



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

FOURTEENTH LOK SABHA

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

**PRODUCTION, PROCUREMENT
AND
MOVEMENT OF FERTILIZERS**

[Action Taken by the Government on the recommendations contained in the Nineteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2006-07) on 'Production, Procurement and Movement of Fertilizers']

TWENTY FOURTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI
November, 2007/Kartika, 1929 (Saka)**

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(2007-08)**

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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
November, 2007/Kartika, 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	19
CHAPTER III Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies.....	31
CHAPTER IV Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee	32
CHAPTER V Recommendations/observations in respect of which final replies of the Government are still awaited	33

APPENDICES

I Minutes of the Third sitting of the Standing Committee on Chemicals & Fertilizers (2007-08) held on 31 st October, 2007.....	36
II Analysis of Action Taken by the Government on the recommendations contained in the Nineteenth Report (14 th Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2006-07) on 'Production, Procurement and Movement of Fertilizers'	38

**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 Subhash Sureshchandra Deshmukh
17. Shri Narsingrao H. Suryawanshi
18. Shri Mansukhbhai Dhanjibhai Vasava
19. Shri D. Venugopal
20. Shri Bhanu Pratap Singh Verma
- *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. Mahdu 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).

\$ nominated w.e.f. 05.10.2007

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 Fourth Report on Action Taken by the Government on the recommendations contained in the Nineteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2006-07) on 'Production, Procurement and Movement of Fertilizers'.

2. The Nineteenth Report of the Committee was presented to Lok Sabha on 17th May, 2007. The replies of Government to all the recommendations contained in the Nineteenth Report were received on 16th 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 31st October, 2007.

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

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
November 7, 2007
Kartika 16, 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 Nineteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2006-07) on Production, Procurement and Movement of Fertilizers which was presented to Lok Sabha on 17th May, 2007.

2. The Ministry of Chemicals and Fertilizers (Department of Fertilizers) were requested to furnish replies to the recommendations/observations contained in the Nineteenth Report of the Committee within three months from the presentation of the Report i.e. by 16th August, 2007. The Action Taken Replies of the Government in respect of all the 14 recommendations/observations contained in the Report were received on 16th August, 2007. These have been categorised as follows:-

- (i) Recommendations/observations which have been accepted by the Government:

Sl. Nos. 1, 3, 4, 5, 6,7,8,10,11,13 and 14

Total - 11

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

Nil

- (iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:

Sl. No. 9

Total - 1

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

Sl. Nos. 2 and 12

Total - 2

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. **Capacity build up and production of Urea**

(Recommendation Sl. No.1)

5. The Committee had recommended as under:-

“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.”

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

“Based on the recommendations of the Board for Reconstruction of Public Sector Enterprises (BRPSE) the Government have decided, inter-alia, to examine the feasibility of reviving the closed units of FCIL and HFCL subject to the confirmed availability of gas. The Government’s decision has been conveyed to the FCIL/HFCL for implementation. Fertilizer PSUs/Cooperatives – RCF, NFL and KRIBHCO have shown their intention to participate in the revival process and accordingly process of preparing Techno-Economic Feasibility Report has been initiated. “

7. The Committee are happy to note that based on the recommendations of the Board for Reconstruction of Public Sector Enterprises (BRPSE) Government have decided to examine the feasibility of reviving the closed units of Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) subject to the confirmed availability of gas. Decision has been conveyed to both of them for implementation. While appreciating the measures taken by the Government for revival of closed fertilizer units, the Committee recommend that immediate efforts should be made by the Department for availability of gas in consultation with the Ministry of Petroleum and Natural Gas at the highest level and the outcome of the decision should be conveyed to the Committee within three months of the presentation of the Report.

B. Availability of Di-Ammonium Phosphate (DAP) and Single Super Phosphate (SSP)

(Recommendation Sl. No.2)

8. The Committee had recommended as under:-

“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 have 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.”

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

“SSP and DAP are the decontrolled fertilizers. Accordingly, the raw materials/intermediates for the manufacture of these fertilizers are procured by the manufacturers/importers. The revision of the rate of concession of the SSP is under consideration with Department of Fertilizers.”

10. Di-Ammonium Phosphate (DAP) and Single Super Phosphate (SSP) are the decontrolled fertilizers. The raw material/ intermediates for the manufacture of these fertilizers are procured by the manufacturers/ importers due to limited sources in the country. The Committee note with concern that the matter regarding revision of the rate of concession of the SSP is still under consideration with the Department of Fertilizers. The Committee, therefore, desire that Department should not take much time in resolving the issue. Simultaneously, efforts should also be made by the Department to make the SSP units viable and fully productive.

C. Investment in Fertilizer Sector

(Recommendation Sl. No.5)

11. The Committee had recommended as under:-

“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 have 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.”

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

“The Department has noted the recommendation of the Standing Committee. It is taking further steps for review of the existing policy for investment in new and expansion projects of urea. Detailed consultations are being held with the fertilizer industry in order to finalise the revised draft policy for new investment in this sector.”

13. The Committee are not convinced with the reply given by the Department that they are taking further steps to review the existing policy for investment in new and expansion projects of urea. Even Department has not elaborated their role in public – private partnership, which can play a crucial role to attract the investment in fertilizer industry for increasing the capacity of urea units. The Committee, therefore, desire that Government should take initiatives to frame such policies in consultation with fertilizer industries which attract investment in fertilizer sector and inform the Committee accordingly .

D. New Pricing Scheme (NPS)

(Recommendation Sl. No.6)

14. The Committee had recommended as under:-

“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 Price 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.”

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

“The New Pricing Scheme has been notified on 8th March, 2007 and is being implemented w.e.f. 1.10.2006 to 31.3.2010. The policy is being implemented in letter and spirit. The Department is also reviewing the progress of the implementation on a monthly basis to ensure effective implementation of the policy. “

16. The Committee note that the New Pricing Scheme (NPS) has been notified on 8th March, 2007 and is being implemented w.e.f. 01.10.2006 to 31.03.2010. The Committee are anguished to note that one year has been lapsed after implementation of NPS and Department has given a very casual reply that they are implementing the policy in letter and spirit. The Committee would like to know the impact of this scheme in the growth of fertilizer industry. The Committee, therefore, recommend that Government should prepare a time bound programme for reviewing the success of this policy and make all out efforts for effective implementation of this policy.

E. Quality of Fertilizers**(Recommendation Sl. No.9)**

17. The Committee had recommended as under:-

“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 interest 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.”

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

“A system of drawing samples from the imported and indigenous fertilizers and its testing in the Central Fertilizer Quality Control Laboratories is in existence under the Department of Agriculture and Cooperation. The state governments are empowered under Fertilizer (Control) Order to check the quality of fertilizers and initiate legal action against the culprits involved in the adulteration of fertilizers etc.”

19. The Committee are happy to note that State Governments are empowered under Fertilizer (control) order to check the quality of fertilizers and initiate legal action against the culprits involved in the adulteration of fertilizers. The Committee, however, desire that besides empowering state Governments, Union Governments should also be empowered to check the quality and quantity of fertilizers at various transit points and responsibility be fixed in case of any adulteration. Various fertilizer companies in which Union Government have its stake should also ensure that adulterated fertilizers are not sold at their outlets.

F. Distribution of Fertilizers

(Recommendation Sl. No.11)

20. The Committee had recommended as under:-

“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 state-wise 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 rail heads near the destinations by rail. The committee recommend that the Department of Fertilizers should take necessary steps in collaboration with other agencies like Ministry of Railways for timely distribution and movement of fertilizers to different parts of the country. The Committee desire that the corrective measures should be taken by the Government to ensure efficient and timely evacuation of fertilizers from ports.”

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

“Recommendation of the Committee has been noted and all out efforts are being made for timely movement of fertilizers from Plants and the Ports. As a result of joint efforts and coordination between the Ministry of Railways and Ministry of Shipping, the Department has succeeded in movement of about 106.03 LMT of indigenous Urea from the plants and about 30.28 LMT of imported urea from ports to states during Rabi 2006-07.”

22. The Committee note that all out efforts are being made by the Department of Fertilizers for timely distribution and movement of fertilizers from plants and ports as a result of which the Department has succeeded in movement of large quantity of indigenous and imported urea from ports to states during Rabi 2006-07. While appreciating the efforts made by Department of Fertilizers in coordination with the Ministry of Railways and Ministry of Shipping for enhancing the distribution and movement of fertilizers to different parts of the country, the Committee desire that Ministry of Railways should ensure that no pilferage or adulteration take place during the movement of fertilizers. The Committee hope that Department should continue this practice in future also.

G. Supply of fertilizers to distant areas

(Recommendation Sl. No. 12)

23. The Committee had recommended as under:-

“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 proposes to link the escalation in road freight rates to increase in the whole sale 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 the recommendations of Tariff Commission which inter-alia make it obligatory on the part of the industry to supply fertilizers 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.”

24. The Ministry in their Action Taken Reply have stated as under:-

“Under NPS III, fertilizer units are eligible to claim the actual freight to the declared Primary Stock Point (PSP) in the district and secondary freight from PSP to the supply points within the districts. In so far as decontrolled fertilizers are concerned, a proposal for rationalization of the freight element in the concession scheme is being submitted for consideration of CCEA shortly. “

25. The Committee note that under NPS-III Fertilizer Units are eligible to claim the actual freight to the declared Primary Stock Point (PSP) in the district and secondary freight from PSP to the supply points within the districts. While appreciating the initiative taken by the Government for rationalization of freight in case of controlled fertilizers under NPS-III, the Committee are failed to understand as to why the proposal for rationalization of the freight element in respect of decontrolled fertilizers is still under consideration of Cabinet Committee on Economic Affairs (CCEA) even after five months from the presentation of Nineteenth Report of the

Committee. The proposal should, therefore, be finalized at the earliest. After finalisation, Department of Fertilizers should ensure its proper implementation. This may also encourage fertilizer industry to supply fertilizers in distant and remote areas.

H. Distribution and Availability of Fertilizers

(Recommendation Sl. No.14)

26. The Committee had recommended as under:-

“The Committee note that 50% production of Urea is under price and partial distribution control of Government under the Essential Commodities Act and 50% is decontrolled. The Committee also note that a Working Group headed by Dr. Y.K. Alagh is exploring the possibility of decontrolling 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 the 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 the 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 on-line monitoring system, the Committee appreciate this initiative of the Government and would like to be informed about the progress made in this regard.”

27. The Ministry in their Action Taken Reply had stated as under:-

“An on-line Fertilizer Monitoring System (FMS) has become operational and may be accessed by the Public for information relating to availability of fertilizers in the district and its sales.”

28. The Committee are happy to note that an on-line Fertilizer Monitoring System (FMS) has become operational for monitoring the distribution of fertilizers in all the districts of the country. The Committee desire that Government should continue their sincere efforts at this stage so as to create awareness in general public. The Committee also desire that Government should evaluate the success of this system on regular basis. However, Department has not commented upon decontrolling the urea. They, therefore, recommend that until complete de-bottlenecking is done, production of urea is increased and appropriate import policy is undertaken, the existing policy regarding controlling of urea should continue.

CHAPTER – II**RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN
ACCEPTED BY THE GOVERNMENT****(Recommendation Sl. No. 1)**

The Committee note with concern that only one fertilizer plant has come up in 2005 and that too with 2.4 lakh m 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.

Reply of the Government

Based on the recommendations of the Board for Reconstruction of Public Sector Enterprises (BRPSE), the Government have decided, inter-alia, to examine the feasibility of reviving the closed units of FCIL and HFCL subject to the confirmed availability of gas. The Government's decision has been conveyed to the FCIL/HFCL for implementation. Fertilizer PSUs/Cooperatives – RCF, NFL and KRIBHCO have shown their intention to participate in the revival process and accordingly process of preparing Techno-Economic Feasibility Report has been initiated.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

(Please see Para No. 7 of Chapter-I of the Report)

(Recommendation Sl. No 3)

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 Deptt. 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.

Reply of the Government

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

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

(Recommendation Sl. No 4)

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 is 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 was informed by the Department that at present Department of Fertilizes have four joint ventures. First is OMIFCO, from which Department is getting urea from 16 lakh to 17 lakh tones 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 recommends that during the Eleventh Five Year Plan Government should encourage more Indian companies for setting up joint ventures abroad to fulfil our future requirement.

Reply of the Government

Under the New Pricing Scheme Stage-III, Government has committed to long-term offtake of urea for encouraging joint ventures abroad. Further, it has been decided to set up a special purpose vehicle for coordinating investments in resource rich countries abroad. The Department has also proposed an allocation of Rs.2000 crores from Government budgetary support under 11th Five Year Plan towards setting up of joint ventures abroad.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

(Recommendation Sl. No. 5)

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.

Reply of the Government

The Department has noted the recommendation of the Standing Committee. It is taking further steps for review of the existing policy for investment in new and expansion projects of urea. Detailed consultations are being held with the fertilizer industry in order to finalise the revised draft policy for new investment in this sector.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

(Please see Para No. 13 of Chapter-I of the Report)

(Recommendation Sl. No. 6)

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 Price 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.

Reply of the Government

The New Pricing Scheme has been notified on 8th March, 2007 and is being implemented w.e.f. 1.10.2006 to 31.3.2010. The policy is being implemented in letter and spirit. The Department is also reviewing the progress of the implementation on a monthly basis to ensure effective implementation of the policy.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

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

(Recommendation SI. No. 7)

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 have no stone unturned for making the availability of gas to the fertilizer sector by 2008-09.

Reply of the Government

A Committee has been constituted under the chairmanship of Secretary (Petroleum) with Secretary (Fertilizers), Secretary (Expenditure) and Member, Planning Commission as its Member to review the availability, connectivity and pricing of gas for fertilizer sector. The Committee held its first meeting on 9th April, 2007, wherein and it has been ascertained that all fertilizers plants, both existing and closed, will have pipeline connectivity by 2010-2011 and there would be adequate availability of gas from 2008-2009 onwards, for meeting the requirement of the fertilizer sector.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

(Recommendation Sl. No. 8)

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 zone wise 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 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.

Reply of the Government

Some of the UTs and small States do not produce bio-fertilizers, they meet their requirement of bio-fertilizers from their neighbouring States. In order to raise the production of bio-fertilizers, the Ministry of Agriculture is providing financial assistance upto 25% of total project cost upto a maximum of Rs.20.00 lakh per unit as credit-linked and back-ended subsidy through the National Bank for Agriculture & Rural Development (NABARD)/National Cooperative Development Corporation (NCDC) for setting up bio-fertilizer production units under the National Project on Organic Farming (NPOF). So far 24 bio-fertilizer units with a total subsidy of Rs.480.00 lakh have been sanctioned under NPOF since its inception in October 2004. Financial assistance is being provided for trainings of farmers and demonstrations on use of organic inputs including bio-fertilizers under NPOF to educate farmers about their advantages.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

(Recommendation Sl. No. 10)

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 up to 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.

Reply of the Government

For expanding the Dealers Network in the country, provisions of Fertilizer (Control) Order have been simplified for Dealers by way of dispensing with Dealers Registration Certificate requirement. Now the dealers are required to give only a memorandum of Intimation to the notified authority in form A 1 of the Fertilizer (Control) Order and acknowledgement of receipt in form A 2 of the Fertilizer (Control) Order shall be deemed to be an authorization letter and the concerned person shall be the authorized Dealer for carrying on the Business of fertilizers. This has resulted in to increase of dealers network in the country.

The North-Eastern Region has been identified as thrust area for development of organic farming. The State Governments of Sikkim and Mizoram have declared their States as Organic States. Under the National Project on Organic Farming (NPOF) funds amounting to Rs.8.69 crores were sanctioned

during 2004-05 to 2006-07 for taking up various activities for development of organic farming in the North Eastern States.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

(Recommendation Sl. No. 11)

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 state-wise 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 rail heads 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 desires that the corrective measures should be taken by the Government to ensure efficient and timely evacuation of fertilizers from ports.

Reply of the Government

Recommendation of the Committee has been noted and all out efforts are being made for timely movement of fertilizers from Plants and the Ports. As a result of joint efforts and coordination between the Ministry of Railways and Ministry of Shipping, the Department has succeeded in movement of about 106.03 LMT of indigenous Urea from the plants and about 30.28 LMT of imported urea from ports to states during Rabi 2006-07.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

(Please see Para No. 22 of Chapter-I of the Report)

(Recommendation Sl. No. 13)

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 Rs. 1.50 per tonne per k.m. On the issue of increase in the Railway freight, the Committee were informed by the Fertilizer Association of India that the cost of delivery of Urea has been increased by 33% and in the case of other fertilizers, it has gone up by 27% 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 tones of fertilizers were moved by rail and the transportation cost has increased by 30% 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 to minimize the burden of higher fertilizers subsidy.

Reply of the Government

This issue was taken up with the Ministry of Railways. Their reply is given below:-

“Ministry of Railways has been rationalizing the tariff structure since 2002-03 to remove such anomalies gradually. Revision of the tariff rate for transport of urea and phosphatic fertilizers is a part of this process with the objective of progressive reduction of cross-subsidies within the freight business and evolving a more transparent and cost based rating regime. The process necessarily requires increase in freight rates for commodities being transported below cost and lowering the freight charges for commodities being moved at an abnormally high rates. Rates for transport of urea have thus been suitably revised.

The Classification of urea was rationalized to Class-110 and Class-120 with effect from 1.12.2005 and 1.6.2006 respectively. However, with effect from 1.4.2007, freight incentives like 35% concession for loading of urea/ fertilizers in open wagons are being made available. In addition, a terminal charge of Rs. 10/- per tonne, which was levied on other

commodities w.e.f. 1.7.2007, has not been levied on fertilizers thus giving a substantial relief for transportation of this particular commodity. “

Since most of the fertilizer movement taken place by rail, increased rail freight has made it difficult for the Department of Fertilizers to reduce the incidence of freight subsidy on fertilizers

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

(Recommendation Sl. No. 14)

The Committee note that 50% production of Urea is under price and partial distribution control of Government under the Essential Commodities Act and 50% is decontrolled. The Committee also note that a Working Group headed by Dr. Y.K. Alagh is exploring the possibility of decontrolling 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 the 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 the 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 on-line monitoring system, the Committee appreciate this initiative of the Government and would like to be informed about the progress made in this regard.

Reply of the Government

An on-line Fertilizer Monitoring System (FMS) has become operational and may be accessed by the Public for information relating to availability of fertilizers in the district and its sales.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

(Please see Para No. 28 of Chapter-I of the Report)

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. 9)

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 interest 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.

Reply of the Government

A system of drawing samples from the imported and indigenous fertilizers and its testing in the Central Fertilizer Quality Control Laboratories is in existence under the Department of Agriculture and Cooperation. The state governments are empowered under Fertilizer (Control) Order to check the quality of fertilizers and initiate legal action against the culprits involved in the adulteration of fertilizers etc.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

(Please see Para No. 19 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. 2)**

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.

Reply of the Government

SSP and DAP are the decontrolled fertilizers. Accordingly, the raw materials/intermediates for the manufacture of these fertilizers are procured by the manufacturers/importers. The revision of the rate of concession of the SSP is under consideration with Department of Fertilizers.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

(Please see Para No. 10 of Chapter-I of the Report)

(Recommendation SI. No. 12)

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 proposes to link the escalation in road freight rates to increase in the whole sale 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 the recommendations of Tariff Commission which inter-alia make it obligatory on the part of the industry to supply fertilizers 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.

Reply of the Government

Under NPS III, fertilizer units are eligible to claim the actual freight to the declared Primary Stock Point (PSP) in the district and secondary freight from PSP to the supply points within the districts. In so far as decontrolled fertilizers are concerned, a proposal for rationalization of the freight element in the concession scheme is being submitted for consideration of CCEA shortly.

[M/o Chemicals and Fertilizers (Department of Fertilizers)
O.M. No. 16060/3/2006-P&I dated 16.08.2007]

Comments of the Committee

(Please see Para No. 25 of Chapter-I of the Report)

NEW DELHI
November 7, 2007
Kartika 16, 1929 (Saka)

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

MINUTES

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

**THIRD SITTING
(31.10.2007)**

The Committee sat from 1400 hrs. to 1500 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members
Lok Sabha

2. Shri Sunil Khan
3. Shri Shrichand Kripalani
4. Shri Ramswaroop Prasad
5. Shri P. Chalapathi Rao
6. Shri Ashok Kumar Rawat
7. Shri Devwrat Singh
8. Shri Narsingrao H. Suryawanshi
9. Shri D. Venugopal
10. Shri Bhanu Pratap Singh Verma

Rajya Sabha

11. Shri Gireesh Kumar Sanghi
12. Shri Mahendra Sahn
13. Shri Raj Mohinder Singh Majitha

Secretariat

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

(Vide Para 3 of the Introduction)

Analysis of Action Taken by the Government on the recommendations contained in the Nineteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2006-07) on 'Production, Procurement and Movement of Fertilizers'.

I	Total No. of Recommendations	14
II	Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 3, 4, 5, 6, 7, 8, 10, 11, 13 and 14)	11
	Percentage to Total	78.57%
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 (Vide Recommendation at Sl. No. 9)	1
	Percentage of Total	7.14%
V	Recommendations/observations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos. 2 and 12)	2
	Percentage of Total	14.29%