing units.

4.5 On being enquired by the Committee as to whether Government has analysed the present system of distribution of urea under Essential Commodities Act system and is it working satisfactorily, the Department of Fertilizer in a written reply stated as under:-

“At present arrangement of supplies of urea is made out from indigenous availability and supplemented by imports in case the demand is more than the indigenous availability. Essential Commodities Act (ECA) allocation is made from estimated 50% of indigenous production from manufacturers during the respective crop season. Mid-term adjustment on ECA allocation is made in view of changes in demand on account of monsoon performance and production performance of manufacturers. Till now the supply linkages under ECA allocation to States/ Union Territories have been found to be reliable and economical.”

4.6 All the major fertilizers were covered under the statutory price and movement control till 24.08.1992. The Government was ensuring availability of these fertilizers by giving allocation under Essential Commodities Act. All phosphatic and pottasic fertilizers were decontrolled w.e.f. 25.08.1992 on the recommendations of Joint Parliamentary Committee. Urea was the only fertilizers, left under statutory price and movement control of the Government. Later on, imports of DAP and MOP were also canalized. Under the existing arrangement, manufacturers of DAP, all complex fertilizers and SSP are free to sell their material in whichever market place they please and they are free to move them as and when they like. Anyone is free to import DAP and sell it at any place in India. This is also true of MOP and SSP.

4.7 When the Committee asked whether Government have evaluated the flow of urea into different States/ parts of the country so that remaining 50% of urea may also be decontrolled and be timely available to farmers, the Department of Fertilizer in a written note informed the Committee that the matter is under study by the sub-committee on movement and distribution as a part of Dr. Y.K. Alagh Committee's Report on urea policy.

4.8 On being enquired by the Committee whether the sub-committee on Movement and Distribution of Fertilizers has given its findings, what are their main recommendations and what is its impact on the flow of urea into different states/ part, of the country, the Department of Fertilizer in a written reply stated as under:

“The observations made by the Sub-Committee on Distribution and Movement of urea were considered by the Working Group headed by Dr. Y.K. Alagh. The Working Group has made following recommendations with regard to distribution and movement of urea:-

- (i) The present system of 50% decontrol be continues for the next four years but with a more rationalized plan for reimbursement of freight on decontrolled component.
- (ii) Where the fertilizer industry is prepared to set up buffers for distribution in remote and inaccessible areas, the Department of Fertilizers may recognize the effort and extend support through suitable and appropriate schemes.

- (iii) The existing reduction of Rs.100 PMT from the equated freight rate for deregulated quantities should be rationalized by reducing 20% from the equated freight rate subject to a maximum ceiling of Rs.100 PMT.
- (iv) Taking cognizance of the fact that enhanced availability of urea at the village level is in the interest of the consumers particularly the small and marginal farmers who cannot afford bulk transportation cost, the Department may:-
 - (a) Empower the Panchayati Raj Institutions (PRIs) through the FCO route for management, control of fertilizer supplies and quality at the village level;
 - (b) A suitable additional margin may be provided to encourage distribution and sale of urea at village level by the dealers/PRIs/Cooperative Institutions.
 - (c) On an experimental basis, a scheme for disbursement of subsidy directly to farmers in three selected districts where reliable land records are available may be formulated.

4.9 The formulation of New Pricing Scheme (NPS) Stage-III Policy based on the recommendations of Alagh Committee including those on Movement and Distribution issues is under consideration of the Government.

4.10 When the Committee asked about the efforts made by the Department of Fertilizers for equitable distribution of urea to different States from different plants, the Department of Fertilizers in a written reply stated as under:

“Urea is under partial distribution control and ECA allocation is made upto 50% of indigenous production during the season. Based on the assessed requirement of each State and feedback from manufacturers regarding supply of de-controlled urea to various States, the ECA allocation in respect of each State is determined. The ECA allocation is usually made from more than one supplier with a view to provide assured supply to each State. Linkages are also made keeping in view in mind the most economical source of supply in terms of transportation cost etc. Mid term adjustment in ECA allocation is also made based on reviews regarding demand and supply made from time to time.”

4.11 Elaborating it further, Secretary, Department of Fertilizer during the course of evidence, apprised the Committee as under:

“Urea is 50% control item and the fact that we give urea to different States as per their requirement. The internal distribution of urea is the concern of the State Governments. Therefore, it is quite possible that the total quantum of urea in the State being satisfactory the pockets in the States would face crunch either because of lack of movement within the States or because of lack of policies and quite often due to absence of an effective cooperative structure. Our constant effort is to see that fertilizer supply is satisfactory even though quite often our experience is in DAP and MOP, these two being decontrolled items. States always tie up the request. We have been striving to see that the supply position of these two fertilizers is comfortable in the country. I am not saying that there is no place in India which does not have any shortage but this has been our effort and these have been our limitations. The State Governments particularly have to take up the responsibility of ensuring the supply.”

4.12 On being pointed out by the Committee that State Governments are responsible for proper distribution of fertilizers which are not being done by them properly. What initiatives are being taken by the Government in this regard, the Secretary, Department of Fertilizers, submitted before the Committee during evidence, as under:

“It would not be possible for the Government of India to really monitor below the District level but it is our belief that once it goes to the District, then it gets distributed. Therefore, we are planning what is called an online monitoring system. Already it has been partly developed and it is like to be put on the site very early. Since Rabi is only two months more, we expect that from the next Kharif onwards, it would be worked out in a rigorous manner.”

4.13 The Department of Fertilizers in a written note informed the Committee as under:

“Urea is transported mainly by rail and road from the factories to the consumers. The mode of transport is either completely by road or it is a mix of road and rail. Approximately 25% of the urea is transported wholly by road. Approximately 75% of urea is transported from the factory to the railheads near the destinations by rail. From the rail heads, this quantity is transported by road to the final destination. The average cost of

transportation by railway is approximately 50 paise per tonne/ M.M. and the normative average cost of carrying fertilizers by road is approximately Rs.1.50 per tonne/ K.M. However, handling costs and other problems make it more convenient to transport fertilizers by road over short distances. Over long distances it is prudent to transport fertilizers by rail.

4.14 When the Committee asked what is the coordination with Railways for transportation of fertilizers. Department of Fertilizers in a written note submitted to the Committee as under:

“The concerned Zonal Railways are holding periodical meetings with the manufacturers and programme for loading is finalized based on the request of fertilizer units in the particular Railway Zone. However, in case of any difficulty in availability of wagons for supply of fertilizers, the Department of Fertilizers also takes up the matter with Ministry of Railways for providing requisite number of rakes to the suppliers. As far as linkage of railway lines to the fertilizer plants is concerned these matters are coordinated by the respective companies with the Ministry of Railways directly.”

4.15 On being enquired by the Committee regarding coordination in the fertilizer industry for transportation of fertilizers through road transport, Department of Fertilizer in a written note further informed the Committee as under:

“The fertilizer companies issue tender notices individually and not collectively in all the three sectors. This is mainly due to the fact that the channels of distribution and the warehousing arrangements as well as the market areas differ from company to company. While the public sector companies generally use the Central and State warehousing facilities and also in the cooperative sector, the companies in the private sector prefer to use private godowns. Cooperatives generally try to use the storage facilities available in the cooperative sector. Fertilizer companies in the cooperative sector use only the cooperative channels for selling their material while PSUs and the Private Companies use both Cooperative and private channels.”

4.16 Further on the issue of increase in the railway freight, a representative of FAI deposed before the Committee during evidence as under:-

“There is another front in which we are facing problems. The MRP remains the same. So, if the cost of delivery goes up the subsidy will also go up. We have written a letter to the Government of India, Department of Fertilizers, requesting them to develop a mechanism by which industry can be compensated for the increase in the cost of delivery of fertilizer on account of increase in the railway freight. In the case of urea it has gone up by 33% and in the case of fertilizers it has gone up by 27% in the last fourteen months only. It is only on account of change in the railway classification.”

4.17 When the Committee asked that what are the comments of Department of Fertilizers on this issue and to what extent it has affected the overall cost of fertilizers and availability to farmers, Department of Fertilizer in a written note stated as under:-

“In so far as urea is concerned, primary freight which primarily consist of rail movement is fully compensated under the subsidy regime. The road component of the primary freight is also escalated linked to the price of diesel. It has now been proposed by the Department of Fertilizers to link the escalation in road freight rates to increase in the wholesale price indices of all commodities, Motor Tyers, Truck Body in addition to increase in the WPI of HSD Oil.

In respect of de-controlled fertilizers, the compensation in respect of freight is a fixed component based on the recommendations of the Tariff Commission in 2002. To the extent that freight costs are more than the compensation provided under the formula, there is a disincentive on the part of the industry to supply fertilizer to the far of the location. A proposal to make the freight component dynamic to capture the direct cost is under examination of the department.”

4.18 When the Committee asked about the impact of movement of fertilizers in different parts of the country due to increase in delivery cost of fertilizers, Department of Fertilizer in a written note stated as under:

“In respect of urea, the delivery costs are substantially compensated and hence do not impact on movement. As regards de-controlled fertilizers, there is reluctance on the part of the suppliers to reach fertilizers to distant locations where cost of movement is not fully reimbursed. A proposal for rationalization of freight component as indicated earlier, is under consideration.”

4.19 As per the news item captioned 'Foodgrain and Fertilizers Untouched' appearing in the Economic Times dated 27th February, 2007, in the year 2005-06, the fertilizer industry had cough up Rs. 500 crore more to the Railways for freight charges as this commodity was reclassified to a higher tariff slab. This led to an increase in the fertilizer subsidy bill. In 2005-06, 32 million tonnes of fertilizers were moved by rail.

4.20 The Committee note that the Department of Fertilizers has been entrusted the responsibility of ensuring movement, distribution and allocation of controlled fertilizer i.e. urea from various fertilizer plants and ports in accordance with the statewise assessment made by the Department of Agriculture & Cooperation (DAC). The distribution of imported urea is made keeping in view the requirement of each of the States. Approximately 75% of urea is transported from the factory to the railheads near the destinations by rail. The Committee recommend that the Department of Fertilizers should take necessary steps in collaboration with other agencies like Railways for timely distribution and movement of fertilizers to different parts of the country. The Committee desire that corrective measures should be taken by the Government to ensure efficient and timely evacuation of fertilizers from ports.

(Recommendation Sl. No.11)

4.21 The Committee observe that in case of urea the primary freight which primarily consists of rail movement is fully compensated under the subsidy regime. The Committee also note that Department of Fertilizers propose to link the escalation in road freight rates to increase in the wholesale price indices of all commodities, motor tyres, truck body in addition to increase in the price of diesel oil. While appreciating the proposal of the Department in this regard, the Committee hope that the proposal to include all the variables especially in case of road transport would be considered by the Department soon and the Committee be apprised accordingly. In-so-far as de-controlled fertilizers are concerned, the Committee note that compensation in respect of freight is fixed on the basis of recommendations of Tariff Commission which inter-alia make it obligatory on the part of industry to supply fertilizer to distant areas. The Committee were informed that there is reluctance on the part of the suppliers to supply fertilizer to distant locations where cost of movement is not fully reimbursed. As the proposal for rationalization of freight component is under consideration, the Committee recommend that Government should chalk out a feasible formula in consultation with Association of Fertilizer Industries so that fertilizer industry do not hesitate to supply fertilizer in distant and remote places.

(Recommendation Sl. No.12)

4.22 The Committee note that 75% of urea is transported from the factory to the railheads by rail and 25% of urea is transported by road. The average cost of transportation by railways is approximately 50 paise per tonne/ k.m. and the normal average cost of transportation of fertilizers by road is approximately Rs. 1.50 paise per tonne/ k.m. On the issue of increase in the railway freight, the Committee were informed by the Fertilizers Association of India that the cost of delivery of urea has been increased by 33 percent and in the case of other fertilizers, it has gone up by 27 percent due to increase in railway freight in the last fourteen months. The Committee find that the fertilizer subsidy has increased substantially due to higher freight cost. In the year 2005-06, 32 million tonnes of fertilizers were moved by rail and the transportation cost of fertilizers has increased by 30 percent since April, 2005. The Committee are failed to understand that despite constant increase in fertilizer subsidy, no steps have been taken by the Department to contain the railway freight. The Committee recommend that the Department of Fertilizers should take up the issue of increase in railway freight with the Ministry of Railways and also find out a way to minimize the burden of higher fertilizer subsidy.

(Recommendation Sl. No.13)

4.23 The Committee note that 50 per cent production of urea is under price and partial distribution control of Government under the Essential Commodities Act and 50 per cent is de-controlled. The Committee also note that a Working Group headed by Dr. Y.K. Alagh is exploring the possibility of de-controlling urea. It has also been submitted by the Department in their written reply that a sub-committee on Movement and Distribution of Fertilizers has given its findings. The Committee recommend that the findings of the Working Group be implemented at the earliest. The Committee hope that with the increase of production, de-bottlenecking and appropriate import policy, the urea may be de-controlled fully. As regards the supply of fertilizers in the different parts of the States/UTs, the Union Government cannot wash off their hands by simply passing the buck to State/UT Governments. The Committee understand that the distribution of fertilizers within the State is the concern of State Government but at the same time the Government should formulate a policy so as to monitor the distribution of fertilizers in all the districts of State of the country especially in backward and remote districts. As submitted by the Secretary, Department of Fertilizers that they are planning to introduce an online monitoring system, the Committee appreciate this initiative of the Department and would like to be informed about the progress made in this regard.

(Recommendation Sl. No.14)

New Delhi;
15 May, 2007
25, Vaisakha, 1929 (Saka)

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

Annexure-I

2005-06	Statewise Availability & Sale of Urea, DAP & MOP		DAP		MOP		('000 MTs)
	UREA		Availability	Sale	Availability	Sale	
State/Union Territory	Availability	Sale	Availability	Sale	Availability	Sale	
<u>SOUTH ZONE</u>							
ANDHRA PRADESH	2352.57	2218.48	611.94	595.85	461.22	412.83	
KARNATKA	1102.94	1067.20	499.63	457.25	379.27	335.66	
KERALA	126.31	117.74	17.28	15.64	129.17	119.35	
TAMILNADU	905.50	877.51	386.60	363.79	375.94	366.71	
PONDICHERRY	28.86	28.33	9.38	5.73	9.99	9.79	
ANDAMAN & NICOBAR	1.78	0.80	0.00	3.83	0	0	
<u>WEST ZONE</u>							
GUJARAT	1381.41	1326.48	664.90	541.29	188.87	154.53	
MADHYA PRADESH	1096.93	1020.38	576.22	466.06	90.77	57.27	
CHHATTISGARH	467.43	444.63	137.50	126.79	78.61	48.69	
MAHARASHTRA	1818.66	1721.36	583.62	513.24	291.64	247.43	
RAJASTHAN	1234.79	1159.12	540.86	414.39	31.77	16.96	
GOA	3.08	3.00	1.20	0.52	0.9	0.9	
DAMAN & DIU	0.39	0.39	0.00	0	0	0	
DADAR & NAGAR HAV	1.08	1.04	0.82	0.8	0	0	
<u>NORTH ZONE</u>							
HARYANA	1800.46	1643.69	664.10	509.99	54.76	36.05	
PUNJAB	2454.94	2371.62	954.03	732.38	125.3	84.66	
UTTAR PRADESH	5035.61	4594.62	1588.80	1234.11	300.52	166.43	
UTTARANCHAL	200.96	175.07	30.62	23.33	6.62	5.06	

HIMACHAL PRADESH	55.93	55.80	0.82	0.09	5.18	5.18
JAMMU & KASHMIR	130.40	111.18	64.78	55.92	9.47	7.37
DELHI	1.11	1.11	0.00	0	0	0
CHANDIGARH	2.55	2.55	0.00	0	0	0
EAST ZONE				0		
BIHAR	1424.06	732.18	211.96	177.92	164.06	123.47
JHARKHAND	156.00	151.25	73.26	68.18	5.43	5.38
ORISSA	431.45	108.53	91.82	80.74	116.17	95.53
WEST BENGAL*	1097.47	1040.77	353.31	343.41	306.23	252.24
NORTH-EAST ZONE				0		
ASSAM	194.52	175.59	27.23	20.38	75.45	52.76
TRIPURA	25.19	18.17	0.00	0	3.56	3.56
MANIPUR	25.55	25.19	0.00	0	0	0
MEGHALAYA	5.68	5.53	0.80	1.1	0.37	0.33
NAGALAND	0.12	0.14	0.00	0	0	0
ARUNACHAL PRADESH	0.36	0.34	0.00	0	0.05	0.05
MIZORAM	0.60	0.60	0.00	0	0	0
SIKKIM	0.12	0.15	0.00	0	0	0
ALL INDIA	23564.83	22137.19	7976.05	6752.65	3211.32	2608.17

Annexure-II

Rabi 2006-07 (upto 30.11.2006)	Statewise Availability & Sale of Urea, DAP & MOP					
	UREA		DAP		MOP	
	Availability	Sale	Availability	Sale	Availability	Sale
State/Union Territory						
SOUTH ZONE						
ANDHRA PRADESH	1197.36	1160.89	374.59	348.50	143.14	143.14
KARNATKA	739.20	707.08	356.59	337.60	148.80	148.79
KERALA	81.00	73.52	16.74	14.32	58.45	58.45
TAMILNADU	468.31	438.05	233.74	201.79	129.33	129.33
WEST ZONE						
GUJARAT	702.59	685.13	282.22	197.55	61.31	53.92
MADHYA PRADESH	444.92	418.89	317.66	246.98	44.43	43.18
CHHATTISGARH	393.74	379.45	89.28	76.01	40.29	39.20
MAHARASHTRA	1193.14	1154.52	410.00	388.84	99.63	94.18
RAJASTHAN	424.95	389.62	235.85	199.53	6.69	5.73
NORTH ZONE						
HARYANA	707.58	686.44	259.93	134.83	15.90	15.30
PUNJAB	1249.52	1160.23	372.35	227.97	32.52	32.52
UTTAR PRADESH	2403.39	2255.17	666.12	398.78	59.74	56.70
UTTARANCHAL	124.99	120.11	12.78	7.42	2.28	2.20
HIMACHAL PRADESH	32.36	32.02	0.11	0.10		0.00
JAMMU & KASHMIR	64.36	51.60	19.57	17.79	7.72	3.25
EAST ZONE						
BIHAR	702.03	669.77	148.71	99.91	37.43	36.51
JHARKHAND	109.14	100.99	55.14	48.23	0.33	0.32

ORISSA	308.21	294.80	78.13	65.75	45.89	45.07
WEST BENGAL*	448.05	439.56	202.67	171.39	69.80	64.52
NORTH-EAST ZONE						
ASSAM	104.95	91.22	19.12	14.43	24.17	23.21
ALL INDIA	11365.72	11963.99	4170.54	3206.84	1045.34	999.34

Annexure-III

Rabi 2006-07 (upto 30.11.2006)	Statewise Availability & Sale of Urea, DAP & MOP		DAP		MOP ('000 MTs)	
	UREA		Availability	Sale	Availability	Sale
State/Union Territory	Availability	Sale	Availability	Sale	Availability	Sale
SOUTH ZONE						
ANDHRA PRADESH	532.32	344.64	115.06	74.61	113.18	87.77
KARNATKA	190.87	141.02	70.32	45.53	87.54	66.27
KERALA	36.25	28.02	5.54	4.49	36.55	35.37
TAMILNADU	243.37	204.84	108.61	76.79	112.53	106.48
WEST ZONE						
GUJARAT	280.56	265.72	241.91	111.42	48.74	41.41
MADHYA PRADESH	390.27	361.54	201.59	149.51	25.27	16.75
CHHATTISGARH	31.37	18.44	20.57	6.15	1.48	1.48
MAHARASHTRA	346.24	243.69	73.33	54.59	61.24	42.37
RAJASTHAN	319.09	287.34	198.58	159.80	2.08	2.06
NORTH ZONE						
HARYANA	373.69	337.65	287.06	241.03	3.74	3.10
PUNJAB	767.39	548.93	389.99	353.10	11.09	10.05
UTTAR PRADESH	949.63	691.87	643.30	454.17	47.96	44.54
UTTARANCHAL	27.69	18.70	8.01	8.01	0.72	0.72
HIMACHAL PRADESH	5.82	4.45	0.00	0.00	2.43	2.43
JAMMU & KASHMIR	17.65	4.69	12.29	12.19	3.94	0.35
EAST ZONE						
BIHAR	323.87	264.29	124.75	76.38	32.81	22.80
JHARKHAND	28.57	18.64	16.72	14.79	0.13	0.13

ORISSA	58.50	29.81	15.17	4.24	20.12	7.46
WEST BENGAL*	224.41	209.53	83.40	71.35	76.58	58.04
NORTH-EAST ZONE						
ASSAM	27.99	17.84	7.13	2.88	3.45	1.32
ALL INDIA	4995.89	4050.61	2625.48	1922.36	693.61	552.61

Bihar	200000	150000	100000	100000	70000	40000	15000	15000	45000	40000	10000	5000
Jharkhand	12000	12000	5000	2000	10000	4000	2000	2000	0	0	0	0
Orissa	20000	32000	32000	16000	8000	9000	15000	3000	3000	6300	8000	5500
West Bengal*	160000	170000	150000	90000	60000	60000	50000	25000	50000	50000	35000	20000
Assam*	18700	18700	20900	19800	3210	2210	2470	2340	6800	6800	7600	7200
Tripura	1730	3015	3295	3545	200	175	230	245	700	260	295	340
Manipur	2800	2400	2500	3010	245	270	250	450	110	120	150	140
Meghalaya	200	850	1200	200	20	350	400	250	20	50	100	35
Nagaland	110	40	30	30	30	70	50	30	10	15	10	10
Arunachal Pradesh	10	12	15	150	10	20	30	30	5	5	10	20
Mizoram	240	240	260	260	300	300	340	340	160	160	100	100
Sikkim	0	0	0	0	0	0	0	0	0	0	0	0
All India	3162507	2513083	1550077	1082818	856836	433446	390707	393163	342272	291758	243950	175260

MINUTES

**STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2005-06)**

**SEVENTH SITTING
(04.01.2006)**

The Committee sat from 1540 hrs. to 1700 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members
Lok Sabha

2. Sardar Sukhdev Singh Libra
3. Shri A.K. Moorthy
4. *Shri P. Rajendran
5. Shri T. Madhusudan Reddy
6. Shri Narsingrao H. Suryawanshi
7. Shri V.K. Thummar
8. Shri A.K.S. Vijayan

Rajya Sabha

9. Shri Vasant Chavan
10. Shri Ajay Maroo
11. Shri Gireesh Kumar Sanghi

Secretariat

1. Shri P. Sreedharan - *Joint Secretary*
2. Brahm Dutt - *Director*
3. Shri S.C. Kaliraman - *Under Secretary*

* In the absence of the Chairman, the Committee chose Shri P. Rajendran to act as Chairman under rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha. Accordingly, Shri Rajendran was in the chair till 16.03 hrs when Hon'ble Chairman occupied the chair.

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

1. Ms. S.K. Sekhon - Executive Director (FICC) & Addl. Secretary
2. Shri Vijay Chhibber - Joint Secretary (A&M)
3. Shri T.S. Laschar - Economic Advisor
4. Shri Manoj Kumar - Director (F)
5. Shri P. Ranadhir Reddy - Director (M)
6. Ms. Sofia Dahiya - Director (A/C)
7. Shri R. Asokan - Director (CE) FICC
8. Shri A. P. Singh - Director

***Representatives of the Public Sector Undertakings (PSUs)/
Other Organizations***

1. Shri V.N. Rai - MD, Krishak Bharati Cooperative Ltd. (KRIBHCO)
2. Shri G.S. Mangat - Director (Mktg.), National Fertilizers Limited (NFL)

2. At the outset, the Chairman welcomed the Members and the representatives of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) to the sitting of the Committee. He briefly informed that the sitting was convened to have a briefing by the representatives of the Department of Fertilizers on 'Production and Procurement of Fertilizers'.

3. Thereafter, the representatives of the Department of Fertilizers made a brief audio-visual presentation highlighting the various aspects relating to the subject, which are as under:-

- (i) Role and importance of fertilizers in agriculturing production including balanced use of fertilizers.
- (ii) Demand and availability of fertilizers in different regions of the country;
- (iii) State-wise requirement and supply including analysis of surplus and deficit States;
- (iv) Present market share of Public, Cooperative and Private Sector companies;

- (v) Production, sale and import of Di-Ammonium Phosphate (DAP), Muriate of Potash (MOP) and Single Super Phosphate (SSP);
- (vi) Price trends of rock and sulphur;
- (vii) Availability of gas to fertilizer plants; and
- (viii) Government policy on import of fertilizers and its impact on availability of fertilizers.

4. Thereafter, clarifications sought by the Committee were replied to by the representatives of the Department of Fertilizers.

(The representatives of the Department of Fertilizers then withdrew)

5. Thereafter, the Committee decided to revise their study tour programme from 28th January to 1st February, 2006 instead of the earlier approved programme from 21st to 25th January, 2006.

6. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES

**STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2005-06)**

**ELEVENTH SITTING
(20.06.2006)**

The Committee sat from 1600 hrs. to 1700 hrs.

Present

Shri Anant Gangaram Geete - Chairman

**Members
Lok Sabha**

2. Shri Prahlad Joshi
3. Sardar Sukhdev Singh Libra
4. Shri Tek Lal Mahto
5. Shri Punnulal Mohale
6. Shri A.K. Moorthy
7. Shri P. Rajendran
8. Shri Narsingrao H. Suryawanshi
9. Shri V.K. Thummar
10. Shri Bhanupratap Singh Verma
11. Shri Bhal Chandra Yadav

Rajya Sabha

12. Shri Vasant Chavan
13. Shri Raj Mohinder Singh Majitha
14. Shri Ajay Maroo
15. Shri Gireesh Kumar Sanghi
16. Shri Shreegopal Vyas
17. Shri T.R. Zeliang

Secretariat

1. Shri P. Sreedharan - Joint Secretary
2. Shri Brahm Dutt - Director
3. Shri Santosh Kumar - Assistant Director

Representatives of Fertilizer Association of India (FAI)

1. SHRI B.K. SAHA - DIRECTOR GENERAL
2. SHRI R.C. GUPTA - DY. DIRECTOR GENERAL
3. DR. S. NAND - ADDITIONAL DIRECTOR (TECH.)
4. SHRI A.C. DUBEY - CHIEF ECONOMIST

At the outset, Hon'ble Chairman welcomed Shri Shreegopal Vyas, M.P., Rajya Sabha on his nomination to the Committee.

2. Thereafter, the representatives of Fertilizer Association of India (FAI) were called in. Hon'ble Chairman welcomed representatives of FAI to the Committee. Hon'ble Chairman briefly stated about the subject 'Production, Procurement & Movement of Fertilizers' under examination of the Committee. With the permission of Chair, then Director General, FAI stated in brief about the present scenario in fertilizer industry and the points concerning the subject. Members asked the various queries, which were replied by FAI.

3. During the course of sitting, the following issues came up for discussion:-

- (i) Prices of feedstock in production of fertilizer;
- (ii) Insufficient availability of gas as feedstock;
- (iii) High prices of Naphtha;
- (iv) Capital cost and technical efficiency of fertilizer industry;
- (v) Possibility of providing direct fertilizer subsidy to farmers;
- (vi) No capacity expansion for the last ten years in fertilizer industry as Government policy do not encourage investment in fertilizer sector;
- (vii) Shortage of fertilizers;
- (viii) Role of Lead Fertilizer Supplier (LFS) in assessment of demand and distribution of fertilizers;
- (ix) Movement of fertilizers and increase in transportation charges due to increase in freight by Railways;

- (x) Balanced use of fertilizers;
- (xi) Possibilities of future trading in fertilizers;
- (xii) Possibility of providing subsidy at feedstock stage;
- (xiii) Formation of Joint venture for production of fertilizers in other countries on the lines of Oman India Fertilizer Company (OMIFCO);
- (xiv) Research and Development activities for production of fertilizers from other potential sources;
- (xv) Agricultural extension services to educate the farmers.

4. A verbatim record of the proceedings has been kept.

The Committee, then, adjourned.

MINUTES

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

**FIFTH SITTING
(05.12.2006)**

The Committee sat from 1500 hrs. to 1615 hrs.

Present

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

2. Shri Sunil Khan
3. Shri Prasanta Pradhan
4. Shri Anantha Venkata Rami Reddy
5. Shri Narsingrao H. Suryawanshi
6. Shri Bhanu Pratap Singh Verma

Rajya Sabha

7. Shri Devdas Apte
8. Shri B.S. Gnanadesikan
9. Shri R. Shunmugasundaram

Secretariat

1. Shri Brahm Dutt - *Director*
2. Shri S.C. Kaliraman - *Under Secretary*

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

- | | | | |
|-----|--------------------------|---|--------------------------------|
| 1. | Dr. J.S. Sarma | - | Secretary |
| 2. | Shri Jivtesh singh maini | - | Addl. Secretary & FA (Finance) |
| 3. | Ms. S.K. Sekhon | - | Executive Director (FICC) |
| 4. | Shri Vijay Chhibber | - | Joint Secretary (A&M) |
| 5. | Shri Deepak Singhal | - | Joint Secretary (F) |
| 6. | Shri Satish Chander | - | Joint Secretary (INM)-DAC |
| 7. | Shri Manoj Kumar | - | Director (F) |
| 8. | Shri S.K. Das | - | Director (M) |
| 9. | Shri B.N. Tiwari | - | Director (FCA) |
| 10. | Ms. Sofia Dahiya | - | Director (Accounts) |

Representatives of the PSUs

- | | | | |
|----|------------------|---|--|
| 1. | Shri G.S. Mangat | - | CMD, national Fertilizers Ltd. (NFL) |
| 2. | Shri B.D. Sinha | - | MD, Krishak Bharati Cooperative Ltd. (KRIBHCO) |

2. At the outset, Hon'ble Chairman welcomed the Members and representatives of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) to the sitting of the Committee and invited the attention of the witnesses to the provisions contained in Direction 55(1) of the Directions by the Speaker regarding confidentiality of the Committee's proceedings.

3. On direction from the Chairman, the representatives introduced themselves to the Committee. Thereafter, the Committee took oral evidence of the representatives of the Department of Fertilizers in connection with examination of the subject 'Production, Procurement and Movement of Fertilizers'.

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

- (i) Enhancing capacity of fertilizer production in the 11th Five Year Plan;
- (ii) Expansion of certain projects and revival of closed plants on availability of gas by 2009-10;
- (iii) Enhancement of production of bio-fertilizers;
- (iv) Equitable distribution of urea to different States from different fertilizer plants;
- (v) On-line monitoring of distribution of fertilizers at District level;

- (vi) Setting up of joint venture projects abroad and entering into long term buy back agreements;
 - (vii) Implementation of Stage-III of New Pricing Scheme (NPS); and
 - (viii) Quality control in fertilizer sector.
5. A verbatim record of the proceedings has been kept.

The Committee, then, adjourned.

MINUTES

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

**ELEVENTH SITTING
(15.05.2007)**

The Committee sat from 1500 hrs. to 1615 hrs.

Present

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

12. Shri Suresh Angadi
13. Shri Sunil Khan
14. Shri Subhash Maharia
15. Shri Prasanta Pradhan
16. Shri Anantha Venkatarami Reddy
17. Shri Bhanupratap Singh Verma

Rajya Sabha

18. Shri Devdas Apte
19. Shri Debabrata Biswas
20. Shri Gireesh Kumar Sanghi
21. Shri V. Hanumantha Rao
22. Shri R. Shunmugasundaram

Secretariat

3. Shri A.K. Singh - Joint Secretary
4. Shri A.S. Chera - Director
5. Shri A.K. Srivastava - Deputy Secretary-II

STATEMENT OF RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Sl. No.	Para No.	Recommendations/Observations
1.	2.10	<p>The Committee note with concern that only one fertilizer plant has come up in 2005 and that too with 2.4 lakh million tonne capacity. Further, the capacity addition and production target has not been fully achieved in the Tenth Five Year Plan. The reasons given by the Department <u>viz.</u>, (i) Late Commissioning of BVFCL Namrup II (ii) Non revamping of Namrup plant of HFC and Sindri Plant of FCI (iii) Less progress in RCF – Thal expansion project and (iv) Non-availability of gas to fertilizer units. The Committee are of the view that while fixing the target, Government should have made proper planning and provide requisite infrastructure in order to achieve target and augment capacity building. The Committee also express its displeasure over the closure of nine urea plants in the country on account of technological obsolescence, feedback limitation, non-viability of units and heavy financial losses. The Committee, therefore, recommend to revive the closed units by providing them managerial and technical support, feedstock and adequate infrastructure.</p>
2.	2.27	<p>Regarding the availability of Di-Ammonium Phosphate (DAP) and Single Super Phosphate (SSP), the Committee have been informed that these are imported because of limited sources in the country. Manufacturers are free to import the fertilizer, raw material/ intermediates required for manufacturing of these fertilizers directly. Similarly, production of SSP depends on the availability of Rock Phosphate to the manufacturers and to enhance the production and sale of SSP, Department of Fertilizers had laid down the guidelines dated 05.08.2002 to grant marketing arrangements to the manufacturers for selling their product through other manufacturers having larger dealer network. The Committee are happy to note that the Government has enhanced the amount of subsidy of SSP from Rs.650/- per MT to Rs. 975/- per MT w.e.f. 01.09.2005. However, the Committee desire that in order to reduce the dependence on import of DAP and SSP, Government should make arrangements for procuring raw materials and intermediates in time. The Committee also recommend for periodic and timely revision on concession rate of SSP so as to make SSP units viable and fully productive.</p>

3.	2.39	<p>The Committee note that proposals for de-bottlenecking/ expansion of various urea plants were received by the Department of Fertilizers but these are either pending or under consideration of the Government. The Department of Fertilizers had also notified the policy for de-bottlenecking of capacity <i>vide</i> circular dated 29.01.2004. However, the Department of Fertilizers also imposed additional conditions to the fertilizer units <i>vide</i> their letter dated 21.12.2005. But FAI submitted that due to imposition of fresh restrictions, the proposals for de-bottlenecking would become unviable. The Committee, therefore, recommend that the Department should help these units in their revamping by modifying the fresh restrictions. The Committee also reiterate their earlier recommendation made in their 12th Report (14th Lok Sabha) and strongly recommend that the process of seeking the approval of Government/ Cabinet decision regarding de-bottlenecking and expansion of fertilizer units should be completed well in time.</p>
4.	2.49	<p>The Committee note that gas is a preferred feedstock for production of nitrogenous fertilizers and raw materials are required for production of phosphatic fertilizers. Due to less availability of rock phosphate, our country is dependent on imported raw material for production of phosphatic fertilizers. The Committee are happy to note that Government has been encouraging Indian companies to establish joint venture production facilities with buy back agreement in other countries. The Committee were informed by the Department that at present Department of Fertilizers have four joint ventures. First is OMIFCO, from which Department is getting urea from 16 lakh to 17 lakh tonnes at a very reasonable price. The remaining three units are producing raw material. The Government are also exploring possibilities of joint ventures in other countries like UAE, Iran, Egypt, Tunisia, Kuwait and Nigeria. The Committee recommend that during the Eleventh Five Year Plan Government should encourage more Indian companies for setting up joint ventures abroad to fulfil our future requirement.</p>

5.	2.53	<p>The Committee were informed by the Fertilizer Association of India that due to lack of investment friendly scenario in the fertilizer sector, no new industry has been set up during the last decade. The Committee note that the Government has formulated a pricing policy for investment in new and expansion projects of urea. The Committee also note that with a view to exploit the chief sources of feedstock abroad, the Department is making arrangements with those countries where cheap gases are available. While appreciating the efforts being made by the Government, the Committee recommend that Government should frame such policies in consultation with industries so as to attract investment in this core industry. The Committee are of the opinion that in this regard public - private partnership can play a crucial role which can also revive defunct units or increase their capacity.</p>
6.	2.63	<p>The Committee observe that a New Pricing Scheme (NPS) for urea units has been enforced w.e.f. 01.04.2003 replacing the erstwhile Retention Pricing Scheme (RPS) Stage-I of NPS which was of one year duration and completed on 31.03.2004. Stage-II of NPS has commenced on 01.04.2004 and ended on 31.03.2006. Stage-III was likely to be implemented from 01.04.2006 after review of the implementation of Stage-I and Stage-II.</p> <p>However, the Committee were informed during the course of evidence in December, 2006 by Secretary, Department of Fertilizers that NPS was at a very advanced stage and they had proposed to extend the NPS-II till September, 2006. Further the Committee were informed by the Department of Fertilizers that the policy for NPS Stage-III has been made effective from 1.10.2006 to 31.3.2010. Stage II policy had been extended upto 30.9.2006. The Committee hope that the Government would implement Stage-III of NPS in letter and spirit so that fertilizer industry becomes an industry friendly sector and much needed investment is put in the growth of the fertilizer sector. The Committee also desire the Government to constantly review the progress in regard to implementation of Stage III of NPS by taking corrective measures wherever necessary.</p>

7.	2.70	<p>The Committee were informed that natural gas is the preferred feedstock for production of urea in comparison to other feedstocks as it is more efficient and clean source of energy, cheaper and more cost effective in terms of manufacturing cost of urea. But due to dwindling supplies of Administered Price Mechanism (APM) gas, gas based units have been facing shortage of natural gas. The Committee were also informed by the Fertilizer Association of India (FAI) during the evidence that in the year 2005-06 the total requirement of gas was 35.05 MMSCMD, therefore, actual gas supply was only 28.09 MMSCMD and shortfall in supply was 7.41 MMSCMD. It was also informed to the Committee by Secretary, Department of Fertilizers during the evidence that they would try to make gas available by 2008-09 and they are asking all the fertilizer units in the country to enter into specific agreements with GAIL or Reliance in the next six months. While appreciating the various measures taken by the Department, the Committee hope that Government would leave no stone unturned for making the availability of gas to the fertilizer sector by 2008-09.</p>
8.	2.76	<p>Bio-Fertilizers is useful in promoting agricultural production as they are eco-friendly and cost effective fertilizers. The Committee are happy to note that the overall production of bio-fertilizers has increased during the year 2005-06 as compared to 2004-05. The production of bio-fertilizers was 10594.90 tonnes in the year 2004-05 and 10764.42 tonnes in 2005-06. However, the Committee express their displeasure that the zonewise production has declined as some States in each zone have nil production of bio-fertilizers during the years 2004-05 and 2005-06. The Committee, therefore, recommend that Government should take adequate steps to raise the production of Bio-fertilizers zone-wise and educate farmers about the advantages of bio-fertilizers and thereby encourage them to use it. The Committee also recommend that Ministry of Chemicals and Fertilizers should take up the issue with Ministry of Agriculture and Ministry of Finance so as to provide incentive to farmers and others producing bio-fertilizers. The Committee feel that such a step would encourage the use of bio-fertilizers.</p>

<p align="center">9.</p>	<p align="center">3.12</p>	<p>The Committee were informed that the Department of Fertilizers has an elaborate and meticulous system of supply of urea under the Essential Commodities Act (ECA) and other decontrolled fertilizers to various States and UTs for maintenance of uninterrupted flow of fertilizers to farmers at reasonable prices throughout the country. The demand and availability position is also being monitored regularly in consultation with State Governments and other leading fertilizer companies. Besides, drawing up a supply plan in respect of decontrolled fertilizers i.e. DAP and MOP, introducing the web-based Fertilizer Monitoring System (FMS) and functioning of a Grievance Cell under the Department of Fertilizers are the efforts made by the Department for proper movement of fertilizers and identifying the shortage areas. The Committee appreciate that these are very good steps taken by the Department of Fertilizers in the interests of Indian farmers all over the country and hope that this exercise will continue in future as well. The Committee also recommend that Centre should devise a foolproof mechanism to contain the adulteration of fertilizers so that farmers obtain unadulterated supply of fertilizers.</p>
<p align="center">10.</p>	<p align="center">3.20</p>	<p>The Committee observe that there is not much difference in availability and consumption of fertilizers in South, West, North and East Zone for the year 2005-06 and 2006-07. However, the Committee note that North East is low consuming zone of fertilizer as compared to other Zones. The Committee agree with the reasons given by the Department of Fertilizers for low consumption of fertilizers in North-East zone. The Committee also note with concern that even after lapse of sixteen years, State/UT Governments have not considered the advice given by the Department of Agriculture & Cooperation regarding exemption of small dealers having fertilizers upto 2 tonnes at the time of requirement of dealership registration certificate. The Committee, therefore, recommend that State/UT Governments should consider the advice of Department of Agriculture & Cooperation and implement the same to make fertilizer available in hilly and remote area. The Committee also recommend for preferring organic farming in most of the North-Eastern States.</p>

11.	4.20	<p>The Committee note that the Department of Fertilizers has been entrusted the responsibility of ensuring movement, distribution and allocation of controlled fertilizer i.e. urea from various fertilizer plants and ports in accordance with the statewise assessment made by the Department of Agriculture & Cooperation (DAC). The distribution of imported urea is made keeping in view the requirement of each of the States. Approximately 75% of urea is transported from the factory to the railheads near the destinations by rail. The Committee recommend that the Department of Fertilizers should take necessary steps in collaboration with other agencies like Railways for timely distribution and movement of fertilizers to different parts of the country. The Committee desire that corrective measures should be taken by the Government to ensure efficient and timely evacuation of fertilizers from ports.</p>
12.	4.21	<p>The Committee observe that in case of urea the primary freight which primarily consists of rail movement is fully compensated under the subsidy regime. The Committee also note that Department of Fertilizers propose to link the escalation in road freight rates to increase in the wholesale price indices of all commodities, motor tyres, truck body in addition to increase in the price of diesel oil. While appreciating the proposal of the Department in this regard, the Committee hope that the proposal to include all the variables especially in case of road transport would be considered by the Department soon and the Committee be apprised accordingly. In-so-far as de-controlled fertilizers are concerned, the Committee note that compensation in respect of freight is fixed on the basis of recommendations of Tariff Commission which <u>inter-alia</u> make it obligatory on the part of industry to supply fertilizer to distant areas. The Committee were informed that there is reluctance on the part of the suppliers to supply fertilizer to distant locations where cost of movement is not fully reimbursed. As the proposal for rationalization of freight component is under consideration, the Committee recommend that Government should chalk out a feasible formula in consultation with Association of Fertilizer Industries so that fertilizer industry do not hesitate to supply fertilizer in distant and remote places.</p>

13.	4.22	<p>The Committee note that 75% of urea is transported from the factory to the railheads by rail and 25% of urea is transported by road. The average cost of transportation by railways is approximately 50 paise per tonne/ k.m. and the normal average cost of transportation of fertilizers by road is approximately Rs. 1.50 paise per tonne/ k.m. On the issue of increase in the railway freight, the Committee were informed by the Fertilizers Association of India that the cost of delivery of urea has been increased by 33 percent and in the case of other fertilizers, it has gone up by 27 percent due to increase in railway freight in the last fourteen months. The Committee find that the fertilizer subsidy has increased substantially due to higher freight cost. In the year 2005-06, 32 million tonnes of fertilizers were moved by rail and the transportation cost of fertilizers has increased by 30 percent since April, 2005. The Committee are failed to understand that despite constant increase in fertilizer subsidy, no steps have been taken by the Department to contain the railway freight. The Committee recommend that the Department of Fertilizers should take up the issue of increase in railway freight with the Ministry of Railways and also find out a way to minimize the burden of higher fertilizer subsidy.</p>
14.	4.23	<p>The Committee note that 50 per cent production of urea is under price and partial distribution control of Government under the Essential Commodities Act and 50 per cent is de-controlled. The Committee also note that a Working Group headed by Dr. Y.K. Alagh is exploring the possibility of de-controlling urea. It has also been submitted by the Department in their written reply that a sub-committee on Movement and Distribution of Fertilizers has given its findings. The Committee recommend that the findings of the Working Group be implemented at the earliest. The Committee hope that with the increase of production, de-bottlenecking and appropriate import policy, the urea may be de-controlled fully. As regards the supply of fertilizers in the different parts of the States/UTs, the Union Government cannot wash off their hands by simply passing the buck to State/UT Governments. The Committee understand that the distribution of fertilizers within the State is the concern of State Government but at the same time the Government should formulate a policy so as to monitor the distribution of fertilizers in all the districts of State of the country especially in backward and remote districts. As submitted by the Secretary, Department of Fertilizers that they are planning to introduce an online monitoring system, the Committee appreciate this initiative of the Department and would like to be informed about the progress made in this regard.</p>