



**STANDING COMMITTEE ON
CHEMICALS & FERTILIZERS
(2008-09)**

FOURTEENTH LOK SABHA

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

**PERFORMANCE OF FERTILIZER INDUSTRY
IN THE PUBLIC, PRIVATE AND COOPERATIVE SECTORS**

TWENTY-SEVENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

September, 2008/Bhadrapada, 1930 (Saka)

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(DEPARTMENT OF FERTILIZERS)**

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PRIVATE AND COOPERATIVE SECTORS

Presented to Lok Sabha on 21.10.2008

Laid in Rajya Sabha on 21.10.2008



**LOK SABHA SECRETARIAT
NEW DELHI**

September, 2008/Bhadrapada, 1930 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2008-09)

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 Anand Paranjpe
11. Shri Prasanta Pradhan
12. Shri Ramswaroop Prasad
13. Shri P. Chalapathi Rao
14. Shri Ashok Kumar Rawat
15. Shri Anantha Venkata Rami Reddy
16. Shri Devwrat Singh
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 A.A. Jinnah
25. Shri Raj Mohinder Singh Majitha
26. Shri Om Prakash Mathur
27. Shri V. Hanumantha Rao
28. Shri Mahendra Sahnii
29. Shri Gireesh Kumar Sanghi
30. Shri Raghunandan Sharma
31. Vacant

Secretariat

- | | | | |
|----|---------------------------|---|-----------------------------------|
| 1. | Shri N.K. Sapra | - | <i>Additional Secretary</i> |
| 2. | Shri P. Sreedharan | - | <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 Committee Assistant</i> |

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
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6. Shri Shrichand Kripalani
7. Shri Subhash Maharia
8. Shri Punnu Lal Mohale
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18. Shri D. Venugopal
19. Shri Bhanu Pratap Singh Verma
- * 20. Shri Suresh Angadi
- §21. Shri Subash Sureshchandra Deshmukh

Rajya Sabha

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27. Shri V. Hanumantha Rao
28. Shri Mahendra Sahni
29. Shri Gireesh Kumar Sanghi
- **30. Shri Raghunandan Sharma
- *** 31 Shri Dilip Singh Judev

Secretariat

1. Shri N.K. Sapra - Additional Secretary
2. Shri S. Bal Shekar - Joint Secretary
3. Shri A.S. Chera - Director
4. Shri A.K. Srivastava - Deputy Secretary-II
5. Smt. Balwant Kaur Saimbhi - Under Secretary
6. Smt. Madhu Bhutani - Senior Committee Assistant

* Ceased to be Member of the Committee w.e.f. 30.08.2007 consequent upon his nomination to the Committee on Food, Consumer Affairs and Public Distribution,

§ Remained Member of the Committee between 05.10.2007 to 23.01.2008.

Did not remain the Member of the Committee between 02.04.2008 and 21.05.2008.

** Nominated Member of this Committee w.e.f. 21.05.2008 consequent upon the vacancies caused as a result of retirement of **Shri Surendera Lath** (nominated *vice* **Shri Devdas Apte**) and **Shri R. Shunmugasundaram** on 01.04.2008 and election of **Shri T.R. Zeliang** to Nangaland Legislative Assembly on 24.03.2008.

*** Ceased to be Member of the Committee w.e.f. 21.05.2008 consequent upon his nomination to the Committee on Petroleum and Natural Gas.

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2008-09) having been authorized by the Committee to submit the Report on their behalf present this Twenty-Seventh Report on '*Performance of Fertilizer Industry in the Public, Private and Cooperative Sectors*'.

2. The subject was selected for examination by the Standing Committee on Chemicals and Fertilizers (2007-08). The Committee considered the information sought from the Fertilizer Association of India (FAI) and Ministry of Chemicals and Fertilizers (Department of Fertilizers) on the subject. The Committee heard the views of the representatives of the FAI at their sitting held on 22 January 2008. The Committee took oral evidence of the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) at their sitting held on 12 June 2008.

3. The Committee (2008-09) considered and adopted this Report at their sitting held on 10 September 2008.

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

5. The Committee place on record their deep appreciation for the work done by the Standing Committee on Chemicals and Fertilizers (2007-08) on the subject.

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

New Delhi;
September 22, 2008
Bhadrapada 31, 1930 (Saka)

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

REPORT

CHAPTER-I

INTRODUCTORY

Agriculture, which accounts for one fifth of GDP, provides sustenance to two-thirds of our population. Besides, it provides crucial backward and forward linkages to the rest of the economy. Successive five-year plans have laid stress on self-sufficiency and self-reliance in food grains production and concerted efforts in this direction have resulted in substantial increase in agriculture production and productivity. This is clear from the fact that from a very modest level of 52 million MT in 1951-52, food grains production rose to above 216.13 million MT in 2006-07. In India's success in agriculture sector, not only in terms of meeting total requirement of food grains but also generating exportable surpluses, the significant role played by chemical fertilizers is well recognized and established.

1.2 The average annual growth of 13.2% was achieved for fertilizer consumption at the end of Fifth Five Year Plan period for all fertilizer nutrients. This gradually declined to 2.1% at the end of Eighth Five Year Plan and stood at 4% at the end of the Ninth Five Year Plan period. Average annual growth in the X plan had been about 4% which indicates a significantly buoyant state.

1.3 Out of the three main nutrients namely nitrogen, phosphate and potash (N,P & K),required for various crops, indigenous raw materials are available mainly for nitrogenous fertilizers. The Government's policy has hence aimed at achieving the maximum possible degree of self-sufficiency in the production of nitrogenous fertilizers based on utilization of indigenous feedstock.

1.4 The country had been almost self-sufficient in urea production up to 2004-05. However, a steep growth in the consumption of urea thereafter has exposed a huge gap between the indigenous capacity and demand. Similarly, adequate indigenous capacity has been developed in respect of phosphatic (P) fertilizers to meet the domestic requirements. However, actual production has been lagging behind significantly as the raw materials and intermediates for the same are largely imported.

As for potash (K) since there are no viable sources/ reserves in the country, its entire requirement is met through imports.

1.5 As the usage of gas increased and its available supply dwindled, a number of expansion projects came up in the last few years with dual feed facility using both naphtha and gas. Feasibility of making available Liquefied Natural Gas (LNG) to meet the demand of existing fertilizer plants and/ or for their expansion projects, alongwith the possibility for utilizing newly discovered gas reserves, is also being explored by various fertilizer companies in India.

1.6 At present there are 56 large size fertilizer units in the country manufacturing a wide range of nitrogenous, phosphatic and complex fertilizers. Out of this, 10 companies are in the Public Sector Undertakings, one company, i.e. KRIBHCO is in the Cooperative Sector and one company, i.e. Indian Potash Limited (IPL) is in the joint sector. IFFCO – a company in the cooperative sector which was earlier under the control of Government of India (GOI) is no more a cooperative under the GOI as the entire shares of GOI were repatriated in the year 2002-03. The remaining companies are in the private sector. Out of the total 56 units, 30 units (as on date 28 units are functioning) produce urea, 21 units produce DAP and complex fertilizers, 5 units produce low analysis straight nitrogenous fertilizers and 9 manufacture ammonium sulphate as by-product. Besides, there are about 72 small and medium scale units in operation producing single super phosphate (SSP). The total installed capacity of fertilizer production which was 119.60 lakh MT of nitrogen and 53.60 lakh MT of phosphate as on 31.03.2004, has marginally increased to 120.61 lakh MT of nitrogen and 56.59 lakh MT of phosphate as on 31.01.2008.

1.7 The sector-wise nutrient-wise installed capacity of fertilizer manufacturing unit as on 31.01.2008 is as follows:

*Lakh MT

SI.No.	Sector	N		P	
		Capacity*	% share	Capacity*	% share
1.	Public	34.98	29.00	4.33	07.65
2.	Cooperative	31.69	26.27	17.13	30.27
3.	Private	53.94	44.73	35.13	62.08
	Total	120.61	100.00	56.59	100.00

1.8 The nitrogen and phosphatic plants in the private sector have the largest share in the production of N and P.

1.9 The domestic fertilizer industry has by and large attained the levels of capacity utilization comparable with others in the world. The capacity utilization during 2005-06 was 94.1% for nitrogen and 74.6% for phosphate. The capacity utilization during 2006-07 is 96% of nitrogen and 79.8% of phosphate. Within this gross capacity utilization, the capacity utilization in terms of the urea plants was 102.0% in 2005-06 and is 103% in 2006-07. As for phosphate fertilizers, the actual production capacity utilization has also been influenced by the demand trends. The capacity utilization of the fertilizer industry, particularly in respect of urea, is expected to improve further through revamping/ modernization of the existing plants.

CHAPTER- II

INVESTMENT IN FERTILIZER SECTOR

During the terminal year of the 8th Five Year Plan, i.e. 1996-97, the installed capacity of fertilizer was 94.68 lakh MTs of nitrogen and 30.27 lakh MTs of phosphate. This improved during the terminal year of the 9th Five Year Plan, to 121.66 lakh MTs of nitrogen and 51.12 lakh MTs to phosphate. The growth in fertilizer industry remained stagnant by and large during the Tenth Five Year Plan period. However, there have not been any substantial addition to fertilizer production capacity during the last 15 years.

(i) Trends in Production, consumption and import of urea

2.2 The following statement shows that the details of production and consumption of urea during the years 2000-01 to 2006-07:-

(Lakh tonnes)

Year	Production	Consumption	Import	Import % of consumption
2000-01	196.51	191.87	0.0	1.1
2001-02	191.73	199.17	2.20	0.6
2002-03	187.27	184.93	0.0	0.6
2003-04	192.03	197.67	0.0	0.7
2004-05	202.64	206.65	6.41	3.1
2005-06	200.99	222.98	20.57	9.2
2006-07	203.09	243.38	47.19	19.39

2.3 When the Committee desired to know the reasons of the almost stagnant production since the year 2000-01, the Department of Fertilizers in a written reply stated as under:

“The indigenous operational installed capacity of urea in the country is stagnant at 197.01 LMT for the last many years. There has been no addition in capacity in the last 10 years due to lack of any major investments in this sector especially due to inadequate availability of gas which is critical feedstock for production of Urea in the country. However, the existing units have been producing beyond 100% of installed capacity in last 2-3 years to meet the growing demand of urea in the country. Now with the projected improvement in availability of gas from latter half of 2008-09 onwards, it is expected that there

will be new investment in this sector leading to addition in indigenous capacity. Towards this end, a new investment policy to facilitate the requisite investment in this sector is also under active consideration of the Government and is expected to be finalized soon.”

2.4 Further when the Committee asked why there was decrease in production during the year 2002-03, the Department of Fertilizers in a written note stated as under:

“The decrease in production of urea during 2002-03 was mainly due to closure of some units like FCI- Sindri, Neyveli Fertilizers and Duncuns Industries Ltd.- Kanpur. These units remained closed due to technical and marketing problems and liquidity problem in case of Duncuns Industries Ltd.- Kanpur.

GSFC-Vadodara was shut down during November 2002 due to RG Boiler leakage in Ammonia plant. GNVFC-Bharuch was shut down for about two weeks during January 2003 as Synthesis Gas Turbine rotor got damaged. Another reason for decrease in production was shortage of natural gas as experienced by number of gas based plant like KRIBHCO-Hazira, RCF-Thal, NFL-Vijaipur and IFFCO–Kalol.

The year 2002-03 was a drought year and consumption of urea was comparatively less during the year and therefore entire demand for urea was met with indigenous production without resorting to imports.”

2.5 When the Committee desired to know the quantum of production of urea in the public, private and cooperative sectors for the last four years i.e. from 2004-05 to 2007-08, the Department of Fertilizers furnished the following statement:-

(000. MTS)

	2004-05	2005-06	2006-07	2007-08
Public Sector	5897.0	5648.6	5992.7	5870.3
Cooperative Sector	5519.5	5523.4	5496.8	5703.4
Private Sector	8846.6	8926.4	8819.3	8284.6
Total	20263.1	20098.4	20308.8	19858.3

The above statement shows that the plant-wise quantum of production of urea is maximum only in the private sector as compared to the public and the cooperative sectors.

(iii) Trends in Consumption of NP/NPK Complex Fertilizers, SSP and MOP

2.8 The details of consumption of NP/ NPK Complex Fertilizers, SSP and MOP are as under:-

Year	NP/NPK Complex Fertilizers	SSP	(LMT)
			MOP
2000-01	47.81	28.60	18.29
2001-02	49.66	26.05	19.92
2002-03	48.16	24.99	19.12
2003-04	47.59	25.44	18.41
2004-05	55.08	25.49	24.06
2005-06	66.94	27.56	27.31
2006-07	67.99	29.10	25.86

From the above statement, it seems that consumption of SSP has almost remained stagnant since the year 2000-01 while consumption of NP/NPK complex fertilizers increased. When the Committee desired to know the reasons, the Department of Fertilizers in a written reply stated as under:

“Consumption of SSP since 2000-2001 has remained stagnant due to its low production. Till May, 2008, ad-hoc subsidy was being given for production of SSP. The rising cost of inputs has progressively made production of SSP unremunerative. With a view to encourage and enhance production of SSP so as to optimally utilize installed capacity of SSP, the Government has announced a new policy framework for subsidy on production of SSP linked to the international prices of the raw materials and inputs. It is expected that with the new policy framework in place production of SSP will pick up and consequently its consumption will also increase.”

2.9 When the Committee asked about the efforts made by the Department of Fertilizers to enhance the production capacity of fertilizers units with a view to meeting the growing demand of fertilizers in the country, the Department of Fertilizers in a written note stated as under:

“Department of Fertilizers deals with the following fertilizers:-

- i) Urea
- ii) DAP

- iii) Complexes
- iv) SSP
- v) MOP

There is no indigenous production of MOP. The entire requirement is met through imports.

To encourage production of Single Super Phosphate (SSP), the Department of Fertilizers with the approval of Government has announced a revised Concession Scheme w.e.f. 1st May, 2008, linking concession (subsidy) on SSP with input prices. This is expected to encourage SSP production in the country.

The phosphatic fertilizer plants are so designed that they can be used for the production of either DAP or Complexes. Companies decide on the respective quantum of DAP and complexes to be produced based on market considerations. The production in phosphatic sector is largely dependent (approximately 90%) upon imported raw materials/intermediates. The capacity utilisation in existing phosphatic plants suffers mainly due to lack of adequate availability of raw materials/intermediates.

Following strategies have been adopted to ensure adequate availability of raw materials for manufacture of phosphatic fertilizers.

- a) The policy for phosphatic fertilizers is being finalized with updation of costs of production as recommended by the Tariff Commission.
- b) Manufacturing companies are encouraged to enter into joint ventures with foreign entities to ensure regular supply of raw materials.
- c) The price of indigenous DAP is proposed to be linked to that of imported DAP.

With regard to urea, the capacity utilization of urea manufacturing facilities has been more than 100% for the industry as a whole.

In order to encourage additional capacity addition and production of urea, Government under the New Pricing Scheme (NPS) Stage-III has incentivized the production of urea from existing units beyond 100% of their installed capacity. The requirement of prior permission of Government to revamp existing units has been done away with. Fertilizer companies are expected to revamp and modernize their units based on their own commercial decisions.

Further, under NPS-III, all non-gas based units are required to convert to gas by March, 2010. To incentivise conversion, the units will be allowed to keep the savings in energy norms for first five years of production after conversion. Further, FO/LSHS plants will be provided with capital assistance towards conversion, as the conversion costs in these cases are much higher as compared to Naphtha plants. However, since there is a shortfall in requisite allocation of funds for provision of capital assistance towards conversion, an alternative scheme for provision of conversion subsidy in place of capital subsidy to incentivise and expedite conversion of FO/LSHS plants is under active consideration of the Department. The conversion will lead to modernization of existing units leading to improvement in capacity utilization.

Further, the Department has been regularly taking up the issue of adequate availability of gas/feedstock for the urea industry so that there is minimum loss of production due to non-availability of feedstock.

Lastly, a new investment policy is expected to be finalized soon to encourage enhancement of indigenous production of fertilizers especially urea in the country with a view to meet the growing demand of fertilizers in the country and reduce import dependency.”

2.10 The Fertilizer Association of India (FAI) in their note furnished to the Committee stated that the capacity and production of domestic fertilizers stagnated during the past six years due to lack of investment in the sector. The Association suggested that investment in domestic capacity addition appears to be the most feasible option for bridging the emerging supply-demand gap. There is an urgent need for a long term stable policy for fertilizer sector.

2.11 Further a representative of FAI during the evidence deposited before the Committee as under:

“The last investment which came in fertilizer was in 1999. Ours in Chambal was the last fertilizer plant put up in 1999. From 1999 to 2007, not one tonne of fertilizer capacity has increased. Some minor debottlenecking here or there has taken place but no new capacity has come in the last eight years.”

2.12 When the Committee asked about the reasons for the stagnated production of domestic fertilizers and how the Government propose to attract fresh investment in the fertilizer sector in the country to meet the growing demand of our agriculture sector, the Department of Fertilizers replied in a written note, as under:

“The Department completely agrees with the need for investment in the domestic capacity addition for bridging the emerging demand-supply gap. Towards this end, a long term stable policy for attracting new investment in fertilizers sector especially Urea is actively under consideration of the government and is expected to be finalized soon. In addition, steps are being taken by Government to meet the growing demand of fertilizers.”

2.13 The Secretary, Department of Fertilizers during the course of evidence, apprised the Committee as under:

“We have worked out, what is called as the new investment policy or the fresh investment policy. We have discussed it with the industry, the industry is also waiting for this investment policy. Once this investment policy is in place, which we hope will be in place in the course of the next 1-2 weeks, there will be definite improvement in production of urea.”

2.14 In regard to issue of production of DAP and complex fertilizers, the Secretary, Department of Fertilizers deposed before the Committee during the evidence as under:

“We would like to ensure that maximum complex production takes place because complexes cannot be imported. We are also ensuring that capacity utilization is first made towards complexes, wherever plant is capable of producing both DAP and complexes. Therefore, while we are trying to maximize production, the fact is that there is need to bring in more investment into this country in the fertilizer sector. We are also conscious that in respect of nitrogenous fertilizers, that is urea, we can at least be self-sufficient, though our plan or intention is to double the capacities from the existing 197.01 lakh metric tonnes in the course of the next four years.”

(Recommendation Sl. No.1)

Need to operationalise the New Investment Policy in the Fertilizer Sector

2.15 The Committee note that the indigenous operational installed capacity of urea in the country has been stagnant at 197.01 LMT for the last many years. There has been no addition in capacity in the last 10 years due to lack of major investment in this sector. However, the consumption of urea which was 191.87 LMT during the year 2000-2001 increased to 243.38 LMT during the year 2006-07, thus necessitating the increase in the import of urea. The Committee have been informed that in order to encourage capacity addition and production of urea, the Government, under the New Pricing Scheme (NPS) stage-III, has incentivised the production of urea from the existing units beyond 100% of their installed capacity and also the conversion of non-gas based units to gas-based units by March 2010. Further, a new investment policy to facilitate the requisite investment in this sector is under active consideration of the Government. While noting the fact that the Government is now taking steps for increasing the indigenous capacity and production of urea by introducing the new investment policy, the Committee fail to understand as to why no major investment in the fertilizer sector has been made since 1999. The Committee, therefore, express their displeasure over the delay in finalizing the new investment policy. The Committee desire that the new investment policy should be operationalised immediately in order to bridge the demand-supply gap in respect of urea through adequate indigenous production.

(Recommendation Sl. No.2)

Revised Policy frame-work for production of phosphatic fertilizers

2.16 The Committee note that there is no production of DAP in the public sector. The Committee also note that the consumption of DAP in the country far exceeds the indigenous production. About 39% of requirement of DAP had been met through import during the year 2006-07. The Committee have been informed that the indigenous production of phosphatic fertilizers (approximately 90%) is largely dependent upon imported raw materials/ intermediates such as rock phosphate, sulphur, ammonia, phosphoric acid etc. Due to tight availability and rise in international price of the raw materials and the intermediates in the recent past, indigenous production has suffered resulting in low capacity utilization in this sector. The Committee have been further informed that a new revised policy framework is being finalized with a view to encouraging production of phosphatic fertilizers including DAP that would encourage optimal capacity utilization in phosphatic fertilizer production sector. Considering these aspects, the Committee recommend that the new revised policy framework should be finalized as early as possible so that the country becomes self-sufficient in the production of phosphatic fertilizers and its dependence on import of phosphatic fertilizers is reduced to the minimum.

CHAPTER-III

REVIVAL AND MODERNISATION OF SICK/ CLOSED FERTILIZER INDUSTRIES

The capacity utilization of the fertilizer industry, particularly in respect of urea is expected to improve through revamping/ modernization of the existing plants.

3.2 The following 9 urea plants of the companies are presently closed/ under shutdown due to various reasons, inter-alia, on account of technological obsolescence, feedstock limitation, non-viability of unit/ company and heavy financial losses.

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

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

3.3 The Department of Fertilizers in their written note informed the Committee that the following strategy has been adopted by the Government to increase the fertilizer production:

- (i) Expansion and capacity addition/ efficiency enhancement through retrofitting/ revamping of existing fertilizer plants.
- (ii) Revival of the closed units by setting up brownfield units subject to availability of gas.

- (iii) Setting up of Greenfield projects in urea sector.

3.4 When the Committee desired to know the hurdle being faced by fertilizer units in debottlenecking/ revamp/ modernization of their plants in public, private and cooperative sectors, the Department of Fertilizer in a written reply stated as under:

“Under New Pricing Scheme Stage-III implemented w.e.f. 1st October, 2006, there is no requirement of Government approval for de-bottlenecking/revamp projects. The fertilizer companies are required to take up revamp of existing units based on their own commercial decisions.

However, inadequate availability of gas has been a constraint. The projected improvement in gas availability from latter half of 2008-09 is expected to encourage revamp of existing units. Further, a new pricing dispensation is also proposed for revamp of existing units under the proposed New Investment Policy, to incentivise revamp/de-bottlenecking/ modernisation of existing urea units.”

Further, the Department of Fertilizers has informed the Committee as under:

“Various efforts have been made in this regard to solve the problems of fertilizer units. The issue of priority allocation of gas has regularly been taken up with MOPNG. As a result, the EGOM on gas issues has decided that all existing and future demand of gas for fertilizer units will be met in its entirety by the existing and future discoveries of gas in the country. Further, it has been decided to accord highest priority in allocation of gas for existing fertilizer units including de-bottlenecking/revamp, expansion and revival of closed units.”

3.5 When the Committee asked about the units which have undergone debottlenecking/ revamping during the last two years, the Department of Fertilizers in a written note stated as under:-

“The inadequate availability of gas has constrained de-bottlenecking / revamp/ modernization of existing units during the last few years. However, many fertilizer units viz., TCL-Babrara, KRIBHCO-Hazira, RCF-Thal, Indo Gulf-Jagdishpur, Chambal-Gadepan, have initiated the de-bottlenecking/revamp projects.”

3.6 Further, on the same issue, the Secretary, the Department of Fertilizers submitted before the Committee during the evidence as under:

“We are proposing to become self-sufficient in production of urea by four ways- first, what is called revamp or what is generally known as de-bottlenecking. The second is expansion or putting up another line in the same

factory. The third is what is called the brown-field or revival of the closed units of Fertilizer Corporation and the Hindustan Fertilizer Corporation; and lastly, the Greenfield projects, that is, new investments. You had indicated that nobody has come into this sector. Therefore, we have worked out, what is called as the new investment policy or the fresh investment policy.”

(Recommendation Sl. No.3)

Need to upgrade the brownfield units for revival of closed/sick units in fertilizer sector.

3.7 The Committee have been informed that nine urea plants in the public sector are presently closed/ under shutdown due to various reasons, such as technological obsolescence, feedstock limitation, non-viability of unit/ company and heavy financial losses. Further, inadequate availability of gas has acted as a constraint in de-bottlenecking/ revamping/ modernization of the existing fertilizer units though some units, viz. TCL- Babrala, KRIBHCO – Hazira, RCF – Thal, Indo Gulf-Jagdishpur, Chambal – Gadepan have initiated the debottlencking/ revamping projects. Considering the fact that the Government has decided to accord the highest priority for allocation of gas to the fertilizer sector and the projected improvement in gas availability from the latter half of 2008-09, the Committee hope that a conducive policy in this regard will help to expedite the process of de-bottlenecking/ revamping of the existing fertilizer units. The Committee desire that a firm policy with a long-term perspective should be put in place in this regard at the earliest. The Committee also desire that all out efforts should be made to ensure the upgradation of the brownfield units with a view to reviving the closed/ sick units. The Committee further desire that adequate funds should be provided for the revival of all sick PSUs in the fertilizer sector within a definite time frame.

CHAPTER-IV

CAPACITY UTILIZATION

The domestic fertilizer industry has by and large attained the levels of capacity utilization comparable internationally. The sector-wise capacity utilization of nitrogenous and phosphatic fertilizers for the years 2000-01 to 2007-08 is as follows:

(%)

Nutrient	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Nitrogen (N)								
Public Sector	85.8	74.1	78.9	86.7	87.2	84.6	87.1	82.5
Cooperative Sector:	99.4	101.0	101.0	99.5	102.0	93.3	94.8	95.7
Private Sector:	99.3	95.0	85.8	89.7	94.1	100.8	102.5	98.7
Total (Nitrogen):	94.9	89.6	87.2	91.1	94.0	94.1	96.0	93.1
Phosphate (P)								
Public Sector	75.8	58.3	64.8	81.7	61.6	68.2	53.8	40.1
Cooperative Sector:	128.0	141.4	131.0	94.4	103.1	60.5	60.5	56.4
Private Sector:	83.1	69.6	63.6	64.1	66.3	82.3	89.8	76.2
Total (Phosphate):	87.1	75.7	72.8	70.1	71.9	74.6	79.8	67.8

4.2 The capacity utilization during 2006-07 was 96.0% for nitrogen and 79.8% for phosphate. The capacity utilization during 2007-08 has been 93.1% for nitrogen and 67.8% for phosphate.

4.3 The data of N and P production in the three major sectors of the Indian economy are given below:-

Sector-wise percentage share of capacity and production of N and P ₂ O ₅ with capacity utilization 2005-06 and 2006-07 (April/March)												
Sector	Share of Capacity				Share of Production				Capacity utilization			
	2005-06		2006-07		2005-06		2006-07		2005-06		2006-07	
	N	P ₂ O ₅	N	P ₂ O ₅	N	P ₂ O ₅	N	P ₂ O ₅	N	P ₂ O ₅	N	P ₂ O ₅
Public	29.0	7.6	29.0	7.6	26.3	7.0	26.5	5.1	84.6	68.2	87.1	53.8
Cooperative	26.3	30.3	26.3	30.3	25.9	24.6	26.1	25.0	93.3	60.5	94.8	65.9
Private	44.7	62.1	44.7	62.1	47.8	68.4	47.4	69.9	100.8	82.3	102.5	89.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	94.1	74.6	96.0	79.8

4.4 The nitrogen plants in the public sector showed an improvement in capacity utilization from 84.6% in 2005-06 to 87.1% in 2006-07. However, the phosphatic plants in the public sector registered a decline in capacity utilization at 53.8% during 2006-07 compared to 68.2% during the previous year. Their share in production of P has also shown a decline from 7.0% in 2005-06 to 5.1% in 2006-07.

4.5 The nitrogen plants in the cooperative sector posted a marginal improvement in capacity utilization of 94.8% in 2006-07 compared to 93.3% in 2005-06. However, their contribution to production of N remained at around 25%. The phosphate plants in the cooperative sector registered improvement in capacity utilization from 60.5% in 2005-06 to 65.9% in 2006-07. These plants improved their share to 25% in the total production of P from 24.6% in the previous year.

4.6 The share of private sector plants in production of N marginally declined to the 47.4% in 2006-07 from 47.8% in the year 2005-06. The capacity utilization also marginally increased from 100.8% to 102.5% over the same period. However, the phosphatic plants in the private sector improved their capacity utilization from 82.3% in 2005-06 to 89.8% during 2006-07. The phosphatic plants in the private sector have the largest share of about 69.9% in the total production of P.

4.7 When the Committee desired to know the reasons for lower capacity utilization in respect of both Nitrogenous and Phosphatic fertilizers by the public sector companies as compared to the cooperative and the private sectors, the Department of Fertilizer in a written note stated as under:

“Lower capacity utilization of Nitrogenous and Phosphatic fertilizers by the Public Sector fertilizer companies during 2005-06 and 2006-07 has been due to under utilization of capacity by Madras Fertilizers Ltd (MFL), Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL) and Rashtriya Chemicals & Fertilizers Ltd.-Trombay-IV plant. MFL could not utilize capacity due to liquidity problems. BVFCL had problems of erratic gas supply and liquidity. Lower production at RCF-Trombay-IV plant has been due to major accident resulting in closure of the plant which is under revamp now.”

4.8 On being enquired by the Committee about time by which the revamp process of RCF – Trombay-IV plant will be completed, the Department of Fertilizers in their post evidence reply stated as under:

“In the Revamp of Ammonium Nitro Phosphate Trombay IV Plant of RCF, the Granulation Section Mechanical completion is scheduled to be over by 30th April, 2009. Commissioning and Guarantee Test Run is scheduled to be completed by 31st July, 2009.”

4.9 Further the Secretary, the Department of Fertilizers deposed before the Committee during the evidence as under:

“In terms of capacity utilization, this year as against the installed capacity of 197.01 lakh metric tonnes, the anticipated production or planned production or the production committed by the industry is roughly of the order of 210 lakh metric tonnes. If this takes place, this will be the record production for any year.”

4.10 When the Committee desired to know whether some unskilled workers are also employed in the public and cooperative sector and if so give the details sector-wise and also state the ratio of skilled and unskilled workers in public and cooperative sector the Department of Fertilizers in their post evidence reply stated as under:

“Unskilled workers are also employed in the fertilizer PSUs and Cooperative. The details are given in the table below:

Public Sector

Name of PSU	No. of skilled workers	No. of unskilled workers	Total	Ratio of skilled: unskilled
NFL	2966	148	3114	20.4:1
FACT	2092	907	2999	2.3:1
MFL	342	48	390	7.1:1
PDIL	40	-	40	1:0
FAGMIL	48	24	72	2:1
BVFCL	593	264	857	2.3:1
FCIL	The company is under closure. No unskilled worker is employed by the company at present.			
HFCL	-do-			
RCF	2408	266	2674	9.05:1

Cooperative Sector

Name of PSU	No. of skilled workers	No. of unskilled workers	Total	Ratio of skilled: unskilled
KRIBHCO	653	122	775	5.35:1

(Recommendation Sl. No.4)

Skill development of unskilled workers for optimum capacity utilization

4.11 The Committee note that the capacity utilization in respect of both nitrogenous and phosphatic fertilizers in case of public sector companies is lower in comparison to the capacity utilization in the cooperative and private sectors. The Committee have been informed that lower capacity utilization by the public sector fertilizer companies has been due to under- utilization of capacity by Madras Fertilizer Limited (MFL), Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) and Rashtriya Chemicals and Fertilizers Limited–RCF Trombay –IV plant. MFL could not utilize the installed capacity due to liquidity problems, while BVFCL had problems of erratic gas supply and liquidity. Lower production at RCF-Trombay-IV plant has been due to a major accident resulting in closure of the plant which is under revamp now. The Committee observe that besides the problems of liquidity, erratic gas supply and accidents, there are substantial number of workers both in public and cooperative sectors who are not skilled to handle the machinery. They, therefore, recommend that in addition to the provision of adequate and regular gas supply, modernization of plants so as to ward off accidents, the fertilizer industrial units especially PSUs should also explore the feasibility of skill development of unskilled workers.

CHAPTER-V

NON-AVAILABILITY OF GAS/FEEDSTOCK

Natural gas has been the preferred feedstock for the manufacture of urea over other feedstocks, viz. naphtha and Fuel Oil (FO)/Low Sulphur Heavy Stock (LSHS), firstly because it is clean and efficient source of energy and secondly, it is considerably cheaper and more cost effective in terms of manufacturing cost of urea which also has a direct impact on the quantum of subsidy on urea.

5.2 A policy for conversion of the existing naphtha FO/LSHS based urea units to natural gas/ LNG as feedstock has also been formulated in January 2004 which encourages early conversion to natural gas/ LNG.

5.3 As per the Annual Report of the Department of Fertilizers for the year 2007-08, the projected requirement of gas during the 11th plan period for fertilizer sector is as below:

	2007-08	2008-09	2009-10	2010-11	2011-12
Gas Demand (MMSCMD)	41.02	42.889	55.899	95.36	95.36

5.4 As per a note furnished, the Department of Fertilizers stated:-

“During 1960s and 1970s, naphtha dominated as feedstock for the urea industry. During the period of 1980s and the first half of 1990s, there was a definite move towards using gas as feedstock facilitated by the discovery and exploitation of gas reserves in Bombay High and by the technological advantages of gas as feedstock. The energy consumption in gas based plants is less than naphtha based plants and much less than fuel oil based plants. The capital investment for a gas based plant is also less than for naphtha based and fuel oil based plants.

At present, the total installed capacity of urea based on natural gas feedstock is 67% followed by naphtha 23% and fuel oil 10%. Keeping in view the energy consumption and capital cost of new fertilizer plant, it seems appropriate to put up plants based on natural gas instead of naphtha and fuel oil. However, there is huge gap between projected demand and supply of gas. With the operationalisation of gas pipelines and connectivity from Krishna-Godavari basin, by 2010, the availability of gas is likely to increase significantly.”

5.5 When the Committee desired to know the views of Fertilizer Association of India in this regard, FAI in a written note stated as under:

“Priority should be given in allocation of gas to meet the full requirement of not only the existing gas based plants but also the non-gas based plants converting to gas and the future capacity additions to meet the emerging demand. The requirement of gas to meet the full requirement of plants producing 30 million tonnes of urea is estimated to be 76 MMSCMD. This should be allocated and supplied on priority basis to fertilizer industry.”

5.6 When the Committee desired to know whether Government have finalized the capital subsidy scheme for conversion of non-gas based urea plants into gas/ LNG, the Department of Fertilizers in a written note stated asunder:

“Under the New Pricing Scheme Stage-III for existing urea units, all non-gas based units are required to be converted to gas by March 2010. Since there would be no recognition of investment made by the units for conversion, there will be no mopping up of energy efficiency for a fixed period of five years for naphtha as well as FO/LSHS based units after conversion. Further, since the conversion cost of FO/LSHS based units is much higher and cannot be completely recovered from the energy savings due to conversion, a capital subsidy will be considered for these units, for which a separate scheme will be notified.

However, since there has been a shortfall in requisite allocation of funds for provision of capital subsidy towards conversion of FO/LSHS plants to gas, an alternative scheme for provision of conversion subsidy in place of capital subsidy to incentivise and expedite conversion of FO/LSHS plants is under active consideration of the Government and is expected to be finalized soon.”

5.7 On being enquired by the Committee whether the policy envisages steps to ensure that the conversion projects do not put fertilizer units in great losses, the Department of Fertilizers in their written reply stated as under:

“The proposed conversion subsidy for FO/LSHS plants to gas aims at complete reimbursement of the cost of conversion to FO/LSHS units within three years from the date of completion of conversion. The naphtha based units will be allowed to retain the energy efficiency due to conversion for first five years of conversion to recover their cost of conversion. Thus, there would be no loss to fertilizer units on account of conversion projects.”

5.8 When the Committee asked whether any feasibility study has been conducted by the Government for making available Liquefied Natural Gas (LNG) of existing fertilizer plants or for expansion projects, the Department of Fertilizers in their written note stated as under:

“The Government has not conducted any feasibility study for making available Liquefied Natural Gas (LNG) for existing fertilizer plants or for expansion projects.

However, for the coastal naphtha based urea plants in the country, a pre-feasibility study on the possibility of supplying RLNG to these plants through the Floating Storage and Regasification Units (FSRU) has been conducted. It has been found that RLNG can be made available to the coastal plants through these units provided there is a quantity and price commitment for a minimum of five years. The pre-feasibility study has been sent to Ministry of Petroleum & Natural Gas for their examination and comments.”

5.9 During evidence, the Secretary, Department of Fertilizers deposed as follows:

“One of the main problems or constraints in creating capacity was lack of gas – natural gas was not available. The current production of gas is about 110 MMSCMD in the country. As you are aware, there is going to be production from the third quarter of this year, thanks to the gas finds in KG basin; the Ministry of Petroleum and Natural Gas had indicated - this is an optimistic scenario – that there will be 285 MMSCMD of gas. In the conservative scenario, we have assessed it as 191.42 MMSCMD of gas. I am happy to inform you that there is a policy decision that the fertilizer sector will be get the highest priority in gas.’

5.10 As per background material furnished by the Department, working out the possibility of using alternative sources like liquefied natural gas, coal gasification, etc., to overcome the constraints in the domestic availability of cheap and clean feedstock, particularly for the production of urea are required to increase the production of fertilizers.

5.11 When the Committee desired to know whether the Department of Fertilizers are also planning for adoption of coal gasification technology in fertilizer sector in India and to what extent it will be successful in power generation and increase the production of fertilizers, the Department of Fertilizers in their written reply stated as under:

“The coal gas has been recognized as one of the feedstock for production of urea under the New Pricing Scheme Stage-III for existing urea units in the country. The proposal to recognize coal gasification as a technology and coal gas as feedstock is also under active consideration of the Government under the proposed New Investment Policy for urea sector. However, the success of coal gasification technology for production of urea will depend upon its applicability of this technology to coal within the country, which has comparatively higher ash content.”

(Recommendation Sl. No.5)

Need for priority in allocation of gas to non-gas based plants using alternative sources for the production of urea

5.12 The Committee have been informed that Natural gas is the preferred feedstock for the manufacture of urea over other feedstocks, viz. Naphtha and Fuel Oil/ Low Sulphur Heavy stock(FO/LSHS) because it is clean and an efficient source of energy and is also considerably cheaper and more cost effective. Considering the fact that the capital investment required for a gas based plant and its energy consumption is less than that of naphtha and fuel oil based plants, the Committee recommend that priority in allocation of gas to meet the full requirement should not only be given to the existing gas based plants but also to the non-gas based plants for converting them into gas based plants and for future capacity additions to meet the growing demand. The Government should also nominate a single Public Sector Unit/body as the designated authority within the Ministry of Petroleum and Natural Gas to ensure dedicated and continuous supply of gas to the fertilizer units. Further, the scheme to incentivise and expedite conversion of the FO/LSHS plants into gas-based plants should be finalized at the earliest.

CHAPTER-VI

ENERGY CONSUMPTION

In the background material furnished by the Department it is stated that the energy consumption in gas based plants is less than naphtha based plants and much less than fuel oil based plants. The capital investment for a gas based plant is also less than naphtha based and fuel oil based plants.

6.2 When the Committee desired to know about the long term problems foreseen by the Department of Fertilizers in the smooth transition from other feedstocks to gas/LNG, the Department of Fertilizers in their written note stated as under:

“The smooth transition from costlier feedstocks to gas requires the following:

- i) A suitable pricing policy.
- ii) Gas pipeline connectivity.
- iii) Gas availability and allocation policy.

Under NPS-III, it is mandatory for all non-gas based units to convert to gas by March 2010. Further, the cost of conversion is provided for to the units vide improvement in energy efficiency, which will be available to the units for first five years of production after conversion. For FO/LSHS plants, a capital/conversion subsidy is also being considered to compensate for higher costs of conversion.

The existing non-gas based plants lack gas pipeline connectivity. The proposed gas pipeline connectivity plan as indicated by the Ministry of Petroleum & Natural Gas is expected to provide pipeline connectivity to all the non-gas units by 2010-2011.

The gas availability is also expected to improve by the time connectivity is available to these units. Moreover, the existing fertilizer units are proposed to be given highest priority in allocation of gas within the country.”

6.3 On being enquired by the Committee whether any demand assessment study of LNG for fertilizer production in the country has been made, the Department of Fertilizers in their written reply stated as under:

“There is no separate demand assessment study of LNG for fertilizer sector in the country. The LNG is utilised to meet the shortfall in availability of gas for urea production.

However, the requirement of natural gas for existing fertilizer units in the country and future expected capacity additions has been projected for the 11th Five Year Plan as below:-

GAS REQUIREMENT FOR FERTILIZER INDUSTRY (MMSCMD)					
Projected requirement					
Plants	Nos.	2008-09	2009-10	2010-11	2011-12
Gas Based plants	22*	43.17	49.83	54.30	54.30
Naptha Based Plants	5		6.35	6.35	6.35
FO/LSHS Based Plants	4			3.96	3.96
Total (Gas+Naptha+FO)	31	43.17	56.18	64.61	64.61
Closed Units	7			14.77	14.77
New Units	8				16.00
Total requirement	46	43.17	56.18	79.38	95.38

**3 Urea plants are presently closed.*”

6.4 Further on the same issue when the Committee enquired about the efforts being made in the public and cooperative sectors to achieve an overall energy efficiency level, the Department of Fertilizers in their post evidence reply stated as under:

“The energy efficiency level is being continuously monitored by the Department through the mechanism of QRM and also through MOU in which the energy efficiency is a parameter for rating of the company. Energy efficiency parameters for fertilizer production varies from one fertilizer unit to another and also depends upon the type of feedstock used (such as naphtha, natural gas, LSHS/ FO etc.). The norms for energy consumption are fixed by Fertilizer Industry Coordination Committee (FICC), for various fertilizer units. For improving energy efficiency level, depending upon the specific requirements, necessary revamp of the plants are undertaken involving repairs and replacements of critical equipments of the plants, from time to time.”

6.5 When the Committee desired to know about the efforts made in the private sector to achieve an overall efficiency level, the FAI in their written note stated as under:

“Fertilizer companies have been implementing measures/ schemes to improve the energy efficiency on continuous basis. Some of the measures implemented during last few years include:

- (i) Recovery and use of waste heat within the plant.
- (ii) Replacement/ revamp of reactors with more efficient design.
- (iii) Replacement/ revamp of rotating machines for improved efficiency.
- (iv) Replacement of solvents and packing of towers in carbon dioxide removal system.
- (v) Change of instrumentation system from conventional controls to computer based controls.
- (vi) Optimization of plant operation to reduce waste of energy.

Result of energy conservation efforts are reflected in the improvement in the specific energy consumption per tonne of product. The weighted average energy consumption of private sector urea plants was reduced from 6.60 Gcal in 1996-97 to 6.23 Gcal in 2001-02 and further to 5.91 Gcal in 2006-07 per tonne of urea.”

(Recommendation Sl. No.6)

Need to revamp the machinery/instruments to minimize the energy consumption

6.6 The Committee note that energy efficiency parameters for fertilizer production varies from one fertilizer unit to another and also depend upon the type of feedstock used. For improving energy efficiency level, depending upon the specific requirements, necessary revamp of the plants are undertaken from time-to-time which involve repairs and replacements of critical equipments of the plants. The Committee also note that fertilizer companies are implementing measures/ schemes to improve the energy efficiency on a continuous basis and accordingly they have used waste heat within the plants and have replaced/ revamped reactors with more efficient designs, rotatory machines, solvents and instrumentation system. The Committee appreciate the efforts made by the fertilizer industry and recommend that the Government should assist the industry liberally in revamping their machinery/ instruments so that energy conservation and optimum use of energy are achieved.

CHAPTER-VII

SUBSIDY TO FERTILIZER SECTOR

(i) Payment of subsidy to fertilizer sector

The subsidy on fertilizers has been increased sharply over the last few years. The details of fertilizer subsidy during the period 1999-00 to 2007-08 are as follows:-

(Rs. in crores)

Years	Urea subsidy	P&K Fertilizers – Total	Total subsidy disbursed in year	Carryover to next year	Net incidence of subsidy for the year
1999-00	8744	4500	13244		
2000-01	9481	4319	13800		
2001-02	8304	4504	12808		
2002-03	7788	3225	11013		
2003-04	8509	3326	11835	2002	
2004-05	10637	5142	15779	3372	17149
2005-06	11749	6550	18299	5914	20841
2006-07	15354	10598	25952	8788	28826
2007-08	25654	20005	45659		36871

7.2 The detail of the prices at which the Government are buying fertilizers and the prices at which it is made available to farmers are as under:-

(Rs. per ton)

	Indigenous price	Import price	Price for farmers
UREA	13,017	31,166	4,830
DAP	58,584	58,584	9,350
MOP	Not Produced	35,563	4,455
NPK (Complex Fertilizers)	43,274	Not Imported	6,552*
SSP	9,277	14,919	3,400

*Average

Note: Prices of Complex Fertilizers have been reduced by 19% (average) since 18.06.2008

The amount of subsidy given by the Government to make these fertilizers available to the farmers at a low price (MRP) are indicated as under:

(Rs. per ton)

	UREA	DAP	MOP	NPK (Complex Fertilizers)	SSP
Subsidy*	11,200	49,234	31,108	36,722	8,134

*Weighted Average

Total subsidy given by the Government on fertilizers in last four years is as under:

(Rs. in Crore)

Years	2004-05	2005-06	2006-07	2007-08	2008-09
Subsidy	15,779	18,299	25,952	40,338	1,19,772*

*Estimated

7.3 The Government has not increased the price of fertilizers in the last four years whereas the subsidy by the government on fertilizers has increased from Rs.15,779 crore to Rs.1,19,772 crore in last four years.

7.4 It is estimated that 88% of the increase in subsidy is due to the sharp increase in international price of fertilizer inputs and finished fertilizer. Although 12% increase in the last five years can be attributed to the increase in consumption of fertilizers.

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

“There should be adequate provisions of funds in the Union Budgets for disbursement of fertilizer subsidy as long as subsidy schemes are continued by the Government. Interest on delayed payment of subsidy should also be considered. The Tariff Commission in its report on ‘Pricing study of DAP, complex fertilizers and MoP’ of December, 2007 has recommended payment of interest on delayed disbursement of subsidy.”

7.6 On being enquired by the Committee whether Government have adequate provisions of funds in the Union Budget for disbursement of fertilizer subsidy in public, private and cooperative sectors, the Department of Fertilizers in their written reply stated as under:

“The total projected requirement of fertilizer subsidy in the current year is estimated at Rs.95,013 crore (net) including Rs.5000 crore of carryover from 2007-08. Against above requirement, the allocation under BE 2008-09 is

Rs.30,986 crore (net). The matter regarding release of balance funds has been taken up with Ministry of Finance.”

7.7 When the Committee desired to know whether Government have any provision for payment of interest on delayed disbursement of subsidy in these sectors, the Department of Fertilizer in a written reply stated as under:

“Subsidy payment is an on-going process based on receipt of fertilizers in the field and the claims submitted by the manufacturers/importers. Being an on-going process, the payment of interest is not envisaged.”

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

“Last year the subsidy that was disbursed was Rs.40,338 crore. This year our anticipation is that it might be anywhere between Rs.95,000 crore to Rs.1,00,000 crore. It is true that the industry is concerned about the subsidy payment in time. It is also true that the department endeavours to ensure that the payment of subsidy is made in time. For instance, I keep track of what is the subsidy payment of to be made. Actually, the bills that are under processing are roughly of Rs.1,000 crore. The bills received and under process are roughly of Rs.1,002 crore. This is an ongoing process and we will try to ensure that the payments are made in time.”

7.9 On the issue of payment of subsidy on P&K fertilizers, the Secretary, Department of Fertilizers deposed before the Committee during evidence as under:

“Earlier 15 per cent of the payment on P&K fertilizers used to be paid on receipt of the certification from the State Government. It has to be certified by the local Agricultural Officer. The difficulties that the companies face in dealing with a large number of District level officials. So, we have taken a decision that 15 per cent payment will not be held up except for a period of 30 days. We have written to the State Government that it is their responsibility to sent it within 30 days from the date of the bill, and that even if we do not get the certification by that time we will make the payment immediately to the company. Our payment to the companies is always subject to a kind of recovery”

(ii) Payment of subsidy in cash

7.10 Fertilizer Association of India (FAI) in a written submission to the Committee stated that the timely payment of subsidy should be in cash and not in the form of bonds.

7.11 When the Committee asked about the disbursed amount of subsidy and enquired that whether part of the money is being paid in bonds, Secretary, Department of Fertilizers deposed before the Committee during evidence as under:-

“Last year the total amount disbursed was Rs.40,338 crore, out of which only a sum of Rs.7,500 crore were given as bonds. The Department has been reflecting the concern of the industry to the Ministry of Finance. It has been our recommendation that all subsidy should be paid in cash and not in bonds. That is because today particularly when Rs.7500 crore bonds were given, the first tranche of Rs.3890 crore has been given and there has been not much difficulty. They have been able to encash those bonds with very little discount. But by the time the second tranche of the balance Rs.3,610 crore has been given, the bond market had slumped and the PSU chiefs had suffered considerable loss. We have mentioned the concern of the industry to the Finance Ministry. I would like to mention that while we can make a request, the decision regarding how much of it is paid in bonds and how much of it will be paid in cash is that of the Finance Ministry.”

(iii) Cost of production

7.12 The subsidy on fertilizers is based on the assessed cost of production by the Government. The assessment of cost of production is based on operational data provided by the manufacturer.

7.13 When the Committee desired to know whether there is any difference in the cost of production as per subsidy claims of companies of fertilizers under the Government and private sector and if so what are the details, feedstock-wise and company-wise, the Department of Fertilizers, in a written reply, stated as under:

“The cost of production for every urea manufacturing unit is different depending on its preset norm, feedstock/fuel used, vintage, investment level, etc. Naturally, there will be difference in cost of production of each unit. “

7.14 Concession rates (under notification) effective from 1.10.2006 under NPS-III in respect of all urea producing units is given as follows:-

provisional

Statement Showing Concession & Sales Tax Rate for the year 2006_07 (NPS_III W.e.f 01.10.2006)(under notification)

SI No.	Name of the Unit	Capacity (MT)	NPS_III_En ergy Norms Gcal/pmt	Annual 2006_07(w.e.f.01.10.2006)_NPS_II I		
				Rs/MT CP	Rs/MT ST	Rs/MT Total
Feed-Stock: Gas (Pre 1992)						
1	BVFC- Namrup	315000	12.688	5609	392	6001
2	IFFCO-Aonla	864600	5.690	7933	245	8178
3	INDOGULF-Jagdishpur	864600	5.534	7138	216	7354
4	KRIBHCO-Hazira	1729200	5.952	5491	485	5976
5	NFL-V Pur	864600	5.952	5259	259	5518
	Sub Total	4638000	6.283	6218	342	6560
Feed-Stock: Gas (Post 1992)						
6	NFCL-Kakinada	597300	5.712	6560	318	6878
7	CFCL-Kota	864600	5.621	7267	120	7387
8	TATA	864600	5.417	7803	179	7982
9	OCFL/KSFL	864600	5.712	8863	248	9111
10	NFCL-Kakinada exp.	597300	5.712	13203	782	13985
11	IFFCO-Aonla exp.	864600	5.522	8130	238	8367
12	NFL-V Pur Exp.	864600	5.712	6834	252	7086
	Sub Total	5517600	5.622	8235	281	8516
	Total- Gas	10155600	5.924	7314	309	7623
Feed-Stock: Naphtha (Pre 1992)						
13	IFFCO-P,PUR	551100	7.584	10968	327	11294
14	MCFL-Mangalore	379500	7.356	21039	298	21337
15	MFL-Madras	486750	8.337	20868	587	21455
16	SFC-Kota	379500	7.847	17605	506	18112
17	SPIC-Tuticorin	620400	7.382	21328	556	21884
18	ZACL-Goa	399300	7.308	20444	992	21436
	Sub Total	2816550	7.635	18556	537	19092
Feed-Stock: Naphtha (Post 1992)						
19	IFFCO-P,PUR EXP.	864600	5.883	12826	393	13219
20	CFCL-II	864600	5.678	12358	336	12694
	Sub Total	1729200	5.781	12592	365	12957
	Total- Naphtha	4545750	6.930	16287	471	16758
Feed-Stock: FO/LSHS						
21	GNFC-Bharuch	636900	7.989	10101	878	10979
22	NFL-Nangal	478500	9.517	16207	411	16618
23	NFL-Bhatinda	511500	10.221	15612	410	16022
24	NFL-Panipat	511500	9.654	15345	421	15765
	Total - FO/LSHS	2138400	9.263	14040	552	14592
Feed-Stock: Mixed						
25	GSFC-Baroda	370590	6.935	6766	390	7156
26	IFFCO-Kalol	544500	6.607	10738	702	11440
27	RCF-Thal	1706897	6.938	11354	301	11655
	Total-Mixed	2621987	6.869	10578	397	10974
	Grand Total(6 GROU	19461737	6.653	10588	385	10974
28	BVFC- Namrup II	240,000	12.688	7214	461	7675
	Grand Total	19701737	6.726	10547	386	10934

7.15 On being enquired by the Committee whether there is any variation in the cost of production assessed by the Government and manufacturer and what is the mechanism followed to reduce the cost of production, the Department of Fertilizers in their written reply stated as under:

“The subsidy on fertilizers is based on the assessed cost of production by the Government. The cost of production is assessed based on operational data provided by the manufacturer. In the successive pricing periods the Government has induced the units to increase efficiency and reduce the cost of production in order to reduce subsidy. The cost of production assessed by the Government has been progressively reduced except for the feedstock cost which depends on prevailing price of gas, naphtha and FO/LSHS, by following measures:

- a) Applying lower of Group average or units' own concession rate under NPS-I, II and III.
- b) Updating energy consumption norms by adopting lower of pre-set norms of NPS-II or actual achieved during 2002-03 for NPS-III.
- c) Incentivising savings in energy consumption.

Further, all non-gas based units (high cost units) required to convert to gas by March, 2010 in order to increase efficiency and reduce the cost of production.”

7.16 When the Committee desired to know about the increase in the cost of production with the increase in the prices of domestic gas in the Administered Price Mechanism (APM) scenario, the Department of Fertilizers in a written reply stated as under:

“There is no increase in the APM gas rate since July, 2005 when the basic APM gas rate of Rs.2850 per 1000sm³ was revised to Rs.3200 per 1000sm³. The impact of this increase on the cost of production of urea is to the extent of Rs.269.30 per MT of urea plus taxes considering usage of APM gas only for the production of urea.”

7.17 On being enquired by the Committee as to who checks the claims for subsidy made by fertilizer units to see that inefficiency is not hidden among legitimate claims and whether these checks have been computerized. The Department of Fertilizers in a written reply stated as under:

“The urea units furnish audited and certified Technical Operating Data (T-OP Data) to FICC on annual basis. The claims for subsidy made by fertilizer units are processed on quarterly/annual basis for urea concession (escalation/ de-escalation) and are subjected to both the concurrent audit by Cost Accounts Branch of Ministry of Finance and Government audit.

Under New Pricing Scheme the energy consumption norm per MT of urea (Gcal/MT urea) are fixed on the basis of lower of existing norm or actual achieved during 2002-03 and the same is notified as pre-set energy norms for Stage-III. Any inefficiency beyond pre-set energy norm is not recognized and efficient operation with respect to pre-set energy norm is incentivised as per policy at the weighted average basic rates of inputs consumed. These workings are computerized.”

(Recommendation Sl. No. 7)

Need to minimize the carryover amount of fertilizer subsidy

7.18 The Committee note that there has been a tremendous increase in the subsidy amount since the year 2002-03 both in the case of urea and P&K fertilizers. The Committee note that the carryover amount is also gradually increasing year by year which is not a happy situation. The Committee have been apprised that 88% of the increase in subsidy is due to the sharp increase in the international price of fertilizer inputs and finished fertilizers while 12% increase is due to the increase in consumption of fertilizers. The Committee understand that Government provide fertilizers to farmers at much lower price of indigenously produced price/ imported price. Thus, a substantial amount of money is incurred on subsidy. The amount of subsidy is further increased by the carryover amount of the preceding year. The Committee, therefore, recommend that efforts should be made to minimize the carryover amount. The Committee also recommend that the issue of the burgeoning price of fertilizers and its inputs should also be raised at the appropriate international forum. The Committee feel that the need of the hour is to increase the indigenous production of urea and SSP as there is vast difference in the indigenous price and the import price in respect of both the fertilizers.

(Recommendation Sl. No.8)

Payment of subsidy in cash instead of bonds

7.19 The Committee note that the amount of subsidy is also given in the form of bonds in addition to cash payment. The Committee feel that bonds constitute a good option to reduce the carryover amount for the next year. However, they note that the value of bonds vary with the market rate and as such it tends to affect the fertilizer industry. The Committee observe that fertilizer industry had to bear considerable loss in encashing the second tranche of bond amount, as the market slumped and they had to pay heavy discount. The Committee, therefore, recommend that the major amount of subsidy should be paid in cash and not in the form of bonds. The Committee also desire that the Department should pursue with the Ministry of Finance for payment of maximum amount of subsidy in cash instead of bonds.

CHAPTER-VIII

SETTING UP OF JOINT VENTURES

Due to constraints in the availability of gas, which is the preferred feedstock for production of nitrogenous fertilizers and the near total dependence of the country on imported raw materials for production of phosphatic fertilizers, the Government has been encouraging Indian companies to establish joint venture production facilities, with buy back arrangement, in other countries, which have rich reserves of natural gas and rock phosphate. The joint ventures already established have given the Indian sponsors an assured source of supply of urea and phosphoric acid, a vital input for manufacture of DAP and other phosphate and complex fertilizers.

8.2 The Department of Fertilizers in their written note also informed the Committee that setting up of joint venture projects in the countries having abundant and cheaper raw material resources is also an important factor to increase fertilizer production.

8.3 When the Committee desired to know about the joint venture projects which are under planning or implementation the Department of Fertilizer in a written note stated as under:-

“Ammonia-Urea sector

The Department of Fertilizers has been exploring the possibility of setting up of joint venture projects for Urea sector, based on firm allocation of gas on a reasonable price. Discussions have been initiated with many countries, viz. Saudi Arabia, Oman, Nigeria, Mozambique, Australia, etc.

A Memorandum of Understanding (MOU) has been signed recently between M/s KRIBHCO and NWCF, Australia for setting up a joint venture Ammonia-Urea project based on coal gasification technology in Western Australia. Both the entities are engaged in further discussions for finalizing the future roadmap for the proposed project.

A Memorandum of Understanding is also proposed to be signed between M/s RCF, a Fertilizer PSU under the administrative control of Department of Fertilizers and M/s IDC, a Government of South Africa Enterprise for setting up of an integrated fertilizer project in Mozambique, based on natural gas from Mozambique and rock phosphate from South Africa. The proposed project

envisages setting up of an Ammonia/Urea plant, phosphate mining, phosphoric acid plant and DAP manufacturing unit.

In Nigeria, the proposal for a joint venture project is under active consideration. Nigerian Government has responded positively towards allocation of gas, land etc. for joint venture urea project. An Inter-Ministerial Committee has been formed by the Nigerian Government to look into the requirement for the proposed project so that the same can be expedited. The matter is actively being pursued by M/s KRIBHCO, a fertilizer cooperative, with majority share holding of Government of India.

Expansion of the OMIFCO joint venture project between IFFCO/ KRIBHCO and Oman Oil Company, Oman is under active consideration. The techno-economic study to assess viability of de-bottlenecking and subsequently expansion of the existing capacity of 16.52 Lakh MT per annum is underway.

The allocation of gas is being explored in other countries also as indicated above. However, there is no concrete development in the matter.

Phosphatic Sector:

Jordan: A joint venture company, Jordan Chemical Company (IJC) between JPMC of Jordan and SPIC of India is operational in Jordan with production of 2 lakh MT/Annum of phosphoric acid. The entire quantity is for off-take to India. IFFCO has signed an agreement with JPMC for production of 1500 MT of phosphoric acid per day. The plant is expected to be commissioned by early 2010.

Morocco: A joint venture phosphoric acid plant, IMACID with production capacity of 4,30,000 MT of phosphoric acid between Chambal Fertilizers & Chemicals Ltd. and Tata Chemicals Ltd. and OCP, Morocco is operational in Morocco. The entire quantity of phosphoric acid is for off-take to India.

The OCP Morocco have indicated that they are willing to consider additional joint venture with Indian entities at JORF chemical complex in CASABLANCA. Indian companies are being encouraged to examine this offer.

Senegal: A joint venture between ICS, Senegal and IFFCO Consortium with production capacity of 5,50,000 MT of phosphoric acid is operational in Senegal. 5 lakh MT of phosphoric acid is for off-take to India. Separately, the DoF is examining the feasibility of a new mining project based on MATAM mines in Senegal.

Tunisia: Indian companies, Coromandal Fertilizers and Gujarat State Fertilizers Ltd. (GSFC) are at the final stage of completing the financial closure of a joint venture project in Tunisia with the Tunisian public sector

company GCT. The estimated annual capacity of the plant is 3.6 lakh MT of phosphoric acid. This will be for off-take to India. A consortium of Indian entities including RCF, KRIBHCO and MMTC are in negotiation with the GCT to explore possibilities of mining and setting up another joint venture phosphoric acid plant in Tunisia. The discussions are at preliminary stage.

Syria: A consortium of Indian entities including FAGMIL, MECON, RITES are exploring the possibilities of mining, beneficiation of rock phosphate, transportation to plant site and to port, upgradation of rail infrastructure and port infrastructure in Syria.

Separately, ZIL have submitted a project proposal to the Government of Syria for investment in mining of rock phosphate and production of phosphoric intermediates/ fertilizers in that country.

Australia: IFFCO have recently announced their decision for investment for mining and sourcing of rock phosphate from ANNE mines in Northern Australia.

The Department of Fertilizers is also exploring possibilities in other countries having phosphatic and potassic sources for long term arrangement for securing raw materials, intermediates and finished products.”

8.4 The Fertilizer Association of India also deposed before the Committee during the evidence that a policy is required for encouraging setting up of joint venture projects for P&K fertilizers and raw materials/ intermediates in resource rich countries with long term purchase agreements by India.

8.5 When the Committee desired to know whether any long term policy has been planned by the Government for encouraging joint venture projects for P&K fertilizers and raw materials/ intermediates in resource rich countries, the Department of Fertilizers in their written reply stated as under:-

“The Department of Fertilizers is exploring possibility of securing feedstock, raw material, intermediates and finished products through setting up all joint ventures in foreign countries. The Government is trying to encourage a consortium of public sector entities to negotiate and enter into long term joint ventures with their counter part in foreign countries for mining, rock phosphate and its beneficiation, setting up of phosphoric acid plant and down processing etc. In this direction, Government is promoting a Special Purpose Vehicle (SPV) consisting of three larger fertilizer companies, NFL, RCF and KRIBHCO with the objective of:

- (a) Exploring possibilities of investment in nitrogenous, phosphatic and potassic and resource rich countries.
- (b) Setting up of joint ventures for manufacturing, mining, long term tie up for nitrogenous, phosphatic and potassic fertilizer raw materials
- (c) Rendering consultancy service for setting up project for the above purpose.

Besides, the Govt. also encourage the private sector entities to be part of either public sector consortium or explore independently possibility of long term joint venture in foreign countries in collaboration with either the private sector entities abroad or public sector in those countries.”

8.6 Further on the same issue, the Secretary, Department of Fertilizer deposed before the Committee during evidence as under:

“In the last one-and-a-half years a lot of work has been done on the joint ventures. This is something that we are working in close tandem with the Ministry of External Affairs and also our embassies outside. I am happy to tell that we have been able to identify quite a few projects which should actually fructify in the course of next couple of years. Except in respect of OMIFCO most of them will give us the quantity required and prices will still be determined by the market. So, there are two things that we need to do if we wish to have any kind of influence over the prices; we should basically increase our indigenous production and our joint ventures should actually enable our PSUs particularly. Our private sector would naturally be interested in maximizing their returns. They may not be interested in bringing into the country at the cheapest price though they definitely try to moderate the prices. If our PSUs actually have control over their basic material, to that extent we should be in a position actually have some influence over the prices.”

(Recommendation Sl. No.9)

Need to provide necessary assistance to private industries in setting up of joint ventures abroad

8.7 The Committee are aware that due to the constraints in the availability of gas, which is the preferred feedstock for production of nitrogenous fertilizers, near total dependence of the country is on imported raw materials for production of phosphatic fertilizers. In case of Potassic fertilizers, the entire demand of potassic fertilizers is met through import as there is absence of commercially exploitable potash sources in the country. In view of this, the Committee feel that setting up of joint venture projects, with long term buy back arrangement for securing raw materials, intermediates and finished products in the countries having abundant and cheaper raw material resources is an important option to increase fertilizer production. While appreciating the efforts of the Government which resulted in setting up of some joint ventures, the Committee desire that the process of exploring the possibility of setting up of joint venture projects in resource rich countries should be expedited. The Committee note with satisfaction that the Government also encourage private sector entities to be part of either Public Sector consortium or explore independently the possibility of long term joint ventures in foreign countries in collaboration with either the Private Sector entities abroad or Public Sector in those countries. The Committee are of the view that Government should provide all the necessary assistance and incentives wherever needed, to the Private Sector Industries also for completing necessary formalities in setting up joint ventures with foreign companies.

CHAPTER-IX AVAILABILITY OF FERTILIZERS

As per the Annual Report of the Department of Fertilizers for the year 2007-08, the availability of urea, which is the only fertilizer under partial control of Government, remained satisfactory throughout the Kharif 2007 season, as well as during the current Rabi 2007-08.

9.2 When the Committee desired to know that whether there are reports of shortage of fertilizers in some states, the Secretary, Department of Fertilizers deposed before the Committee during the evidence as under:

“We have a monthly review meeting with all the States. In case of urea, we find that in the entire country as a whole, as against the requirement of this month of 29,26,000 tonnes, there are 32 lakh tonnes. I am not saying that there are no problems. I am sure that in a large country like this, problems do occur. There are districts which face shortage from time to time. We are trying to be in touch with the State Government officials, we are having the grievance cell and planning to send our officers to different States. We are trying to see how best we can manage the situation. We have no means of controlling the movement and distribution of these fertilizers but we utilize the instrument of subsidy to ensure that it reaches the farmers in all districts and hopefully in this year in all the blocks.”

9.3 As per Press reports, it came to the notice of the Committee that failure to announce the fertilizer pricing and freight policies in time has given rise to the scarcities of fertilizers. The problem was stated to have been compounded by the Centre's failure to clear the subsidy bills of fertilizer-manufacturing companies.

9.4 On the news items captioned 'Centre says there is no fertilizer shortage' in the Asian Age dated 23rd June, 2008, the Secretary, Department of Fertilizers reportedly issued a statement that:-

“it is the State Governments which have to make district plans and ensure movement according to such a plan. The Fertilizer Department at the central level does not have any field staff in the States. Respective State Agriculture Ministry deal with fertilizer supply as one among the various types of crop inputs. As such, there will be no state level staff exclusively dealing with fertilizer movement.”

9.5 There are 115 SSP plants in the country and out of them only 74 are working. On being enquired by the Committee about the reasons for the closure of the 41 plants of SSP, the Department of Fertilizers in a written reply stated as under:-

“Presently, there are 78 SSP units operational in the country. The total installed capacity of SSP Units is about 68 lakh metric tonne per annum. The capacity utilization in recent years has been abysmally low ranging between 38-40%.

The reason for low capacity utilization of SSP industry is primarily on account of the fact that the ad hoc-subsidy being provided to SSP industry was being determined without any linkage to input cost which have been showing an increasing trend in recent years. As a result, the economic viability of SSP industry in the country was being impacted adversely.

In addition, some of the SSP units have also closed down on account of their alleged involvement in the manufacturing and sales of sub-standard SSP. On the basis of complaints, cases against 29 units manufacturing SSP in the State of Uttar Pradesh were investigated by the State Government resulting in stoppage of subsidy to the units and their exclusion from the Concession Scheme. Similarly, 6 units in Punjab were also found to have fraudulent claimed subsidy from the DOF and have been excluded from the Concession Scheme.”

9.6 On being enquired by the Committee about the strategies that have been chalked out by the Department of Fertilizers for better and more availability of SSP in the country in the coming years, the Department of Fertilizers in a written reply stated as under:

“The Govt. of India has implemented revised SSP policy based on compensation for cost of inputs. This is expected to incentivise the SSP industry and encourage them for more production. Further, the Govt. of India has also announced a uniform all India MRP for SSP. The Government is actively examining a proposal to provide uniform freight on actual basis for movement of all fertilizers including SSP. Uniform all India MRP combined with the provision of actual freight is expected to make the fertilizers available of all parts in a uniform single price. The revised SSP policy is expected to encourage full capacity utilization by the SSP industry.”

9.7 It has been seen from the Press reports that from 1 May 2008 SSP prices have been rationalized and a uniform MRP of Rs.3400 per metric tonne has been fixed throughout the country, reducing the prices in several States.

9.8 When the Committee desired to know whether Government propose to increase the subsidy on SSP to offset the rise in cost of inputs that go into production of SSP, the Department of Fertilizers in a written reply stated as under:

“Up to the year 2007-08, ad hoc subsidy was being given to SSP industry. Sulphur and rock phosphate are the two inputs for manufacturing SSP. In the recent past, the prices of these raw materials have risen very high. Due to this, the SSP industry has been facing problem of availability of raw materials and due to their high price has not been able to sustain their production.

The Government of India has announced a revised policy for SSP, w.e.f. 1.5.2008, which is based on the input price of rock phosphate and sulphur. The concession for SSP is now being computed every month based on the changes in the price of these two raw materials. Due to this policy, the SSP industry is being compensated for their cost of raw material and hence is expected to produce SSP by utilizing their idle capacity. Presently, the capacity utilization of the SSP industry is about 38-40%. The Government of India, as part of the revised SSP policy has also notified an all India MRP at Rs.3,400 for SSP.”

9.9 The year-wise details of requirement, production and import of fertilizers during the year 2005-06 and 2006-07 are indicated as under:

(LMT)

Year	Requirement of fertilizers			Production of Fertilizers		
	UREA	DAP	MOP	UREA	DAP	MOP
2005-06	234.25	78.02	28.88	200.99	46.28	-
2006-07	249.45	81.29	33.23	203.09	48.52	-

Year	Import of fertilizers			Total availability of fertilizers		
	UREA	DAP	MOP	UREA	DAP	MOP
2005-06	20.57	24.38	27.31	221.56	70.66	27.31
2006-07	47.19	28.75	25.86	250.28	77.27	25.86

Timely announcement of the fertilizer pricing and freight policies to avoid scarcities of fertilizers

9.10 The Committee note that against the requirement of urea to the tune of 234.25 LMT, the total availability of urea (including imported urea) was 221.56 LMT during the year 2005-06. In the year 2006-07, the total availability of urea was 250.28 LMT against the requirement of 249.45 LMT. Thus, there has been improvement in the availability of urea in the year 2006-07 as compared to the year 2005-06. The availability also remained satisfactory throughout the Kharif 2007 season as well as during the current Rabi 2007-08. However, it came out during the course of examination that there are reports of shortage of fertilizers in some States or in some districts which face shortage of fertilizers from time to time in spite of surplus supply by the Centre. The Committee note that various steps have been taken by the Department to manage this situation so that fertilizers could be made available to farmers in all districts and all blocks. The Committee appreciate the efforts made by the Department in this regard. However, the Committee express their concern over delay on the part of the Government in announcing the fertilizer pricing policy and the freight policies in time which resulted in a situation of scarcity of fertilizers. The Committee deplore the Government's apathy towards this sensitive issue and hope that in future the Government will take all possible precautions to formulate and announce its pricing policy and the freight policies well in time to avoid such a sorry state of affairs. The Committee also suggest that the Government should earmark sufficient funds for the payment of subsidy bills.

(Recommendation Sl. No.11)

Need to adopt a long term realistic approach for capacity utilization and for availability of single super phosphate (SSP)

9.11 The Committee note that there are 78 Single Super Phosphate (SSP) units operational in the country. The total installed capacity of SSP units is about 68 lakh metric tonne per annum. The Committee note with concern that capacity utilization of the Single Super Phosphate (SSP) plants is abysmally low in the range of 38-40 per cent. The reason for this is the ad hocism in determining the volume of subsidy which has no linkage with the increase in input cost. The increase in input cost is due to the inflationary pressure which makes the production unviable. The Committee also note with concern that the Government has not taken any steps to tackle this problem on a long term basis. Only an ad hoc approach is being adopted and subsidy on SSP is being revised from time to time on a short-term basis. In the absence of a long term realistic approach, there cannot be any revival of the SSP capacity utilization. The Committee are also dismayed to note that out of 115 units, 29 were found manufacturing sub-standard products. This situation is very alarming and requires a quality control mechanism to be put in place. The Committee, therefore, recommend that the Government should deal with such cases with a heavy hand to prevent the manufacture of sub-standard products.

(Recommendation SI. No.12)

Need to increase the import of DAP and MOP fertilizers

9.12 The Committee note that during the year 2005-06, the total availability of DAP was 70.66 LMT against the requirement of 78.02 LMT. Similarly, during the year 2006-07 the total availability of DAP was 77.27 LMT against the total requirement of 81.29 LMT. In case of MOP which is fully imported, the availability during the year 2005-06 and 2006-07 was 27.31 LMT and 25.86 LMT, respectively against the requirement of 28.88 LMT and 33.23 LMT. The Committee understand that due to non-availability of phosphatic rocks and raw materials, the requirement of DAP and MOP cannot be completely fulfilled indigenously. The Committee, therefore, recommend that the import of both of the fertilizers be increased as per the requirement. Simultaneously, efforts should also be made to procure raw materials for DAP for increasing its indigenous production in order to bridge the demand and supply gap.

CHAPTER-X

DISTRIBUTION AND MOVEMENT OF FERTILIZERS

Under the allocation of Business Rules, the Department of Fertilizers has been entrusted the responsibility of ensuring movement, distribution and allocation of controlled fertilizer, i.e. urea, from various fertilizer plants and ports in accordance with the State-wise requirement assessed by the Department of Agriculture & Co-operation (DAC). The distribution of imported urea is made keeping in view the requirements of each of the States.

10.2 The major share in transportation of fertilizers is of the Railways. During April – December 2007, about 280 LMTs of Fertilizers was moved by the Railways as against 266 LMTs in the corresponding period of 2006.07.

10.3 On being enquired by the Committee on the issue of distribution and transportation of fertilizers in each State of the country, the Secretary, Department of Fertilizers deposed before the Committee during evidence as under:

“We have a system whereby we give every month the supply plan of each state. We take into consideration the requirements of the State for that particular month and ensure that they have that plus a little more. We also distribute that among the companies and they have to work out the district-wise plan. As far as all States are concerned, we are continuously monitoring the situation. Our effort is to see that each State gets the required amount. We also try to pre-position the stocks. For instance, in respect of Urea, there is absolutely no difficulty. In respect of DAP, overall, by the 10th of June, about 60 per cent of the requirement was available. Actually, the figures vary from State to State. In respect of MOP, about 37 per cent was already available because right now this is not the MOP season. We are giving primacy to DAP and Urea. In respect of complexes also, 33 per cent was available by the 10th of June. We are trying to see that the situation improves.”

10.4 Further, on the issue of movement of fertilizers, the Secretary, Department of Fertilizers deposed before the Committee during evidence as under:

“ it is our constant endeavour to keep in touch with Railways and to see that the blocks are removed. There were also certain restrictions on certain terminals. All these have been removed a couple of days ago. In the last four to five days, the situation started improving. I do hope that we should be in a position to complete our supply plan of this month, which would also give a certain pre-positioning for the month of July. I do hope that things will improve in the course of next few days.”

10.5 Regarding reimbursement of rail/road freight, the Secretary, Department of Fertilizers stated as under:

“The Government have taken a decision that the entire freight will be reimbursed.. There is a tendency on the part of the companies to restrict their distribution to an area which is within that freight zone and quite often, they keep within that zone because in any case the normative freight is paid and they try to save on that and make some money. But now we are asking them to go to districts and blocks and we will be giving them the rail freight and at the first stage the road freight as per the actual average leads to the districts and it will be escalated from time to time depending upon the index. So, with this, there should be no problem.”

10.6 On the issue of black-marketing he further stated as under:

“We oversee the distribution but ultimately, it is the task of the State Government to ensure that distribution is properly made in the districts and blocks. We are doing the district-wise monitoring and only when the fertilizer reaches the districts, we make the subsidy payment. Earlier it was not so. Now we would like to extend it to the blocks also. Sometimes, the dealers also create an atmosphere of scarcity and then they spread panic and try to benefit from that. Now, the Government has taken a decision to give the transport cost fully. So, that problem will not be there.”

(Recommendation Sl. No.13)

Need to chalk out a monitoring mechanism so as to control the artificial scarcity of fertilizers

10.7 The Committee note that as per the allocation of Business Rules, the Department of Fertilizers have been entrusted the responsibility of ensuring movement, distribution and allocation of controlled fertilizers, i.e. urea from various fertilizer plants and ports in accordance with the State-wise requirement as assessed by the Department of Agriculture and Cooperation (DAC), Ministry of Agriculture. The major responsibility of transportation of fertilizers lies with the Railways. The Committee are happy to note that various measures have been taken by the Government with regard to proper and need based distribution and movement of fertilizers in each part of the country. The Committee also appreciate the Government's decision to reimburse the entire freight cost to the companies and hope that companies would not restrict their distribution to an area which is within their freight zone and they would also distribute fertilizers in the remote and difficult areas. The Committee are happy to note that the Government are also giving the companies the road freight at the first stage as per the actual average leads to the district and encourage them to go to districts and even to the blocks also. However, as regards the issue of black marketing, the Committee are not convinced with the reply of the Government that the responsibility of preventing black-marketing lies solely with the State Governments. The Union Government cannot shy away from their responsibility and they should ensure that quality fertilizers reach the farmers at a reasonable price and in a time-bound manner. The Committee, therefore, recommend that the Government should chalk out a monitoring mechanism in consultation with the State Governments to control the artificial scarcity of fertilizers so that adequate fertilizers could be reached to the districts and the blocks in time.

CHAPTER-XI

BALANCED USE OF FERTILIZERS

The stagnant agriculture productivity in the country is of major concern and it is felt that lack of balance fertilization has been one of the critical factors in impeding the growth of agriculture productivity. It has been ascertained that the application of secondary and micro nutrients in our soil is very low. As a result, our soil have been found to be deficient in sulphur, zinc, boron etc.

11.2 To overcome the deficiency of secondary and micro nutrients in our soil, the Government is considering expansion the basket of subsidized fertilization so that the fertilizer contain secondary and micro nutrients which are also available to farmers at affordable prices.

11.3 On the same issue the Fertilizer Association of India in their written note submitted to the Committee as under:

“There should be nutrient based pricing/ subsidy to promote balanced and efficient use of plant nutrients. Government should encourage the development and use of crop specific, soil specific, customized fertilizers fortified with secondary and micronutrient to promote balanced and efficient use of plant nutrients. High value speciality fertilizers need not be within the purview of subsidy and producers should be permitted to charge from the farmers.”

11.4 Further a representative of FAI on the same issue deposed before the Committee during evidence as under:

“In India the production of foodgrain or even agricultural production is not keeping pace with the increase in the consumption of fertilizers. The crop response ratio is going down. The reason for that is imbalanced use of fertilizers and not using the micro nutrients or secondary nutrients”

11.5 When the Committee desired to know the comments of the Department of Fertilizers in this regard and how Government propose for balanced use of fertilizers, micro nutrients or secondary nutrients, the Department of Fertilizers in a written reply stated as under:

“The Department of Fertilizers completely recognizes the importance of balanced use of fertilizers and need for increased application of micro nutrients or secondary nutrients in the country. Towards this end, a new policy to encourage production and availability of fortified/coated fertilizers has been notified by Government on 2nd June, 2008. It is expected that this will encourage production and availability of fertilizers coated/fortified with micro nutrients and thus, will promote balanced fertilization.

In addition, sulphur as a nutrient has been brought under the Concession Scheme from the current year 2008-09 in order to promote application of sulphur in the country. Further, a nutrient based pricing regime for subsidized fertilizers is also under consideration of the Government. Under nutrient based pricing, the price of each nutrient across all subsidized fertilizers will be uniform, thereby inducing a larger usage of complex fertilizers leading to balanced fertilization. “

11.6 During the study visit of the Committee at Guwahati on 17.02.2008, the Committee observed that due to the inadequate irrigation facilities farmers were not able to use fertilizers. The Committee, therefore, desired that the matter may be taken up with the Ministry of Agriculture. During the visit of the Committee at Itanagar, the Committee also observed that IFFCO tests water quality and prepares soil fertility maps which are very helpful for farmers. The Committee were informed that IFFCO has made a report card which is very useful for the farmers. The Committee, therefore, had desired that other companies should emulate the Fertilizer Education Programme especially soil/ water testing technique and its delivery mechanism adopted by IFFCO. During their visit to Model village at Itanagar, the Committee have been informed that the quality of soil in that village is not very good. Fruits are also not grown due to poor quality of soil. Villagers have also faced soil erosion and no soil testing in the village and they have to go very far for soil testing. The Committee, therefore, desired that the Department of Agriculture should also do something in this regard.

(Recommendation Sl. No.14)

Need to promote balanced and efficient use of fertilizers and strengthen the Fertilizer Education Programme.

11.7 The Committee observe that agricultural productivity in the country had been stagnant for several years in the past. One of the reasons for the stagnation is the incorrect use of fertilizers. Due to low application of secondary and micro nutrients, soils are deficient in sulphur, zinc, boron etc., resulting in low productivity. The Committee have been informed that in order to promote balanced and effective use of plant nutrients and fertilizers, the Government have notified a new policy to encourage production and availability of fortified/ coated fertilizers besides bringing sulphur as a nutrient under the concession scheme. Further, a nutrient based pricing regime for subsidized fertilizers is also under consideration of the Government. While hoping that the nutrient based pricing regime for subsidized fertilizers would be finalized soon, the Committee recommend that the Government should encourage the development and use of crop specific, soil specific, customized fertilizers fortified with secondary and micronutrient to promote balanced and efficient use of plant nutrients. The Committee also recommend that farmers should be made aware of the benefits of the balanced use of fertilizers and they should also be educated about the ill-effects of excessive use of fertilizers. The Committee are of the view that the Department of Fertilizers, under the Government of India cannot perform well within area without the active support of the State Agriculture

Departments and for this purpose the Department would have to mobilize them for conducting soil tests effectively. In this regard, the fertilizer companies should also assist the State Governments in securing soil testing mobile vans etc., as some of the States do not have the same in adequate numbers. Besides this, Fertilizer Education Programme needs to be further strengthened by the fertilizer industries in coordination with the State Governments and the Department of Fertilizers. The Committee also feel that without proper irrigation, the application of fertilizers is of very little use. As such, the Committee would also like to recommend that irrigation facilities in the State should also be augmented simultaneously for the effective use of fertilizers. The desired results could be achieved if synergic efforts are made by the Department of Fertilizers, Department of Agriculture, Ministry of Water Resources and the Irrigation and Agriculture Departments of State Governments.

New Delhi;
September 22, 2008
Bhadrapada 31, 1930 (Saka)

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

MINUTES

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

**FOURTH SITTING
(22.01.2008)**

The Committee sat from 1400 hours to 1600 hours.

PRESENT

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Jaiprakash (Constituency Mohanlal Ganj)
3. Shri Sunil Khan
4. Shri Shrichand Kripalani
5. Shri Ramswaroop Prasad
6. Shri Narsingrao H. Suryawanshi
7. Shri Mansukhbhai D. Vasava
8. Shri D. Venugopal

Rajya Sabha

9. Shri Debabrata Biswas
10. Shri Gireesh Kumar Sanghi
11. Shri V. Hanumantha Rao
12. Shri Mahendra Sahni
13. Shri Dilip Singh Judev
14. Shri Raj Mohinder Singh Majitha

Secretariat

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

Representatives of Fertilizer Association of India (FAI)

- | | | | |
|----|-----------------------|---|--------------------------------|
| 1. | Shri U.S. Jha | - | Chairman, FAI |
| 2. | Shri R.C. Gupta | - | Deputy Director General, FAI |
| 3. | Shri Anil Kapoor | - | Chairman, FAI, Northern Region |
| 4. | Shri S.C. Mehta | - | Chairman, FAI, Western Region' |
| 5. | Shri S.S. Nandurdikar | - | Chairman, FAI Eastern Region |
| 6. | Dr. S. Nand | - | Director (Technical), FAI |

2. At the outset, Hon'ble Chairman welcomed the representatives of Fertilizer Association of India (FAI) to the sitting of the Committee.

3. Thereafter, the Chairman, Fertilizer Association of India (FAI) made a brief audio-visual presentation highlighting the achievements as well as problems faced by the fertilizer industry. After that, he and other representatives of FAI expressed their views on the various issues pertaining to the subject. The Members raised several queries which were resolved by the representatives of FAI.

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

- (i) New investment in Fertilizer Sector;
- (ii) Frequent changes in Fertilizer Policy;
- (iii) Farmers' Friendly Fertilizer Policy;
- (iv) Subsidy on Fertilizers;
- (v) Availability of gas to Fertilizer Sector;
- (vi) Efficient and balanced use of Fertilizers;
- (vii) Shortage of Fertilizers;
- (viii) Demand and Supply Gap in Fertilizers; and
- (ix) Fixation of Import Parity Price.

5. ** ** ** ** ** ** ** ** ** ** ** ** ** ** ** ** ** **

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

The Committee, then, adjourned.

MINUTES

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

EIGHTH SITTING

(12.06.2008)

The Committee sat from 1400 hours to 1530 hours.

PRESENT

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Sunil Khan
3. Shri Subhash Maharia
4. Shri Prasanta Pradhan
5. Shri Ramswaroop Prasad
6. Shri P. Chalapathi Rao
7. Shri Ashok Kumar Rawat
8. Shri Narsingrao H. Suryawanshi
9. Shri Bhanu Pratap Singh Verma

Rajya Sabha

10. Shri Raj Mohinder Singh Majitha
11. Shri Om Prakash Mathur
12. Shri Mahendra Sahni
13. Shri Raghunandan Sharma

Secretariat

1. Shri N.K. Sapra - Additional Secretary
2. Shri S. Bal Shekar - Joint Secretary
3. Shri A.K. Srivastava - Deputy Secretary-II
4. Smt. Balwant Kaur Saimbhi- Under Secretary

Representatives of the Ministry of Chemicals and Fertilizers
(Department of Fertilizers)

- | | | |
|----|--------------------------|--|
| 1. | DR. J.S. SARMA | - SECRETARY (F) |
| 2. | SHRI MATHEW C. KUNNUMKAL | - ADDITIONAL SECRETARY & FINANCIAL ADVISER |
| 3. | SHRI VIJAY CHHIBBER | - JOINT SECRETARY (A&M) |
| 4. | SHRI DEEPAK SINGHAL | - JOINT SECRETARY (F) & ED (FICC) |
| 5. | SHRI SATISH CHANDRA | - JOINT SECRETARY |
| 6. | SHRI A.K. PARASHAR | - ECONOMIC ADVISER |
| 7. | SHRI DEEPAK KUMAR | - DIRECTOR |
| 8. | SHRI B.B. MEHTANI | - DIRECTOR |
| 9. | SHRI B.N. TIWARI | - DIRECTOR |

Representatives of the Public Sector Undertakings (PSUs)/Cooperatives

- | | | |
|----|--------------------|--|
| 1. | SHRI U.S. JHA | - CMD, Rashtriya Chemicals & Fertilizers (RCF) and
Brahmaputra Valley Fertilizer Corp. Ltd. (BVFCL) |
| 2. | SHRI B.D. SINHA | - MD, Krishak Bharati Cooperative Ltd. (KRIBHCO) |
| 3. | SHRI SUNIL DAYAL | - CMD, FCI, Aravali Gypsum & Minerals India Ltd. |
| 4. | DR. GEORGE SALEEBA | - CMD, Fertilizers & Chemicals Travancore Ltd. (FACT) |
| 5. | SHRI G.S. MANGAT | - CMD, National Fertilizers Ltd. (NFL) and Madras
Fertilizers Ltd. (MFL) |
| 6. | SHRI K.C. KATTA | - Director, Projects & Development India Ltd. (PDIL) |

2. At the outset, the Hon'ble Chairman welcomed the Members and congratulated four new members from Rajya Sabha on their nomination to the Committee, Thereafter, the Chairman called the officials of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and Public Sector Undertakings to the sitting of the Committee and invited the attention of the witnesses to the provisions contained in Direction 55(1) of the Directions by the Speaker regarding confidentiality of the Committee's proceedings.

3. After the Secretary and other representatives of the Department of Fertilizer introduced themselves to the Committee, the Committee took their oral evidence in connection with the examination of the subject 'Performance of fertilizer industries in the public, private and cooperative sectors'.

4. During the course of evidence, the following issues came up for discussion:-
- (i) Shortage of fertilizers with special reference to states of Karnataka, Punjab and Uttar Pradesh;
 - (ii) Non-availability of gas and feedstock;
 - (iii) Timely payment of subsidy and cash payment of subsidy;
 - (iv) Revival of sick Public Sector Undertakings;
 - (v) Finalisation of New Fertilizer Policy;
 - (vi) Transportation cost of fertilizers;
 - (vii) Stagnation in the production of fertilizers;
 - (viii) Consumption of urea and DAP;
 - (ix) Reduction in the prices of complex fertilizers;
 - (x) Finalisation of new investment policy;
 - (xi) Priority to fertilizer sector in allocation of gas;
 - (xii) Reimbursement of entire freight cost by rail/road;
 - (xiii) Setting up of joint ventures;
 - (xiv) Factors responsible for less production in public sector in comparison to cooperative and private sectors; and
 - (xv) Statewise demand of urea, DAP, MOP and complex fertilizers for the last three years.
5. A verbatim record of the proceedings of the sitting has been kept.

The Committee, then, adjourned.

MINUTES

**STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2008-09)**

**SECOND SITTING
(10.09.2008)**

The Committee sat from 1400 hours to 1510 hours.

PRESENT

Shri Anant Gangaram Geete - ***Chairman***

Members

Lok Sabha

2. Shri Sunil Khan
3. Shri A. Narendra
4. Shri Anand Paranjpe
5. Shri Prasanta Pradhan
6. Shri Ramswaroop Prasad
7. Shri P. Chalapathi Rao
8. Shri Narsingrao H. Suryawanshi
9. Shri Mansukhbhai D. Vasava
10. Shri D. Venugopal
11. Shri Bhanu Pratap Singh Verma

Rajya Sabha

12. Shri Debabrata Biswas
13. Shri B.S. Gnanadesikan
14. Shri A.A. Jinnah
15. Shri Raj Mohinder Singh Majitha
16. Shri V. Hanumantha Rao
17. Shri Mahendra Sahni
18. Shri Gireesh Kumar Sanghi
19. Shri Raghunandan Sharma

Secretariat

1. Shri P. Sreedharan - Joint Secretary
2. Shri A.S. Chera - Director
3. Shri A.K. Srivastava - Deputy Secretary-II
4. Smt. Balwant Kaur Saimbhi - Under Secretary

2. At the outset, Hon'ble Chairman welcomed Shri Anand Paranjpe , MP, Lok Sabha and Shri A.A. Jinnah, MP, Rajya Sabha on their nomination to the Committee for the first time.

3. Thereafter, the Committee considered the draft Report on the subject 'Performance of Fertilizer Industry in Public, Private and Cooperative Sectors'. After some discussion, the draft Report was adopted by the Committee with minor amendments as indicated in the **Annexure**.

4. The Committee authorised the Chairman to make consequential changes, if any, arising out of the factual verification of the Report by the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and present the same to both the Houses of Parliament.

The Committee, then, adjourned.

ANNEXURE

(Please see para 3 of the minutes)

Recom. No.	Para No.	Line	Amendments/modifications
3	3.7	Add at the end of the paragraph	The Committee further desire that adequate funds should be provided for the revival of all sick PSUs in the fertilizer sector within a definite time frame.
5	5.12	Add 3 from bottom	The Government should also nominate a single Public Sector Unit/body as the designated authority within the Ministry of Petroleum and Natural Gas to ensure dedicated and continuous supply of gas to the fertilizer units.
12	9.11	2 from bottom	Substitute 'process' by 'procure'.
15	11.7	6 from bottom	Substitute "..... The Committeefertilizers" by 'The Committee also recommend that farmers should be made aware of the benefits of the balanced use of fertilizers and they should also be educated about the ill-effects of excessive use of fertilizers'.

**STATEMENT OF RECOMMENDATIONS/ OBSERVATIONS
OF THE COMMITTEE**

Reco. No.	Para No.	Recommendations/ Observations
1	2	3
1	2.15	<p>The Committee note that the indigenous operational installed capacity of urea in the country has been stagnant at 197.01 LMT for the last many years. There has been no addition in capacity in the last 10 years due to lack of major investment in this sector. However, the consumption of urea which was 191.87 LMT during the year 2000-2001 increased to 243.38 LMT during the year 2006-07, thus necessitating the increase in the import of urea. The Committee have been informed that in order to encourage capacity addition and production of urea, the Government, under the New Pricing Scheme (NPS) stage-III, has incentivised the production of urea from the existing units beyond 100% of their installed capacity and also the conversion of non-gas based units to gas-based units by March 2010. Further, a new investment policy to facilitate the requisite investment in this sector is under active consideration of the Government. While noting the fact that the Government is now taking steps for increasing the indigenous capacity and production of urea by introducing the new investment policy, the Committee fail to understand as to why no major investment in the fertilizer sector has been made since 1999. The Committee, therefore, express their displeasure over the delay in finalizing the new investment policy. The Committee desire that the new investment policy should be operationalised immediately in order to bridge the demand-supply gap in respect of urea through adequate indigenous production.</p>
2	2.16	<p>The Committee note that there is no production of DAP in the public sector. The Committee also note that the consumption of DAP in the country far exceeds the indigenous production. About 39% of requirement of DAP had been met through import during the year 2006-07. The Committee have been informed that the indigenous production of phosphatic fertilizers (approximately 90%) is largely dependent upon imported raw materials/ intermediates such as rock phosphate, sulphur, ammonia, phosphoric acid etc. Due to tight availability and rise in international price of the raw materials and the intermediates in the recent past, indigenous production has suffered resulting in low capacity utilization in this sector. The Committee have been further informed that a new revised policy framework is being finalized with a view to encourage production of phosphatic fertilizers including DAP that would encouraging optimal capacity utilization in phosphatic fertilizer production sector. Considering these aspects, the Committee recommend that the new revised policy framework should be finalized as early as possible so that the country becomes self-sufficient in the production of phosphatic fertilizers and its dependence on import of phosphatic fertilizers is reduced to the minimum.</p>

1	2	3
3	3.7	<p>The Committee have been informed that nine urea plants in the public sector are presently closed/ under shutdown due to various reasons, such as technological obsolescence, feedstock limitation, non-viability of unit/ company and heavy financial losses. Further, inadequate availability of gas has acted as a constraint in de-bottlenecking/ revamping/ modernization of the existing fertilizer units though some units, <u>viz.</u> TCL- Babrala, KRIBHCO – Hazira, RCF – Thal, Indo Gulf- Jagdishpur, Chambal – Gadepan have initiated the debottlencking/ revamping projects. Considering the fact that the Government has decided to accord the highest priority for allocation of gas to the fertilizer sector and the projected improvement in gas availability from the latter half of 2008-09, the Committee hope that a conducive policy in this regard will help to expedite the process of de-bottlenecking/ revamping of the existing fertilizer units. The Committee desire that a firm policy with a long-term perspective should be put in place in this regard at the earliest. The Committee also desire that all out efforts should be made to ensure the upgradation of the brownfield units with a view to reviving the closed/ sick units. The Committee further desire that adequate funds should be provided for the revival of all sick PSUs in the fertilizer sector within a definite time frame.</p>
4	4.11	<p>The Committee note that the capacity utilization in respect of both nitrogenous and phosphatic fertilizers in case of public sector companies is lower in comparison to the capacity utilization in the cooperative and private sectors. The Committee have been informed that lower capacity utilization by the public sector fertilizer companies has been due to under- utilization of capacity by Madras Fertilizer Limited (MFL), Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) and Rashtriya Chemicals and Fertilizers Limited– RCF Trombay –IV plant. MFL could not utilize the installed capacity due to liquidity problems, while BVFCL had problems of erratic gas supply and liquidity. Lower production at RCF-Trombay-IV plant has been due to a major accident resulting in closure of the plant which is under revamp now. The Committee observe that besides the problems of liquidity, erratic gas supply and accidents, there are substantial number of workers both in public and cooperative sectors who are not skilled to handle the machinery. They, therefore, recommend that in addition to the provision of adequate and regular gas supply, modernization of plants so as to ward off accidents, the fertilizer industrial units especially PSUs should also explore the feasibility of skill development of unskilled workers.</p>

1	2	3
5	5.12	<p>The Committee have been informed that Natural gas is the preferred feedstock for the manufacture of urea over other feedstocks, <i>viz.</i> Naphtha and Fuel Oil/ Low Sulphur Heavy stock(FO/LSHS) because it is clean and an efficient source of energy and is also considerably cheaper and more cost effective. Considering the fact that the capital investment required for a gas based plant and its energy consumption is less than that of naphtha and fuel oil based plants, the Committee recommend that priority in allocation of gas to meet the full requirement should not only be given to the existing gas based plants but also to the non-gas based plants for converting them into gas based plants and for future capacity additions to meet the growing demand. The Government should also nominate a single Public Sector Unit/body as the designated authority within the Ministry of Petroleum and Natural Gas to ensure dedicated and continuous supply of gas to the fertilizer units. Further, the scheme to incentivise and expedite conversion of the FO/LSHS plants into gas-based plants should be finalized at the earliest.</p>
6	6.6	<p>The Committee note that energy efficiency parameters for fertilizer production varies from one fertilizer unit to another and also depend upon the type of feedstock used. For improving energy efficiency level, depending upon the specific requirements, necessary revamp of the plants are undertaken from time-to-time which involve repairs and replacements of critical equipments of the plants. The Committee also note that fertilizer companies are implementing measures/ schemes to improve the energy efficiency on a continuous basis and accordingly they have used waste heat within the plants and have replaced/ revamped reactors with more efficient designs, rotatory machines, solvents and instrumentation system. The Committee appreciate the efforts made by the fertilizer industry and recommend that the Government should assist the industry liberally in revamping their machinery/ instruments so that energy conservation and optimum use of energy are achieved.</p>
7	7.18	<p>The Committee note that there has been a tremendous increase in the subsidy amount since the year 2002-03 both in the case of urea and P&K fertilizers. The Committee note that the carryover amount is also gradually increasing year by year which is not a happy situation. The Committee have been apprised that 88% of the increase in subsidy is due to the sharp increase in the international price of fertilizer inputs and finished fertilizers while 12% increase is due to the increase in consumption of fertilizers. The Committee understand that Government provide fertilizers to farmers at much lower price of indigenously produced price/ imported price. Thus, a substantial amount of money is incurred on subsidy. The amount of subsidy is further increased by the carryover amount of the preceding year. The Committee, therefore, recommend that efforts should be made to minimize the carryover amount. The Committee also recommend that the issue of the burgeoning price of fertilizers and its inputs should also be raised at the appropriate international forum. The Committee feel that the need of the hour is to increase the indigenous production of urea and SSP as there is vast difference in the indigenous price and the import price in respect of both the fertilizers.</p>

1	2	3
8	7.19	<p>The Committee note that the amount of subsidy is also given in the form of bonds in addition to cash payment. The Committee feel that bonds constitute a good option to reduce the carryover amount for the next year. However, they note that the value of bonds vary with the market rate and as such it tends to affect the fertilizer industry. The Committee observe that fertilizer industry had to bear considerable loss in encashing the second tranche of bond amount, as the market slumped and they had to pay heavy discount. The Committee, therefore, recommend that the major amount of subsidy should be paid in cash and not in the form of bonds. The Committee also desire that the Department should pursue with the Ministry of Finance for payment of maximum amount of subsidy in cash instead of bonds.</p>
9	8.7	<p>The Committee are aware that due to the constraints in the availability of gas, which is the preferred feedstock for production of nitrogenous fertilizers, near total dependence of the country is on imported raw materials for production of phosphatic fertilizers. In case of Potassic fertilizers, the entire demand of potassic fertilizers is met through import as there is absence of commercially exploitable potash sources in the country. In view of this, the Committee feel that setting up of joint venture projects, with long term buy back arrangement for securing raw materials, intermediates and finished products in the countries having abundant and cheaper raw material resources is an important option to increase fertilizer production. While appreciating the efforts of the Government which resulted in setting up of some joint ventures, the Committee desire that the process of exploring the possibility of setting up of joint venture projects in resource rich countries should be expedited. The Committee note with satisfaction that the Government also encourage private sector entities to be part of either Public Sector consortium or explore independently the possibility of long term joint ventures in foreign countries in collaboration with either the Private Sector entities abroad or Public Sector in those countries. The Committee are of the view that Government should provide all the necessary assistance and incentives wherever needed, to the Private Sector Industries also for completing necessary formalities in setting up joint ventures with foreign companies.</p>

1	2	3
10	9.10	<p>The Committee note that against the requirement of urea to the tune of 234.25 LMT, the total availability of urea (including imported urea) was 221.56 LMT during the year 2005-06. In the year 2006-07, the total availability of urea was 250.28 LMT against the requirement of 249.45 LMT. Thus, there has been improvement in the availability of urea in the year 2006-07 as compared to the year 2005-06. The availability also remained satisfactory throughout the Kharif 2007 season as well as during the current Rabi 2007-08. However, it came out during the course of examination that there are reports of shortage of fertilizers in some States or in some districts which face shortage of fertilizers from time to time in spite of surplus supply by the Centre. The Committee note that various steps have been taken by the Department to manage this situation so that fertilizers could be made available to farmers in all districts and all blocks. The Committee appreciate the efforts made by the Department in this regard. However, the Committee express their concern over delay on the part of the Government in announcing the fertilizer pricing policy and the freight policies in time which resulted in a situation of scarcity of fertilizers. The Committee deplore the Government's apathy towards this sensitive issue and hope that in future the Government will take all possible precautions to formulate and announce its pricing policy and the freight policies well in time to avoid such a sorry state of affairs. The Committee also suggest that the Government should earmark sufficient funds for the payment of subsidy bills.</p>
11	9.11	<p>The Committee note that there are 78 Single Super Phosphate (SSP) units operational in the country. The total installed capacity of SSP units is about 68 lakh metric tonne per annum. The Committee note with concern that capacity utilization of the Single Super Phosphate (SSP) plants is abysmally low in the range of 38-40 per cent. The reason for this is the <u>ad hocism</u> in determining the volume of subsidy which has no linkage with the increase in input cost. The increase in input cost is due to the inflationary pressure which makes the production unviable. The Committee also note with concern that the Government has not taken any steps to tackle this problem on a long term basis. Only an <u>ad hoc</u> approach is being adopted and subsidy on SSP is being revised from time to time on a short-term basis. In the absence of a long term realistic approach, there cannot be any revival of the SSP capacity utilization. The Committee are also dismayed to note that out of 115 units, 29 were found manufacturing sub-standard products. This situation is very alarming and requires a quality control mechanism to be put in place. The Committee, therefore, recommend that the Government should deal with such cases with a heavy hand to prevent the manufacture of sub-standard products.</p>

1	2	3
12	9.12	<p>The Committee note that during the year 2005-06, the total availability of DAP was 70.66 LMT against the requirement of 78.02 LMT. Similarly, during the year 2006-07 the total availability of DAP was 77.27 LMT against the total requirement of 81.29 LMT. In case of MOP which is fully imported, the availability during the year 2005-06 and 2006-07 was 27.31 LMT and 25.86 LMT, respectively against the requirement of 28.88 LMT and 33.23 LMT. The Committee understand that due to non-availability of phosphatic rocks and raw materials, the requirement of DAP and MOP cannot be completely fulfilled indigenously. The Committee, therefore, recommend that the import of both of the fertilizers be increased as per the requirement. Simultaneously, efforts should also be made to procure raw materials for DAP for increasing its indigenous production in order to bridge the demand and supply gap.</p>
13	10.7	<p>The Committee note that as per the allocation of Business Rules, the Department of Fertilizers have been entrusted the responsibility of ensuring movement, distribution and allocation of controlled fertilizers, <u>i.e.</u> urea from various fertilizer plants and ports in accordance with the State-wise requirement as assessed by the Department of Agriculture and Cooperation (DAC), Ministry of Agriculture. The major responsibility of transportation of fertilizers lies with the Railways. The Committee are happy to note that various measures have been taken by the Government with regard to proper and need based distribution and movement of fertilizers in each part of the country. The Committee also appreciate the Government's decision to reimburse the entire freight cost to the companies and hope that companies would not restrict their distribution to an area which is within their freight zone and they would also distribute fertilizers in the remote and difficult areas. The Committee are happy to note that the Government are also giving the companies the road freight at the first stage as per the actual average leads to the district and encourage them to go to districts and even to the blocks also. However, as regards the issue of black marketing, the Committee are not convinced with the reply of the Government that the responsibility of preventing black-marketing lies solely with the State Governments. The Union Government cannot shy away from their responsibility and they should ensure that quality fertilizers reach the farmers at a reasonable price and in a time-bound manner. The Committee, therefore, recommend that the Government should chalk out a monitoring mechanism in consultation with the State Governments to control the artificial scarcity of fertilizers so that adequate fertilizers could be reached to the districts and the blocks in time.</p>

1	2	3
14	11.7	<p>The Committee observe that agricultural productivity in the country had been stagnant for several years in the past. One of the reasons for the stagnation is the incorrect use of fertilizers. Due to low application of secondary and micro nutrients, soils are deficient in sulphur, zinc, boron etc., resulting in low productivity. The Committee have been informed that in order to promote balanced and effective use of plant nutrients and fertilizers, the Government have notified a new policy to encourage production and availability of fortified/ coated fertilizers besides bringing sulphur as a nutrient under the concession scheme. Further, a nutrient based pricing regime for subsidized fertilizers is also under consideration of the Government. While hoping that the nutrient based pricing regime for subsidized fertilizers would be finalized soon, the Committee recommend that the Government should encourage the development and use of crop specific, soil specific, customized fertilizers fortified with secondary and micronutrient to promote balanced and efficient use of plant nutrients. The Committee also recommend that farmers should be made aware of the benefits of the balanced use of fertilizers and they should also be educated about the ill-effects of excessive use of fertilizers. The Committee are of the view that the Department of Fertilizers under the Government of India cannot perform well within area without the active support of the State Agriculture Departments and for this purpose the Department would have to mobilize them for conducting soil tests effectively. In this regard, the fertilizer companies should also assist the State Governments in securing soil testing mobile vans etc., as some of the States do not have the same in adequate numbers. Besides this, Fertilizer Education Programme needs to be further strengthened by the fertilizer industries in coordination with the State Governments and the Department of Fertilizers. The Committee also feel that without proper irrigation, the application of fertilizers is of very little use. As such, the Committee would also like to recommend that irrigation facilities in the State should also be augmented simultaneously for the effective use of fertilizers. The desired results could be achieved if synergic efforts are made the by Department of Fertilizers, Department of Agriculture, Ministry of Water Resources and the Irrigation and Agriculture Departments of State Governments.</p>