



**STANDING COMMITTEE ON
CHEMICALS & FERTILIZERS
(2007-08)**

FOURTEENTH LOK SABHA

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

**DEMANDS FOR GRANTS
(2007-08)**

[Action Taken by the Government on the recommendations contained in the Seventeenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2006-07) on Demands for Grants (2007-08) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers)]

TWENTY SECOND REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

September, 2007/Asvina, 1929 (Saka)

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Presented to Lok Sabha on 20.11.2007

Laid in Rajya Sabha on 20.11.2007



LOK SABHA SECRETARIAT

NEW DELHI

September, 2007/Asvina, 1929 (Saka)

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE (2007-08)	4
INTRODUCTION	5
CHAPTER I Report	6
CHAPTER II Recommendations/observations which have been accepted by the Government	24
CHAPTER III Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies.....	36
CHAPTER IV Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee	37
CHAPTER V Recommendations/observations in respect of which final replies of the Government are still awaited	39

APPENDICES

I Letter No. 12012/3/2006-FPP dated 08.03.2007 of Department of Fertilizers regarding Policy for Stage-III of New Pricing Scheme for urea manufacturing units.....	49
II Minutes of the Second sitting of the Standing Committee on Chemicals & Fertilizers (2007-08) held on 12 th September, 2007....	55
III Analysis of Action Taken by the Government on the recommendations contained in the Seventeenth Report (14 th Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2006-07) on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)	57

**COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2007-08)**

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Ajit Singh
3. Shri Afzal Ansari
4. Shri Jaiprakash (Mohanlal Ganj)
5. Shri Sunil Khan
6. Shri Shrichand Kripalani
7. Shri Subhash Maharia
8. Shri Punnu Lal Mohale
9. Shri A. Narendra
10. Shri Prasanta Pradhan
11. Shri Ramswaroop Prasad
12. Shri P. Chalapathi Rao
13. Shri Ashok Kumar Rawat
14. Shri Anantha Venkata Rami Reddy
15. Shri Devwrat Singh
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 Debabrata Biswas
23. Shri B.S. Gnanadesikan
24. Shri Gireesh Kumar Sanghi
- #25. Shri Surendra Lath
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> |

* Consequent upon nomination to the Committee on Food, Consumer Affairs and Public Distribution, Shri Suresh Angadi, MP (LS) ceased to be Member of the Committee w.e.f. 30.08.2007.

Nominated w.e.f. 06.09.2007 vice Shri Devdas Apte, MP (RS).

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2007-08) having been authorised by the Committee to submit the Report on their behalf, present this Twenty Second Report on Action Taken by the Government on the recommendations contained in the Seventeenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2006-07) on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Seventeenth Report of the Committee was presented to Lok Sabha on 26th April, 2007. The replies of Government to all the recommendations contained in the Seventeenth Report were received on 20th August, 2007. The Standing Committee on Chemicals and Fertilizers (2007-08) considered the Action Taken Replies received from the Government and adopted the Draft Action Taken Report at their sitting held on 12th September, 2007.

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

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

NEW DELHI
26 September, 2007

4 Asvina, 1929 (Saka)

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

REPORT

CHAPTER – I

This Report of the Committee deals with the action taken by the Government on the recommendations/observations contained in the Seventeenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2006-07) on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers), which was presented to Lok Sabha on 26th April, 2007.

2. The Ministry of Chemicals and Fertilizers (Department of Fertilizers) were requested to furnish replies to the recommendations/observations contained in the Seventeenth Report of the Committee within three months from the presentation of the Report i.e. by 26th July, 2007. The Action Taken Replies of the Government in respect of all the 20 recommendations/observations contained in the Report were received on 20th August, 2007. These have been categorised as follows:-

Recommendations/observations which have been accepted by the Government:
Sl. Nos. 1, 3, 4, 5, 9, 10, 12, 13, 14, 17 and 19

Total - 11

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

Nil

Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:
Sl. No. 2

Total - 1

Recommendations/observations in respect of which final replies of the Government are still awaited:

Sl. Nos. 6, 7, 8, 11, 15, 16, 18 and 20

Total - 8

3. The Committee hope that utmost importance would be given to the implementation of the recommendations/observations accepted by the Government. In cases, where it is not possible for the Ministry to implement the recommendations/observations in their letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desire that the Action Taken Notes on the recommendations/observations contained in Chapter-I of this Report and the final replies in respect of the recommendations for which only interim replies have been furnished by the Government should be furnished expeditiously.

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

A. Follow-up Action on the recommendations contained in the Twelfth Report of the Committee.

(Recommendation Sl. No.1)

5. The Committee had examined the follow-up action by the Government on the recommendations contained in the Twelfth Report of the Committee on Demands for Grants (2006-07) of the Department of Fertilizers. The Committee have also reviewed the progress of implementation of their recommendations contained in the Fifteenth and Seventeenth Reports and also the action taken replies submitted by the Department of Fertilizers now. The Committee are happy to note that the New Pricing Scheme Stage-III has been finalized and notified on 8th March, 2007. The Committee are also

happy to note that for debottlenecking/ revamp/ modernization of existing urea units, there is a provision under NPS-III that companies are free to take their own decision and additional production of urea has been incentivised. The Committee, however, note that the alternative frame-work for reimbursement subsidy directly to the farmers is still under consideration. Similarly, revival process of closed fertilizer PSUs are yet to be fully implemented. The Committee, therefore, desire that all out efforts should be made by the Government to decide and implement both the important issues on priority basis in a time bound manner and apprise the Committee about the outcome of the efforts made by them.

B. Utilization of Tenth Five Year Plan Outlay

(Recommendation Sl. No.2)

6. The Committee had recommended as under:-

“The Committee note that out of Rs.5900 crore plan outlay in regard to fertilizer sector in the 10th Five Year Plan period, the expenditure by the end of the year 2005-06 is Rs.2108.72 crore, which is about 35.72 per cent of the approved plan outlay. For the year 2006-07, the likely expenditure is Rs.2987.54 crore. The Committee have been informed that the main reasons for shortfall in utilization of plan funds are non-utilization of funds for Hazira Expansion Project of Krishak Bharati Cooperative Limited (KRIBHCO) and Thal Expansion of Project of Rashtriya Chemicals and Fertilizers Limited (RCF), exclusion of Indian Farmer Fertilizers Cooperative Limited (IFFCO) from the administrative control of Department of Fertilizers, closing of two PSUs like Fertilizer Corporation of India Limited (FCI) and Hindustan Fertilizer Corporation Limited (HFC), non-implementation of some major projects of Fertilizers and Chemicals Travancore Limited (FACT) viz. (i) New Sulphuric Acid Plant at Cochin Division, (ii) Railway

siding at Udyogmandal and certain improvements to Phase-I plants in Cochin Division, etc. Similarly, with regard to National Fertilizers Limited (NFL), the shortfall in actual expenditure is due to savings in completion costs of energy savings schemes and delay in revamping of Vijaipur-I plant. In case of Rashtriya Chemicals and Fertilizers Limited (RCF), the Ammonia- V revamp and the Argon recovery project at Thal were not implemented. Madras Fertilizers Limited (MFL) has also not utilized the full plan outlay due to dropping of six schemes during the year 2005-06 and 2006-07 while in case of Project and Development India Limited (PDIL), the funds could not be utilized due to deferment of procurement of some computer items.

Keeping in view the fact that there is a gap of about Rs.3792 crore in the allocation and anticipated utilization of the 10th Five Year Plan outlay of Department of Fertilizers, the Committee are of the view that the funds had not been utilized by the Department of Fertilizers properly during each year of the Tenth Plan period. The Committee are not satisfied with the reasons furnished by the Department for non-utilization of plan funds by each PSU. The Committee are pained to note that although they had repeatedly recommended that Department of Fertilizers should review the progress of all projects in a scientific manner on a regular basis but no adequate action had been taken by the Government on those recommendations. The Committee feel that implementation process of project planning in the PSUs/Cooperative unit under the administrative control of the Department of Fertilizers was poor as ground realities were not considered while formulating and implementing the schemes/projects. The Committee strongly feel that there is no use of fixing the targets if they can not be achieved. The Committee desire that the Department of Fertilizers should, therefore, analyze the reasons for continuous failures in achieving the targets during each year of the 10th Five Year Plan and ensure that the same shall not continue during the 11th Five Year Plan.”

7. The Ministry, in their Action Taken Reply, have stated as follows:-

“The plan achievement in the 10th Five Year Plan was low due to non-availability of gas which impeded any further decision on setting up of new fertilizer plant at Thal and Hazira. However, in compliance of the observations of the Committee the performance of each of PSU is being monitored by the Department regularly through the Quarterly Review Meetings held at the level of Secretary (F). Next QRM for the quarter ending June, 2007 is scheduled for August, 2007. “

8. The Committee are surprised to note that the Department of Fertilizers has not taken the recommendation of the Committee seriously. The Department , without following the direction of the Committee, have simply conveyed that they are monitoring the performance of each PSU through the Quarterly Review Meetings. The Committee had straightway recommended that the Department should analyse the reasons for continuous failure for achieving the targets during each year of 10th Five Year Plan so that such failures may not continue during the 11th Five Year Plan.

The Committee understand that the Quarterly Review Meetings (QRM) are regular features of all the Ministries/ Departments. As such the Department have not taken new initiative after analyzing the reasons for their failure during each year of 10th Five Year Plan. Government should examine various factors before formulating any scheme. The Committee are not happy with the Department's reply that the plan achievement in the 10th Five Year Plan was low due to non-availability of gas. Non-availability of gas may be one of the reasons but that is not the sole reason for their failure for not achieving the targets during the 10th Plan. The Committee, therefore,

once again reiterate that Department of Fertilizer should analyse the reasons for continuous failure in detail and come out with some concrete proposals so that they may not face the similar situation in the implementation of projects during the 11th Five Year Plan.

C. **Maximum utilization of plan outlay during the 11th Five Year Plan**

(Recommendation Sl. No.4)

9. The Committee had recommended as under:-

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

10. The Ministry, in their Action Taken Reply, have stated as follows:-

“ The PSUs have been asked to report their expenditure plan as well as their actual expenditure for the first quarter of 2007-08. Their expenditure will be reviewed and corrective measures will be taken expeditiously.”

11. While expressing their satisfaction over the fact that Department of Fertilizers has asked the PSUs to report their expenditure for the first quarter of 2007- 08 with a view to review their performance and take corrective measures for better utilization of budgetary amount, the Committee desire that quarterly review should be made in respect of each financial year from this year onwards and after proper review they should direct the concerned PSUs to take corrective measures for proper utilization of amount allocated to them.

D. Direct subsidy to farmers

(Recommendation Sl. No.6)

12. The Committee had recommended as under:-

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

lower production capacity and on the basis of percentage production obtain huge subsidy. The Committee feel that with the introduction of direct subsidy to farmers, this tendency would also stop. The Committee also recommend to devise a policy of subsidy according to the economic status of farmers so that the maximum benefit of subsidy may go to peasants, poor and marginal farmers. “

(Recommendation Sl. No.7)

13. The Committee had recommended as under:-

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

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

14. The Ministry, in their Action Taken Reply, have stated as follows:-

“The matter relating to alternative framework for reimbursement of subsidy directly to the farmers is under consideration of the Government. Fertilizers Association of India had entrusted a study to Tata Consultancy Services Ltd on this matter. TCS has since submitted its report which is under consideration in the

Government at various levels. Final decision on the need and feasibility of an alternative framework for direct subsidy to farmers will be taken shortly.”

15. The Ministry, in their Action Taken Reply, have further stated as follows:-

“The issues recommended by the Committee are under active consideration of the government. A Group of Ministers (GOM) has been constituted to look into sustainable use of fertilizers and pertinent subsidy and pricing issues. These issues are also being looked into by the GOM.”

16. The Committee note with concern that the matter relating to alternative framework for reimbursement of subsidy directly to the farmers is still under consideration of the Government alongwith the report of Tata Consultancy Services Limited (TCS). The Committee hope that the Government will take the final decision within shortest possible time and convey its report to the Committee accordingly. However, the Committee are happy to note that Government have constituted a Group of Ministers (GOM) to look into the sustainable use of fertilizers and pricing issues. The terms and conditions also involve the issues of direct subsidy to farmers and nutrient based subsidy to manufacturers on pilot basis. The Committee hope that the Department would pursue the matter and try to get the Report of GOM for the timely decision on these issues.

E. Concession policy for P&K and SSP Fertilizers

(Recommendation Sl. No.8)

17. The Committee had recommended as under:-

“The Committee note that the Department of Fertilizers is administering the Concession Scheme on P&K and SSP fertilizers for extending financial support to decontrolled P & K fertilizers on sale w.e.f 01.10.2006. The Government accepted the recommendation of Tariff Commission’s cost price study on complex fertilizers w.e.f. 01.04.2002. Based on the recommendations of the Tariff Commission (TC) and Inter-Ministerial Group (IMG), the Government has implemented a revised methodology of working out concession rates for DAP and MOP w.e.f 01.04.2003. An Expert Group under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission was set up to work out an alternative methodology of pricing linking the price of phosphatic acid with the international price of DAP. The Expert Group has submitted the Report and it is under examination of the Department of Fertilizers. While appreciating the Government’s efforts in this regard, the Committee are of the view that the Government are moving at a slow speed in finalizing the concession policy. The Committee, therefore, express their serious concern and reiterate their earlier recommendation that the Government should finalise their Report on concession policy relating to DAP and other complex fertilizers at the earliest. The Committee hope that early finalization of concession policy would help farmers for getting decontrolled phosphatic and potassic (P&K) fertilizers at affordable prices.”

18. The Ministry, in their Action Taken Reply, have stated as follows:-

“The Inter Ministerial Group (IMG) on the subject is likely to submit its report very shortly. After examination, the report shall be submitted before the competent authority for its acceptance and approval.” *

* At the time of factual verification of the Draft Report, Department of Fertilizers vide their O.M. No. F.No. 5(1)/2007-Fin-II (Vol-II) dated 20th September, 2007 informed as under:-

“The Department of Fertilizers administers the Concession Scheme for decontrolled Phosphatic and Potassic (P&K) fertilizers based on the recommendations of the Tariff Commission, as adopted by the Government. The Concession Scheme for P&K for 2007-08 has been notified as approved by the Cabinet Committee on Economic Affairs (CCEA) in its meeting held on 23rd August, 2007.

Upto 2005-06, the price of phos acid negotiated by the Phos acid Consumer Group (PACG) was taken into account for subsidy. However, for 2006-07, the price of phos acid was adopted as per the formula suggested by the Expert Group chaired by Prof. Abhijit Sen. The Expert Group formula linked the normative price of phosphoric acid to international price of DAP. Accordingly, the Concession policy for 2006-07 was announced. The substantive change in the Concession policy for 2006-07 related to the adoption of the normated phosphoric acid formula suggested by the Expert Group as against the negotiated price of phosphoric acid adopted earlier.

The PACG informed that the price agreed for supply of phosphoric acid in April-May 2007 for 2007-08 is US \$ 566.25 C&F per MT (cash). This price was found to be significantly less than the price of phosphoric acid derived under the formula suggested by the Expert Group, which came to US \$ 637 C&F per MT based on the prices of imported DAP and imported ammonia that prevailed during the relevant period of 15th February to 31st March, 2007. On the recommendation of the Department of Fertilizers, the CCEA therefore has approved the Concession Policy for 2007-08 adopting the negotiated price of phos acid at US \$ 566.25 per MT, since it entails lesser outgo of Concession/Subsidy vis-à-vis what was likely had the formula based approach been continued for the current year.

Separately, an Inter-Ministerial Group(IMG) was set up to examine the other recommendations of the Expert Group. The report of the IMG is under examination.”

19. The Committee have been informed that Cabinet Committee on Economic Affairs (CCEA) in its meeting held on 23rd August, 2007 had approved the concession scheme for P&K for the year 2007-08 and notified it. The Phos Acid Consumer Group (PACG) has also informed the Committee that price agreed for supply of phosphoric acid in April-May, 2007 for 2007-08 is US \$ 566.25 C&F per MT which is less than the price of phosphoric acid derived under the formula suggested by the Expert Group, i.e. US \$ 637 C&F per MT on the recommendations of Department of Fertilizers, the CCEA now approved the concession policy for 2007-08 adopting the negotiated price of phos acid at US \$ 566.25 C&F per MT. Now, the Report of the Inter-Ministerial Group (IMG) set up to examine the other recommendations of the Expert Group is under examination. The Committee are happy to note that Cabinet Committee on Economic Affairs (CCEA) has approved the concession scheme for P&K for 2007-08 and price agreed for supply of phosphoric acid has also been reduced from US \$ 637 C&F per MT to US \$ 566.25 C&F per MT for 2007-08. However, the report of the IMG is still under consideration. The Committee, therefore, recommend that keeping in view the interests of poor, small and marginal farmers, the Department would make all out efforts for expeditious finalization of report of IMG. After receipt of the report, they should not take much time to implement the recommendations of the Expert Group.

**F. Policy for investment made in new and expansion projects of urea
(Recommendation Sl. No.11)**

20. The Committee had recommended as under:-

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

21. The Ministry, in their Action Taken Reply, have stated as follows:-

“The Government has approved the New Pricing Scheme (NPS) Stage-III for urea units of 1.2.2007 and notified on 8th March 2007. New Pricing Scheme (NPS) Stage-III is effective from 1.10.2006 to 31.3.2010. Under NPS Stage-III additional production of urea has been incentivised. No permission will be required from the Government for production beyond 100% of re-assessed urea capacity of the unit. It is expected that this will lead to capacity addition in existing urea units in the country.

The present policy for new and expansion projects was announced in January 2004. The existing policy is under review in light of lack of investment in this sector for the last seven years. The revised policy for investment in this sector is expected to be finalized soon.”

(Recommendation Sl. No.16)

22. The Committee had recommended as under:-

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

proposals for de-bottlenecking and expansion of fertilizer units should be taken up at the highest level. The Committee desire that the outcome of the progress made in this regard should be conveyed to the Committee within three months from the presentation of the Report.”

23. The Ministry, in their Action Taken Reply, have stated as follows:-

“Under NPS Stage-III, the requirement of approval of Government for de-bottlenecking of existing units has been done away with. The companies are normally free to revamp their existing units as per their commercial decision. The government had earlier notified the pricing policy for investment made in new and expansion projects of urea in January, 2004. The unavailability of adequate quantity of gas has been one of the major bottlenecks for new investment in this sector.

The availability of gas in the country is now projected to increase substantially from 2008-09 onwards. The government is considering review of existing policy for new and expansion projects to ensure that the revised policy is able to attract adequate investments in this sector and utilize the opportunity being offered by projected increase in gas availability. The revised policy is at present under consideration of the government.”

24. While expressing their satisfaction over the fact that Stage-III of New Pricing Scheme for urea units has been notified which envisage additional production of urea beyond 100% of reassessed capacity of unit the Committee note with deep concern that Government have not been able to declare the fertilizer policy till date despite the fact that very few investors have come forward to invest in fertilizer sector during the last seven years. The Government is still reviewing the policy of new and expansion projects. The Committee, therefore, recommend that Government should ponder over

this serious issue and finalise the policy regarding expansion and investment in fertilizer sector, which should be investment friendly and lucrative at the earliest.

G. Stage-III of New Pricing Scheme (NPS)

(Recommendation Sl. No.12)

25. The Committee had recommended as under:-

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

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

The Committee hope that the Government would implement the Stage-III of NPS in letter and spirit so that fertilizer industry becomes an industry friendly sector and much needed investment is put in the growth of the fertilizer sector.

The Committee also expect the Government to constantly review the progress in regard to implementation of Stage-III of NPS for taking corrective measures wherever necessary.”

26. The Ministry, in their Action Taken Reply, have stated as follows:-

“The recommendations of NPS Stage-III pricing policy notified by the Department of Fertilizers on 8th March 2007, are being implemented by the DOF. The representations and the problems submitted by the Fertilizer company, with reference to Stage-III policy, are also under examination/consideration of Department of Fertilizers.”

27. The Committee are not satisfied with the reply given by the Department of Fertilizers that recommendations of New Pricing Scheme (NPS) Stage-III are being implemented by them. Even the Department has not specified the problems being faced by the fertilizer sector for the last one year in the absence of any policy. Considering the urgency of the matter, the Committee once again strongly recommend that sincere efforts should be made by the Government to review the progress of implementation of Stage-III of NPS. As furnished by the Department that the representations and problems submitted by the fertilizer companies with reference to Stage-III of NPS Policy are under examination of Department of Fertilizers, the Committee hope that the Department would resolve such issues in an objective manner and make the policy manufacturers' friendly. The Committee would like to be apprised of conclusive action taken in the matter at the earliest.

H. Revival of closed fertilizer PSUs

(Recommendation Sl. No.18)

28. The Committee had recommended as under:-

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

29. The Ministry, in their Action Taken Reply, have stated as follows:-

“Based on the recommendations of the BRPSE, a proposal for obtaining in-principle approval of the Government for revival of HFC & FCI was submitted to the Cabinet on 28.3.2007. The proposal was considered by the Cabinet in its meeting held on 12.4.2007 and decided as under:-

decided ‘in-principle’ to examine the feasibility of reviving FCIL and HFCL, subject to the confirmed availability of gas; and

underlined the need for a hard look at the prospects of revival in view of the factors that led to the closure of the entities.

Pursuant to the Cabinet decision, the companies have drawn a road map. Well-run fertilizer PSUs namely, M/s Rashtriya Chemicals & Fertilizers Ltd. (RCF)

and M/s National Fertilizer Ltd. (NFL) and Fertilizer Cooperative viz. Krishak Bharti Cooperative Limited (KRIBHCO) have been advised to submit detailed proposals regarding the possibility of revival and keenness of their company for the same to the Department of Fertilizers. As regards PPCL, a draft proposal to be submitted to the BRPSE for obtaining their recommendations for revival of the company, is under examination in the Department of Fertilizers.

As regards the two loss making fertilizer PSUs namely, Fertilizers & Chemicals Travancore Ltd. (FACT) and Madras Fertilizers Ltd.(MFL), draft proposals for financial restructuring are under finalization in the Department of Fertilizers. Thus, the Department has been taking expeditious steps for the revival of closed and loss making fertilizer units. The delay in implementation has been due to factors which are beyond the control of the Department of Fertilizers.”

30. The Committee note that Government have taken steps for revival of closed fertilizer PSUs and the process is at different stages of implementation. The Government have not clearly mentioned about the factors which according to them are beyond the control of Department of Fertilizers for the timely implementation of this process. The Committee, therefore, strongly recommend that Government should take steps to remove the hurdles in this regard and expedite the financial restructuring of loss making PSUs. The Committee, however, desire that the Government should not ignore the interest of workers in the process of restructuring.

I. **Insurance Scheme for farmers**

(Recommendation SI. No.20)

31. The Committee had recommended as under:-

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

32. The Ministry, in their Action Taken Reply, have stated as follows:-

“ The Department of Fertilizers have decided to initiate a Study to evaluate the success of ‘Sankat Haran Bima Yojana Policy’ for farmers. The Department of Fertilizers has awarded the evaluation Study to ‘Agricultural Finance Corporation Ltd., New Delhi’.”

33. The Committee note that Department of Fertilizers has decided to initiate a study to evaluate the success of scheme called ‘Sankat Haran Bima Yojana Policy’ started by KRIBHCO for farmers. The Committee desire that the study should be completed in a time bound manner and necessary modifications, if required should be made in the present scheme. The Committee also desire that Government should take initiatives to popularize the scheme amongst the farmers so that their participation is increased and they are compensated to the loss of their produce in case of any calamity.

CHAPTER – II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation Sl. No. 1)

The Twelfth Report of the Committee on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) was presented to Parliament on 19th May, 2006. The fifteenth Action Taken Report on action taken by the Government on the recommendations contained in Twelfth Report was presented to Lok Sabha on 27th February, 2007 and laid on the Table of Rajya Sabha on 1st March, 2007. Out of the total 19 recommendations, 10 Recommendations (Sl. Nos. 1,5,6,7,8,9,15,17,18 and 19) were accepted by the Government. In view of the Government's replies, Recommendations at Sl. Nos. 12 and 16 were not pursued by the Committee. In regard to Recommendations at Sl. Nos. 2,3,4,10,11,13 and 14, the replies of the government were of interim nature. Subsequently, the Minister of Chemicals and Fertilizers made a Statement regarding the status of implementation of the recommendations contained in Twelfth Report of the Committee in Lok Sabha on 18th December, 2006 under Direction 73 A of the Directions by the Speaker, Lok Sabha.

The Committee's analysis of implementation of recommendations by the Government has revealed that out of the total 19 Recommendations, the Department of Fertilizers have implemented only 5 Recommendations so far. The implementation process in regard to 5 recommendations is in progress. The Recommendations at Sl. Nos. 2,3,4,10,11,12,13,14 and 16 relating to shortfall in utilization of plan outlay, project planning and implementation in PSUs, plan strategies in regard to 11th Five Year Plan, finalization of Stage-III of NPS, disbursement of subsidy directly to farmers, de-bottlenecking/revamp/modernization of existing urea units, revival of sick, loss making and closed fertilizer PSUs have not been implemented so far. The Committee are dismayed at the slow pace of the implementation process of their Recommendations and desire that sincere efforts

for properly and timely implementation of their Recommendations should be made by the Department of Fertilizer without further delay.

Reply of the Government

(i) Finalization of Stage-III of NPS.

The Government has approved the New Pricing Scheme(NPS) Stage-III for urea units on 1.2.2007 and notified on 8th March 2007 (**Appendix-I**). New Pricing Scheme(NPS) Stage-III is effective from 1.10.2006 to 31.3.2010.

(ii) Debottlenecking/revamp/modernization of existing urea units

Under NPS-III, no Fertilizer company would need approval from Government of India for de-bottlenecking/revamp etc. The companies are free to take their commercial decision on their own for debottlenecking of fertilizer plants. Further under NPS Stage-III additional production of urea has been incentivised.

(iii) Disbursal of subsidy to farmers.

The matter relating to alternative frame work for reimbursement of subsidy directly to the farmers is under consideration of the Government. Fertilizers Association of India had entrusted a study to Tata Consultancy Services Ltd on this matter. TCS has since submitted its report which is under consideration in the Government at various levels. Final decision on the need and feasibility of an alternative framework for direct subsidy to farmers will be taken shortly.

(iv) Revival of the closed fertilizer PSUs

The Department of Fertilizers has been taking all necessary steps expeditiously for obtaining the necessary approvals of the competent authorities for revival of the closed fertilizer PSUs and for financial restructuring of the loss making fertilizer PSUs. The process in this direction are under different stages of implementation. The delay is attributable to factors which are beyond the control of Department of Fertilizers.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 5 of Chapter-I of the Report)

(Recommendation Sl. No.3)

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

Reply of the Government

Efforts are being made to increase domestic production of urea and also to encourage its additional production by revamping/ modernization and adoption of alternative source like Natural Gas/ LNG as feed stock, which is the most cost effective and least polluting feed stock in the fertilizer sector.

To meet the projected demand for urea during the 11th Plan period, Government has announced 'incentive for additional production of urea' in the New Pricing Scheme Stage-III. In case of urea targets fixed for the year 2007-08, are on the higher side as compared to previous year.

Basic raw materials for production of phosphatic fertilizers are being imported because of limited sources in the country. 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 at reasonable prices. The production target set for DAP for the year 2007-08, is also higher as compared to previous year.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No.4)

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

Reply of the Government

The PSUs have been asked to report their expenditure plan as well as their actual expenditure for the first quarter of 2007-08. Their expenditure will be reviewed and corrective measures will be taken expeditiously.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 11 of Chapter-I of the Report)

(Recommendation Sl. No. 5)

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

Reply of the Government

Keeping in view the rising trend in the fertilizer subsidy because of the increased cost of fertilizers and requirement in the country, Department of Fertilizers is fully concerned for getting adequate amount of funds from Ministry of Finance. Accordingly, attention of Ministry of Finance, Department of Expenditure

as well as Prime Minister's Office has been drawn to the extent of under provisioning in the Budgetary Allocation. Department is hopeful that adequate funds would be made available during the first and second supplementary demand for grants. Since the raw materials/intermediates for manufacturing decontrolled phosphatic and potassic fertilizers are not available in the country, we have to depend upon the import of the same. The country has to bear the rising cost of the inputs as well as the finished fertilizers.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No. 9)

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

Reply of the Government

Very close coordination is being maintained by the Department of Fertilizers with the Railways for ensuring proper evacuation of fertilizers from the ports. Apart from weekly meetings with the officials of Railways, joint visits and inspection of senior officers from Railways and the Department of Fertilizers to the major ports like Kandla, Mundra and Vizag have been organized. These meetings and joint visits have yielded good results and the process of evacuation of fertilizers from ports has registered improvement.

Regular interaction is also maintained by the Department of Fertilizers officials with the Agriculture Department of the states. In addition, meetings with the state governments to review the availability of fertilizers in the current month and supply plan for next month, chaired by Secretary (Fertilizers), are held every month to establish coordination between the state governments and the Department of Fertilizers.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No. 10)

The Committee are happy to note that during the current financial year supply of the fertilizer shall be made to district level. The Committee also appreciate that the first week of every month 75% of the requirement would be made available and the remaining 25% would be made available within the next 15 days. The Committee have also been informed that an online monitoring system has also been launched which would enable each Member of Parliament to know, in his Constituency, the requirement of fertilizer and availability on daily basis. While appreciating the new initiatives taken by the Department, the Committee hope that the promises made by the Department are fulfilled in-toto and there will be no procedural delay in this regard. The Committee are of the view that on-line monitoring system should also be available to the Public at large from block headquarters where kiosks may be set up in coordination with National

Informatics Centre (NIC) where all the data of the fertilizer demand and availability are available district / block-wise. Such an initiative would bring the transparency in the demand and availability and contain the problem of black-marketing and hoarding.

Reply of the Government

An on-line Fertilizer Monitoring System has been launched by the Department of Fertilizers and has been operational. This system may be accessed by the Hon'ble Member of Parliaments / Member of Public to know the requirement and availability of fertilizers in a particular district by simply login to urvarak.co.in from Internet kiosk available in any part of India.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No. 12)

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

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

fertilizer production stagnated, the imports of fertilizers also affected resulting in outgoing foreign exchange.

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

Reply of the Government

The recommendations of NPS Stage-III pricing policy notified by the Department of Fertilizers on 8th March 2007, are being implemented by the DOF. The representations and the problems submitted by the Fertilizer company, with reference to Stage-III policy, are also under examination/consideration of Department of Fertilizers.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 27 of Chapter-I of the Report)

(Recommendation Sl. No.13)

The Committee note that Gramin Vikas Trust (GVT) established by KRIBHCO in 1999 has been implementing two rainfed projects called (i) Western India Rainfed Farming Project (WIRFP) and (ii) Eastern India Rainfed Farming Project (EIRFP) with the technical and financial assistance provided by the Department for International Development (DFID) of the British Government. The EIRFP has completed its extended tenure on 31.03.2005 and WIRFP is being implemented by GVT, which will be completed by June, 2007. At present, 3 States and 7 districts are covered in WIRFP for developing the farming system and establishing village-based institutions with low cost technology. The

Committee find that such projects have been useful to the backward and tribal areas where these projects have been able to provide some employment in the rural/backward/tribal areas. The Committee, therefore, expect the Department to help PSUs/Cooperatives under its administrative control to secure funds from various sources to carry out such projects across the country.

Reply of the Government

Department of Fertilizers has noted this recommendation and PSUs under its administrative control will be pursued accordingly.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No.14)

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

Reply of the Government

The funds allocation for the S&T Programmes of the Department has been enhanced during 2007-08 to Rs. 5.5 crores. The Scheme has been advertised widely through newspapers and S&T journals. The proposals received so far are under consideration of the Screening Committee.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No. 17)

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

Reply of the Government

The Department of Fertilizers is in continuous touch with Ministry of Petroleum & Natural Gas for adequate allocation of natural gas to the fertilizer sector. The first meeting of the Committee, under the Chairmanship of Secretary (Petroleum) was held on 9.4.07. In the meeting the pipeline connectivity plan for next 3-4 years was projected in detail and it was ascertained that all fertilizer units in the country including non-gas based existing units and the closed units will have gas pipeline connectivity by 2010-11. However, Ministry of Petroleum & Natural Gas has assured adequate availability of gas in future for the fertilizer sector. The price of gas for the fertilizer sector will be considered in subsequent meeting.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No. 19)

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

Reply of the Government

The Ministry of Petroleum and Natural Gas has indicated that the gas pipeline connectivity will be provided to the closed units by the year 2009-10 and 2010-11 positively. The Ministry has also assured adequate availability of gas for revival of the closed units in the country.

The Government has on 12.4.2007 decided, inter-alia, to examine the feasibility of revival of closed units of FCIL and HFCL subject to the confirmed availability of gas. The Government's decision has been intimated to FCIL and HFCL for implementation. Fertilizer PSUs/Cooperatives – Rashtriya Chemicals & Fertilizers Ltd (RCF), National Fertilizers Limited (NFL) and Krishak Bharati Cooperative Ltd (KRIBHCO) have shown their intention to participate in the revival process and accordingly process of preparing Techno-Economic Feasibility report have been initiated.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

CHAPTER – III

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

NIL

CHAPTER – IV

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

(Recommendation Sl. No. 2)

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

Keeping in view the fact that there is a gap of about Rs.3792 crore in the allocation and anticipated utilization of the 10th Five Year Plan outlay of Department of Fertilizers, the Committee are of the view that the funds had not been utilized by the Department of Fertilizers properly during each year of the Tenth Plan period. The Committee are not satisfied with the reasons furnished by the Department for non-utilization of plan funds by each PSU. The Committee are pained to note that although they had repeatedly recommended that Department of Fertilizers should review the progress of all projects in a scientific manner on a regular basis but no adequate action had been taken by the Government on those recommendations. The Committee feel that implementation process of project planning in the PSUs/Cooperative unit under the administrative control of the Department of Fertilizers was poor as ground realities were not considered while formulating and implementing the schemes/projects. The Committee strongly feel that there is no use of fixing the targets if they can not be achieved. The Committee desire that the Department of Fertilizers should, therefore, analyze the reasons for continuous failures in achieving the targets during each year of the 10th Five Year Plan and ensure that the same shall not continue during the 11th Five Year Plan.

Reply of the Government

The plan achievement in the 10th Five Year Plan was low due to non-availability of gas which impeded any further decision on setting up of new fertilizer plant at Thal and Hazira. However, in compliance of the observations of the Committee the performance of each of PSU is being monitored by the Department regularly through the Quarterly Review Meetings held at the level of Secretary (F). Next QRM for the quarter ending June, 2007 is scheduled for August, 2007.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

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

CHAPTER – V

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

(Recommendation Sl. No. 6)

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

Reply of the Government

The matter relating to alternative framework for reimbursement of subsidy directly to the farmers is under consideration of the Government. Fertilizers Association of India had entrusted a study to Tata Consultancy Services Ltd on this matter. TCS has since submitted its report which is under consideration in the

Government at various levels. Final decision on the need and feasibility of an alternative framework for direct subsidy to farmers will be taken shortly.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 16 of Chapter-I of the Report)

(Recommendation Sl. No. 7)

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

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

Reply of the Government

The issues recommended by the Committee are under active consideration of the government. A Group of Ministers (GOM) has been constituted to look into sustainable use of fertilizers and pertinent subsidy and pricing issues. These issues are also being looked into by the GOM.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 16 of Chapter-I of the Report)

(Recommendation Sl. No. 8)

The Committee note that the Department of Fertilizers is administering the Concession Scheme on P&K and SSP fertilizers for extending financial support to decontrolled P & K fertilizers on sale w.e.f 01.10.2006. The Government accepted the recommendation of Tariff Commission's cost price study on complex fertilizers w.e.f. 01.04.2002. Based on the recommendations of the Tariff Commission (TC) and Inter-Ministerial Group (IMG), the Government has implemented a revised methodology of working out concession rates for DAP and MOP w.e.f 01.04.2003. An Expert Group under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission was set up to work out an alternative methodology of pricing linking the price of phosphatic acid with the international price of DAP. The Expert Group has submitted the Report and it is under examination of the Department of Fertilizers. While appreciating the Government's efforts in this regard, the Committee are of the view that the Government are moving at a slow speed in finalizing the concession policy. The Committee, therefore, express their serious concern and reiterate their earlier recommendation that the Government should finalise their Report on concession policy relating to DAP and other complex fertilizers at the earliest. The Committee hope that early finalization of concession policy would help farmers for getting decontrolled phosphatic and potassic (P&K) fertilizers at affordable prices.

Reply of the Government

The Inter Ministerial Group (IMG) on the subject is likely to submit its report very shortly. After examination, the report shall be submitted before the competent authority for its acceptance and approval. *

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 19 of Chapter-I of the Report)

* At the time of factual verification of the Draft Report, Department of Fertilizers vide their O.M. No. F.No. 5(1)/2007-Fin-II (Vol-II) dated 20th September, 2007 informed as under:-

“The Department of Fertilizers administers the Concession Scheme for decontrolled Phosphatic and Potassic (P&K) fertilizers based on the recommendations of the Tariff Commission, as adopted by the Government. The Concession Scheme for P&K for 2007-08 has been notified as approved by the Cabinet Committee on Economic Affairs (CCEA) in its meeting held on 23rd August, 2007.

Upto 2005-06, the price of phos acid negotiated by the Phos acid Consumer Group (PACG) was taken into account for subsidy. However, for 2006-07, the price of phos acid was adopted as per the formula suggested by the Expert Group chaired by Prof. Abhijit Sen. The Expert Group formula linked the normative price of phosphoric acid to international price of DAP. Accordingly, the Concession policy for 2006-07 was announced. The substantive change in the Concession policy for 2006-07 related to the adoption of the normated phosphoric acid formula suggested by the Expert Group as against the negotiated price of phosphoric acid adopted earlier.

The PACG informed that the price agreed for supply of phosphoric acid in April-May 2007 for 2007-08 is US \$ 566.25 C&F per MT (cash). This price was found to be significantly less than the price of phosphoric acid derived under the formula suggested by the Expert Group, which came to US \$ 637 C&F per MT based on the prices of imported DAP and imported ammonia that prevailed during the relevant period of 15th February to 31st March, 2007. On the recommendation of the Department of Fertilizers, the CCEA therefore has approved the Concession Policy for 2007-08 adopting the negotiated price of phos acid at US \$ 566.25 per MT, since it entails lesser outgo of Concession/Subsidy vis-à-vis what was likely had the formula based approach been continued for the current year.

Separately, an Inter-Ministerial Group(IMG) was set up to examine the other recommendations of the Expert Group. The report of the IMG is under examination.”

(Recommendation Sl. No. 11)

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

Reply of the Government

The Government has approved the New Pricing Scheme (NPS) Stage-III for urea units of 1.2.2007 and notified on 8th March 2007. New Pricing Scheme (NPS) Stage-III is effective from 1.10.2006 to 31.3.2010. Under NPS Stage-III additional production of urea has been incentivised. No permission will be required from the Government for production beyond 100% of re-assessed urea capacity of the unit. It is expected that this will lead to capacity addition in existing urea units in the country.

The present policy for new and expansion projects was announced in January 2004. The existing policy is under review in light of lack of investment in this sector for the last seven years. The revised policy for investment in this sector is expected to be finalized soon.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 24 of Chapter-I of the Report)

(Recommendation Sl. No. 15)

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

Reply of the Government

The matter regarding sufficient allocation of funds for projects/schemes for the benefit of North-Eastern Region and Sikkim has already been taken up with the Planning Commission. Simultaneously, M/s. BVFCL has got study conducted from PDIL for revamp/retrofitting of existing plants and also for establishing a brownfield plant at Namrup. The Techno-Economic Feasibility Report for the same has been received and is under consideration.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

(Recommendation Sl. No. 16)

The Committee have been informed that the Department of Fertilizers announced a policy in January, 2004 for creation of additional capacity of urea by way of new and expansion projects and de-bottlenecking/revamp/modernization of existing urea units. The policy have generated very good response in the fertilizer industry. The Department has received proposals from various urea companies for expansion and de-bottlenecking, which would result in additional capacity of

about 50.8 LMT of urea. However, the Committee are dismayed to note that the status of approval of proposals regarding de-bottlenecking and expansion of fertilizer units is almost remain the same as compared to the last year. The Committee are of the view that after approval of pricing policy for urea units for Stage-III of New Pricing Scheme (NPS), the capacity utilization of the fertilizer industry should also be improved through revamping/modernization of the existing urea units. The Committee, therefore, strongly recommend that considering the stagnated production capacity in fertilizer, the matter regarding examination of the proposals for de-bottlenecking and expansion of fertilizer units should be taken up at the highest level. The Committee desire that the outcome of the progress made in this regard should be conveyed to the Committee within three months from the presentation of the Report.

Reply of the Government

Under NPS Stage-III, the requirement of approval of Government for de-bottlenecking of existing units has been done away with. The companies are normally free to revamp their existing units as per their commercial decision. The government had earlier notified the pricing policy for investment made in new and expansion projects of urea in January, 2004. The unavailability of adequate quantity of gas has been one of the major bottlenecks for new investment in this sector.

The availability of gas in the country is now projected to increase substantially from 2008-09 onwards. The government is considering review of existing policy for new and expansion projects to ensure that the revised policy is able to attract adequate investments in this sector and utilize the opportunity being offered by projected increase in gas availability. The revised policy is at present under consideration of the government.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 24 of Chapter-I of the Report)

(Recommendation Sl. No. 18)

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

Reply of the Government

Based on the recommendations of the BRPSE, a proposal for obtaining in-principle approval of the Government for revival of HFC & FCI was submitted to the Cabinet on 28.3.2007. The proposal was considered by the Cabinet in its meeting held on 12.4.2007 and decided as under:-

- (i) decided 'in-principle' to examine the feasibility of reviving FCIL and HFCL, subject to the confirmed availability of gas; and
- (ii) underlined the need for a hard look at the prospects of revival in view of the factors that led to the closure of the entities.

Pursuant to the Cabinet decision, the companies have drawn a road map. Well-run fertilizer PSUs namely, M/s Rashtriya Chemicals & Fertilizers Ltd. (RCF) and M/s National Fertilizer Ltd. (NFL) and Fertilizer Cooperative viz. Krishak Bharti Cooperative Limited (KRIBHCO) have been advised to submit detailed proposals regarding the possibility of revival and keenness of their company for the same to

the Department of Fertilizers. As regards PPCL, a draft proposal to be submitted to the BRPSE for obtaining their recommendations for revival of the company, is under examination in the Department of Fertilizers.

As regards the two loss making fertilizer PSUs namely, Fertilizers & Chemicals Travancore Ltd. (FACT) and Madras Fertilizers Ltd.(MFL), draft proposals for financial restructuring are under finalization in the Department of Fertilizers. Thus, the Department has been taking expeditious steps for the revival of closed and loss making fertilizer units. The delay in implementation has been due to factors which are beyond the control of the Department of Fertilizers.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 30 of Chapter-I of the Report)

(Recommendation Sl. No.20)

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

Reply of the Government

The Department of Fertilizers have decided to initiate a Study to evaluate the success of 'Sankat Haran Bima Yojana Policy' for farmers. The Department of Fertilizers has awarded the evaluation Study to 'Agricultural Finance Corporation Ltd., New Delhi'.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 5(1)//2007-Fin.II (Vol.-II) dated 20.08.2007]

Comments of the Committee

(Please see Para No. 33 of Chapter-I of the Report)

NEW DELHI
26 September, 2007
4 Asvina, 1929 (Saka)

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

MINUTES

**STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS
(2007-08)**

**SECOND SITTING
(12.09.2007)**

The Committee sat from 1500 hrs. to 1545 hrs.

Present

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

2. Shri Jaiprakash (Constituency – Mohanlal Ganj)
3. Shri Sunil Khan
4. Shri A. Narendra
5. Shri Prasanta Pradhan
6. Shri Ramswaroop Prasad
7. Shri P. Chalapathi Rao
8. Shri Anantha Venkata Rami Reddy
9. Shri Narsingrao H. Suryawanshi

Rajya Sabha

10. Shri Debabrata Biswas
11. Shri Surendra Lath
12. Shri Dilip Singh Judev

Secretariat

1. Shri A.K. Singh - *Joint Secretary*
2. Shri A.K. Srivastava - *Deputy Secretary-II*
3. Smt. Balwant Kaur Saimbhi- *Under Secretary*

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

3. **

4. The Committee then took up for consideration the draft Report on Action Taken by the Government on the recommendations contained in the Seventeenth Report of the Committee on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers). The draft Report was also adopted by the Committee without any amendment.

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

The Committee, then, adjourned.

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

Appendix – III

(Vide Para 3 of the Introduction)

Analysis of Action Taken by the Government on the recommendations contained in the Seventeenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2006-07) on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

I	Total No. of Recommendations	20
II	Recommendations/observations which have been accepted by the Government <i>(Vide Recommendations at Sl. Nos.1, 3, 4, 5, 9, 10, 12, 13, 14, 17 & 19)</i>	11
	Percentage to Total	55%
III	Recommendations/observations which the Committee do not desire to pursue in view of Government's Replies	Nil
	Percentage of Total	Nil
IV	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee <i>(Vide Recommendation at Sl. No. 2)</i>	1
	Percentage of Total	5%
V	Recommendations/observations in respect of which final replies of the Government are still awaited <i>(Vide Recommendations at Sl. Nos. 6, 7, 8, 11, 15, 16, 18 & 20)</i>	8
	Percentage of Total	40%