



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

**FOURTEENTH LOK SABHA**

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

**DEMANDS FOR GRANTS  
(2008-09)**

*[Action Taken by the Government on the recommendations contained in the Twenty-sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2007-08) on Demands for Grants (2008-09) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers)]*

**TWENTY-NINTH REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI  
November, 2008/Kartika, 1930 (Saka)**

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*Presented to Lok Sabha on 16.12.2008*

*Laid in Rajya Sabha on 16.12.2008*



**LOK SABHA SECRETARIAT  
NEW DELHI  
November, 2008/Kartika, 1930 (Saka)**

## **CONTENTS**

	<b>PAGE</b>
COMPOSITION OF THE COMMITTEE (2008-09) .....	4
INTRODUCTION .....	5
<b>CHAPTER I</b> Report .....	6
<b>CHAPTER II</b> Recommendations/observations which have been accepted by the Government .....	27
<b>CHAPTER III</b> Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies.....	50
<b>CHAPTER IV</b> Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee	51
<b>CHAPTER V</b> Recommendations/observations in respect of which final replies of the Government are still awaited .....	56

## **APPENDICES**

<b>I</b>	Minutes of the Third sitting of the Standing Committee on Chemicals and Fertilizers (2008-09) held on 6 November 2008.....	60
<b>II</b>	Analysis of Action Taken by the Government on the recommendations contained in the Twenty-sixth Report (14 <sup>th</sup> Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2007-08) on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) .....	62

**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 Sunil Khan
5. Shri Shrichand Kripalani
6. Shri Subhash Maharia
7. Shri Punnu Lal Mohale
8. Shri A. Narendra
9. Shri Anand Paranjpe
10. Shri Prasanta Pradhan
11. Shri P. Chalapathi Rao
12. Shri Ashok Kumar Rawat
13. Shri Anantha Venkata Rami Reddy
14. Shri Devwrat Singh
15. Shri Narsingrao H. Suryawanshi
16. Shri Mansukhbhai Dhanjibhai Vasava
17. Shri D. Venugopal
18. Shri Bhanu Pratap Singh Verma
- \*19. Vacant
- \$20. Vacant
21. Vacant

**Rajya Sabha**

22. Shri B.S. Gnanadesikan
23. Shri A.A. Jinnah
24. Shri Raj Mohinder Singh Majitha
25. Shri Om Prakash Mathur
26. Shri V. Hanumantha Rao
27. Shri Mahendra Sahni
28. Shri Gireesh Kumar Sanghi
29. Shri Raghunandan Sharma
- #30. Vacant
31. Vacant

**Rajya Sabha**

- |    |                           |   |                            |
|----|---------------------------|---|----------------------------|
| 1. | Shri N.K. Sapra           | - | Additional Secretary       |
| 2. | Shri P. Sreedharan        | - | 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 |

\* Consequent upon his disqualification for being Member of the Lok Sabha, Shri Jai Prakash (Constituency – Mohanlal Ganj) ceased to be Member of this Committee w.e.f. 12.09.2008.

\$ Consequent upon his resignation from Rajya Sabha, Shri Debabrata Biswas ceased to be Member of this Committee w.e.f. 23.09.2008.

# Consequent upon his disqualification for being Member of the Lok Sabha, Shri Ramswaroop Prasad ceased to be Member of this Committee w.e.f. 03.10.2008.

## INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2008-09) having been authorised by the Committee to submit the Report on their behalf, present this Twenty-ninth Report on Action Taken by the Government on the recommendations contained in the Twenty-sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2007-08) on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Twenty-sixth Report of the Committee was presented to Lok Sabha on 16 April 2008 and laid in Rajya Sabha on 23 April 2008. The replies of Government to all the recommendations contained in the Twenty-sixth Report were received on 16 July 2008. The Standing Committee on Chemicals and Fertilizers (2008-09) considered the Action Taken Replies received from the Government and adopted the Draft Action Taken Report at their sitting held on 6 November 2008.

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

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

**NEW DELHI**  
**November 7, 2008**  
**Kartika 16 , 1930 (Saka)**

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

## REPORT

### CHAPTER – I

This Report of the Committee deals with the action taken by the Government on the recommendations / observations contained in the Twenty- sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2007-08) on Demands for Grants (2008-09) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 16 April 2008. The Report contained 18 recommendations/ observations.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the recommendations / observations contained in the Twenty-sixth Report within three months from the presentation of the Report, i.e. by 16 July 2008. The Action Taken Replies of the Government in respect of all the 18 recommendations / observations contained in the Report were received on 16 July 2008. These have been categorized as follows :-

- |       |   |             |
|-------|---|-------------|
| (i)   | Recommendations / observations which have been accepted by the Government :<br>S.Nos.1, 2, 3, 5, 7, 8, 9, 10, 12, 13, 17 and 18   | (Total 12)  |
| (ii)  | Recommendation / observation which the Committee do not desire to pursue in view of the Government's reply :<br>S. No. Nil  | (Total Nil) |
| (iii) | Recommendations / observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration :<br>S. Nos. 4, 6 and 11 | (Total 3)   |
| (iv)  | Recommendations / observations in respect of which replies of the Government are of interim nature :<br>S. Nos. 14, 15 and 16   | (Total 3)   |

**3. The Committee hope that utmost importance would be given to the implementation of the recommendations / observations accepted by the Government. In cases, where it is not possible for the Ministry to implement the**

**recommendations / observations in their letter and spirit for any reason whatsoever, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desire that the Action Taken Notes on the recommendations/observations contained in Chapter-I of this Report and the final replies in respect of the recommendations/observations for which only interim replies have been furnished by the Ministry should be furnished expeditiously.**

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

#### **A. Capacity Utilization and Production of Fertilizers**

##### **(Recommendation S.No.4)**

5. Emphasising the need to increase the indigenous production of urea and to achieve full capacity utilization of all major fertilizers in the coming years, the Committee in their earlier Report had recommended that the installed capacity and production of Nitrogen and Phosphate had reached a level of 120.61 lakh MT and 56.59 lakh MT respectively as on 31 January 2008. The Committee had noted that the target for indigenous production of fertilizers was fixed in consultation with the fertilizer industry and the production plan for the year indicated by them. To achieve the targeted production of urea in the country, the Government had announced the New Pricing Scheme (NPS) Stage-III on 8 March 2007, under which the production of urea beyond 100% of reassessed capacity in the existing units had been incentivised. The Committee had recommended that incentive should also be given to those companies which had achieved targets more than 90 per cent. While stressing the need to achieve full capacity utilization of all major fertilizers in the coming years, the Committee had recommended that the process regarding revival of closed/sick fertilizer units should be completed at the earliest and the Government should finalize the various policy decisions pending with them without any delay to achieve the production targets fixed for the 11<sup>th</sup> Plan period.

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

“The concern of the Committee has been noted by the Government. As regards the incentive to the companies for production beyond 90% of their reassessed capacity, it is submitted that the production of urea in the country is more than 100% of the installed capacity in the country. Further, production beyond 100% of installed capacity has already been incentivised under NPS Stage III effective w.e.f. 1 October 2006.

The revival of closed fertilizer units in the country is under active consideration of the Government and Draft proposal for budgetary support from Government towards revival is currently under inter-Ministerial consultations.

As regards the new policy for attracting investments in urea sector, the Department is in the process of finalizing a policy for new investments in the urea sector both within the country and abroad. The expert committee set up under the Chairmanship of Prof. Abhijit Sen, Member Planning Commission to look into the options for new investment policies has submitted its report on 7.5.08. The policy based on the recommendations of Prof. Sen Committee is expected to be finalized shortly.

It is expected that with the announcement of new investment policy, there will be additions to the existing indigenous capacity leading to reduction in import dependence. Further, a new policy for encouraging production and application of fortified/coated fertilizers has been approved by Government and notified w.e.f. 1 June 2008.”



7. The Committee regret to observe that the Department have not offered any explanation for non-acceptance of the recommendation of the Committee to incentivise units achieving production of fertilizers beyond 90% of their installed capacity. In the opinion of the Committee, the country can achieve a reasonably comfortable position only if an atmosphere which encourages and is conducive for production of higher quantities of fertilizers is created by adopting an appropriate strategy. The Committee, therefore, desire that the Department should consider the recommendation of the Committee from this perspective. As regards revival of closed fertilizer companies, the Committee would expect a more proactive role by the Department than what is visible now so that brownfield units based on gas are set up within a definite time frame. The Committee also desire that the new impending investment policy is operationalised at the earliest so that there will be additions to the existing capacity leading to reduction in import dependence in the matter of fertilizers.

**B. Distribution of Fertilizers****(Recommendation S.No.5)**

8. Commenting on the distribution of fertilizers, the Committee in their earlier Report had recommended as under:-

“The Committee note that there has been an increase in the demand of fertilizers in the last few years with urea consumption in the current year estimated to be approximately 240 lakh tonnes. The increase in consumption of fertilizers is expected to continue in the Eleventh Plan period with the demand of urea projected at 287.55 lakh tonnes in 2011-12. Similarly, the demand projected for DAP at 95.1 lakh tonnes, for complex fertilizers at 93.30 lakh tones, for SSP at 45.6 lakh tonnes and for MOP 37.40 lakh tonnes in 2011-12. The Committee also note that various steps have been taken by the Department of Fertilizers to meet the projected demand for urea and phosphatic fertilizers during the 11<sup>th</sup> Plan period viz., implementation of Stage III of NPS w.e.f. 1 October 2006 to 31 March 2010, conversion of non-gas based urea units in the country to gas with a definite time frame, capacity addition in the existing urea units, revival of seven urea units of HFC and FCI and setting up of joint venture projects abroad where abundant reserves of gas is available. The Department has also informed that steps are also being taken by the Government to ensure monitoring of fertilizers availability up to the block level in all parts of the country. While appreciating the efforts made by the Department for meeting the demand of fertilizer by increasing indigenous production through availability of gas and strengthening the delivery mechanism, the Committee would like that godowns should be established at block level and distribution of fertilizers to farmers is monitored from block level. The Committee understand that further distribution of fertilizers especially urea from block level is the prerogative of the State Government even though the Department cannot escape from its responsibility to provide fertilizers to farmers as they may have to face the brunt in case of non-availability of fertilizers to farmers. The Committee, therefore, recommend that the Department should devise a mechanism in coordination with the State Governments for monitoring the fair distribution of fertilizers from block level in order to ensure the transparency in distribution system.

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

“The contents have been noted. The Department has been impressing upon the State Governments to upload the information relating to block-wise requirement / supply plan of urea on the web-based Fertilizer Monitoring System (FMS) to monitor its availability at block level.”

10. The Committee are happy to note that the Department have been impressing upon the State Governments to upload the information relating to block-wise requirement/ supply plan of urea on the web-based Fertilizer Monitoring System (FMS) to monitor its availability at the block level. Unfortunately, the reply of the Department is silent about setting up of godowns at the block level. The Committee are aware of the precise role of the State Governments in the matter. However, being the nodal policy centre, the Department of Fertilizers have to ensure a transparent distribution system which is free of manipulations like creation of artificial scarcities, black-marketing, etc. so that the farmers are genuinely benefited. The Committee, therefore, desire that the Government should chalk out an appropriate monitoring mechanism in consultation with the State Governments with a view to ensuring proper distribution of fertilizers in the country.

**C. Increase in Fertilizer subsidy bill  
(Recommendation S.No.6)**

11. Taking note of the tremendous increase in the subsidy amount during the last five years, the Committee in their earlier Report had recommended as under :-

“The Committee note that during the last few years the fertilizer subsidy bill has increased substantially mainly because of sharp increase in international prices of fertilizer leading to increase in delivery costs of fertilizers at the farmgate level. An additional allocation of Rs. 8,985.60 crores(net) is required in the current year for reimbursement of all subsidy bills to fertilizer units pending for the year 2007-08. The Committee were informed that the third Supplementary Demands for Grants (2007-08) of the Department is likely to be only Rs. 4,000 crore which would result in carry over liability of approximately Rs.5,000 crore from the year 2007-08 to 2008-09 towards payment of fertilizer subsidy. As far as the year 2008-09 is concerned in January, 2008, the Department of Fertilizer would require Rs. 60,000 crore to meet the subsidy requirement. Against the current assessment of Rs.90,000 crore the availability in the Budget Estimates (2008-09) is only Rs.31,000 crore.

The Committee are surprised to note that there has been a tremendous increase in the subsidy amount during the last five years. It has gone almost six times since 2004-05. The Committee are apprehensive about the authenticity of subsidy amount to the tune of Rs. 90,000 crore as submitted by the Secretary, Department of Fertilizers. The Committee, therefore, recommend that industry-wise break up of the subsidy amount be furnished to them and the issue regarding the quantum of such a huge subsidy amount should be reevaluated. The Committee, therefore, recommend that after reevaluating the subsidy amount, the Government should make sufficient budgetary provision to meet the fertilizer subsidy bill including the carryover from the previous years. The Planning Commission and the Ministry of Finance should also be apprised to the concern of the Committee in this regard. The Committee, therefore, recommend that Department of Fertilizers should pursue the matter with the Planning Commission so that the adequate amount is allocated to the Department of Fertilizers for meeting the subsidy bill during the first year of 11<sup>th</sup> Plan period.”

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

“It is submitted that the substantial increase in the amount of subsidy over last 3-4 years is mainly on account of sharp increase in prices of fertilizer inputs and finished fertilizers in the international market. This has led to increase in the delivered cost of fertilizers at farm gate level and consequently increase in per tonne subsidy released on fertilizers. It may be noted that the subsidy on fertilizers is the difference between the normative delivered cost of subsidised fertilizers at farm gate level and the selling prices of these fertilizers notified by the Government. The selling prices of these fertilizers have remained constant since 28.2.02 till 17<sup>th</sup> June 2008 and are as below:-

<b>Maximum retail prices of fertilizers, by product</b>			
<b>Fertilizer</b>	<b>From 1<sup>st</sup> March 2002 onwards</b>	<b>2008/09 as on 1.5.2008</b>	<b>2008/09 w.e.f 18.6.2008</b>
<b>(Rs./tonne product)</b>			
Urea	4830	4830	4830
DAP	9350	9350	9350
MOP	4455	4455	4455
SSP	Fixed by State Government	3400	3400
10-26-26	8360	8360	7197
12-32-16	8480	8480	7637
14-28-14	8300	8300	7050
14-35-14	8660	8660	8185
15-15-15	6980	6980	5121
16-20-0	7100	7100	5875
17-17-17	8100	8100	5804
19-19-19	8300	8300	6487
20-20-0	7280	7280	5343
23-23-0	8000	8000	6145
28-28-0	9080	9080	7481

As can be seen from the table above, the prices of complex fertilizers has been further reduced w.e.f. 18 June 2008.

On the other hand, the prices of fertilizer inputs and finished fertilizers have increased sharply over last four years. The prevailing average international price of fertilizers over last few years is as below:-

Year	DAP	MOP	Urea

	C&F(FOB US Gulf+freight Tampa Mundra)	FOB(FSU)	FOB(Arabian Gulf)
1	2	3	4
2003-04	239.10	97.37	154.44
2004-05	277.69	133.62	215.55
2005-06	296.04	158.75	245.77
2006-07	329.40	172.07	256.72
2007-08	657.57	263.27	341.20
May 08 prices	1270.00	540.00	645.00

There has also been a continuous increase in consumption of fertilizers and consequently sales of fertilizers in last four years, which is as below :

Year wise sales of fertilizers (LMT)					
Year	2004-05	2005-06	2006-07	2007-08	% increase in 2007-08 over 2004- 05
UREA	205.47	221.91	244.85	261.67	27.3
DAP	60.79	67.51	69.24	75.55	24.2
MOP	23.14	28.01	23.93	27.82	20.2

In view of the above, the estimated requirement of subsidy for 2008-09 is Rs. 95,013 crore(net) including Rs. 5000 crore carry over from 2007-08. The above estimates have been intimated to Ministry of Finance with all details, to make available adequate funds for release of subsidy during 2008-09.”

13. The Ministry of Chemicals and Fertilizers have in their action taken reply maintained that the substantial increase in the amount of subsidy is mainly on account of the sharp increase in the prices of fertilizer inputs and finished fertilizers in the international market. However, the data furnished by the Department in the reply in a general way, without submitting the unit/company-wise details have in no way allayed the apprehensions of the Committee about the authenticity of the figures of the subsidy amount. The Committee would, therefore, like to be reassured on this score. They would also like the Department to pursue their case accordingly with the Ministry of Finance so as to obtain adequate funds for release of subsidy during the year 2008-09.



**D. Energy efficiency in Brahmaputra Valley Fertilizer Corporation Limited (BVFCL)**

**(Recommendation SI.No.7)**

14. In their earlier Report, the Committee had observed that due to outdated machinery and old age technology as in the case of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) about which the Committee were apprised during their study tour, consumption of energy was more which was ultimately responsible for the rise in the cost of fertilizers resulting into the cost of subsidy. As such, it was imperative that Government should also ponder over the root cause of increasing subsidy bill in indigenous production and try to plug the loopholes and revamp the system. The Committee felt that increase in the subsidy amount was not the permanent solution rather the Department should go into the root cause of high subsidy bill and accordingly modernize the existing machinery /technology.

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

“The sharp increase in subsidy bill is mainly due to sharp increase in international price of fertilizer inputs and finished fertilizers coupled with the constant selling price of subsidized fertilizers in the country. Steady increase in consumption of fertilizers have also contributed towards increase in subsidy bill.

As regards BVFCL, it is submitted that the units in BVFCL are very low capacity units based on old technology, leading to low energy efficiency. The low efficiency do impact the cost of production of urea in these units. However, the average cost of production from the two units in Namrup is estimated at Rs.10000/- PMT of urea for the year 2007-08, as compared to the average cost of production of indigenous urea at Rs.10425/- in 2007-08. It also needs to be noted that the import price of urea currently is more than Rs.25,000/-PMT.

In above context and keeping in view the location of Namrup units in the North-Eastern part of the country, the production of BVFCL is crucial towards meeting the demand in North Eastern region of the country. Nevertheless, there is a case for improving the energy efficiency in BVFCL. The same is being taken up separately with the company for making the necessary investments required towards improvement of energy efficiency in the units.”

**16. The Committee are happy to note that the Department have recognised and accepted the case for improving energy efficiency of the Brahmaputra Valley Fertilizer Corporation Limited (BVFCL). They, therefore, desire that the initiatives taken on this count should be pursued to their logical conclusions. The Committee further desire that the Department should also launch similar efficiency enhancement measures in respect of other fertilizer units also, not only for increasing production of fertilizers but also rationalizing the subsidies.**

## **E. Timely availability of Fertilizers**

### **(Recommendation SI.No.10)**

17. Stressing the need for timely and actual availability of fertilizers in all parts of the country, the Committee in their earlier Report had observed that during their field visits there had been non-availability of fertilizers in many parts of the country. The Committee had been apprised by the Ministry that the availability of urea, which was the only fertilizer under partial movement control of Government, remained satisfactory throughout the Kharif 2007 season as well as during the current Rabi 2007-08. The Committee had also been informed that every effort was made by the Department of Fertilizers to see that at least 50% of the months' requirement was available in the beginning of the month and the balance 50% was supplied during the first fortnight of the month. The Committee had noted that preparation of monthly supply plan, payment of subsidy to fertilizer companies only on reaching fertilizers to each District, compensation of freight based on actual road and rail heads, Fertilizer Monitoring System(FMS), strengthening the State Institutional Agencies and assessment of demand at Block level were some of the effective steps taken by the Department in that direction. In addition to that, Secretary, Department of Fertilizers during evidence had stated that from June 2008 onwards they would be able to send the fertilizers to the Block level and they were also making efforts to see that the entire requirement of the Block for the month of June 2008 was made available by the end of May 2008 itself. The Committee had felt that a realistic action plan should be formulated and implemented in a time bound manner so that fertilizer was actually made available to farmers for the Rabi and Kharif crops. While noting that the Department of Fertilizers had taken initiative to supply the fertilizers at Block level from June 2008 onwards, the Committee had recommended that an effective coordination and monitoring mechanism should be evolved to implement this system successfully so that the availability of fertilizers should not remain in official records and could reach to the masses actually.

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

“The Department has been impressing upon the State Governments to upload the information relating to block-wise requirement / supply plan of Urea, DAP, MOP and complex fertilizers on the web-based Fertilizer Monitoring System (FMS) and also to ensure that fertilizer actually reaches every block within the state as per the supply plan. As on date, 11 States have prepared block level supply plan for all fertilizers for the month of July 2008 and also uploaded the information on FMS. The DOF is vigorously pursuing with other States also and by July end, all States would be in a position to prepare block-wise supply plan every month and to ensure movement of fertilizers as per block level supply plan.”

19. The Committee note that the Department of Fertilizers have been impressing upon the State Governments to upload the information relating to block-wise requirement/ supply plan of urea, DAP, MoP and Complex Fertilizers on the web-based Fertilizers Monitoring System (FMS) so as to ensure that fertilizers reach every block within the State as per the supply plan. They also note that 11 States have prepared block level supply plan for all fertilizers for the month of July 2008 and uploaded the information on FMS. The Department had also been pursuing with rest of the States to implement this process by the end of July 2008. While appreciating the Department in this regard, the Committee desire to know the present status of the exercise.

**F. Buffer stock of Fertilizers****(Recommendation Sl.No. 11)**

20. Emphasising the need for maintaining a buffer stock of urea to all the States and Union Territories, the Committee, in their earlier Report had recommended as under :-

“The Committee observed that the Department of Fertilizers maintain buffer stock of urea through State Institutional Agencies/ Fertilizer companies upto 5% of the seasonal demand in only 14 major fertilizer consuming States. The Committee, therefore, recommend that in view of the increased demand of fertilizers, the similar initiative should be taken by the Department in the remaining States/ Union Territories also to ensure uninterrupted supply of fertilizers to all the States and Union Territories.”

21. The Ministry in their Action Taken Reply have simply stated that the contents have been noted.

**22. The Committee are unhappy over the vague reply furnished by the Department. The action taken note is completely silent about the precise action initiated by the Department for maintaining buffer stock of urea in the other States/Union Territories. The Committee would, therefore, like to be apprised of the concrete action taken in the matter within a period of three months from the presentation of this Report.**

**G. Warehousing capacity in Arunachal Pradesh**  
**(Recommendation SI.No.12)**

23. Stressing the need for creation of sufficient warehousing capacity in the North Eastern States, particularly, in Arunachal Pradesh so as to reduce its dependence on neighbouring States, the Committee in their earlier Report had recommended as under :-

” The States of North East are facing difficulties of movement and transportation of fertilizers in certain parts of the States. The per tonne cost of transportation has also been exceedingly high as compared to the rest of the country. These are the major bottlenecks in supplying of urea to these States in time. The Committee note that as per the information furnished by the Department, Government have decided to reimburse the freight for carrying urea on actual basis through a Special Freight Reimbursement Scheme for these States. The Committee, therefore, recommend that the Department of Fertilizers should evaluate the success of this scheme from time to time and to see the result and efficacy of the scheme with a view to implementing it in remote and hilly areas also.

The Committee has been apprised that in North Eastern States availability of urea in all the months of the year is always more than the assessed requirement except in Arunachal Pradesh. As there is limited warehousing in Arunachal Pradesh, Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) has been supplying urea to the dealers of Arunachal Pradesh on regular basis from Tezapore and North Lakhimpore as nodal points. The full requirement of the State can be supplied by BVFCL alone. Despite several requests, Arunachal Pradesh has lifted only 163 MT of urea against their requirement of 500 MT during the last six months. The Committee also note that to maintain the mandatory buffer stocks in North Eastern States specifically in Arunachal Pradesh, a proposal for creation of buffer stock in the North Eastern States will be examined in consultation with BVFCL and the State Governments.

The Committee, therefore, recommend that sufficient warehousing capacity be created in Arunachal Pradesh to reduced its dependence on neighbouring States as the transport facilities in the North Eastern States are not adequate and cost effective as in other parts of the country. The Committee also recommend that the Department should take up the matter with the Governments of North Eastern States to maintain a mandatory buffer stock in the North Eastern States on priority basis in consultation with BVFCL and State Governments. The Committee further recommend that warehouses for fertilizers may either be constructed by the BVFCL in case Government of



Arunachal Pradesh does not establish the same or godowns may be constructed by sharing the mutually agreed amount by BVFCL and the Government of Arunachal Pradesh.”

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

“The contents have been noted. The matter is being explored with the State Governments in the North East and M/s. BVFCL.”

**25. The Committee are happy to note that the Department of Fertilizers are exploring the matter regarding maintaining a mandatory buffer stock in the North Eastern States with the State Governments in the North East and M/s Brahmaputra Valley Fertilizers Corporation Limited. The Committee would like to be apprised of the latest position of the construction of warehouses for fertilizers in North-Eastern States especially in Arunachal Pradesh.**

## CHAPTER-II

### RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

#### (Recommendation Sl. No. 1)

The Seventeenth Report of the Committee on Demands for Grants (2007-08) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) was presented to Parliament on 26<sup>th</sup> April, 2007. The Twenty-Second Report of the Committee on Action Taken by the Government on the recommendations contained in Seventeenth Report was presented to Lok Sabha on 20<sup>th</sup> November, 2007. Out of the total 20 recommendations, 11 Recommendations (Sl. Nos. 1, 3, 4, 5, 9, 10, 12, 13, 14, 17 and 19) were accepted by the Government. Recommendation at Sl. No. 2 was not pursued by the Committee in view of the Government's reply. In regard to Recommendations at Sl. Nos. 6, 7, 8, 11, 15, 16, 18 and 20, the replies of the Government were of interim nature. Subsequently, the Minister of Chemicals and Fertilizers was supposed to make a Statement in Lok Sabha regarding the status of implementation of the recommendations contained in Seventeenth Report of the Committee during the last winter session of Parliament under Direction 73A of the Directions by the Speaker, Lok Sabha. Despite repeated requests and reminders to Department of Fertilizers, the Statement could not be made in Lok Sabha during the last winter session. Now, the Minister of Chemicals and Fertilizers made the Statement regarding status of implementation of recommendations contained in the Seventeenth Report of the Committee in the Lok Sabha on 13<sup>th</sup> March, 2008 and in Rajya Sabha on 14<sup>th</sup> March, 2008.

The analysis of the Committee of implementation of recommendations by the Government has revealed that out of the total 20 Recommendations, the Department of Fertilizers have implemented only 6 Recommendations so far. The implementation process in regard to 9 recommendations is in progress. The Recommendations at Sl. Nos. 6, 11, 16, 17 and 18 relating to disbursement of subsidy, finalization of fertilizer policy, de-bottlenecking/revamp/modernization of existing urea units, availability of natural gas to fertilizer units and revival of sick and loss making and closed fertilizer

PSUs have not been implemented so far. The Committee are anguished to note that even after repeated recommendations of the Committee, the Government have not come out with any specific planning to implement these recommendations. The Committee trust that the Department would take all corrective steps to implement these recommendations in future.

The Committee also recommend that in future the Department should ensure that the Statement made by the Minister on each of the original Reports is made invariably within the specific period i.e. six months after the presentation of Report to Parliament as per Direction 73A of the Direction by Speaker, Lok Sabha.

### **Reply of the Government**

#### **(Rec. Sl. No. 2 – Tenth Five Year Plan Performance)**

As per directions of the Committee, the Department has further analyzed the reasons for short utilization of plan outlay and non-implementation of projected schemes in time. The other reasons in addition to lack of availability of gas can be summarized as below : -

- i) M/s. FACT has not been able to achieve their project plan as the resources required for implementation of the proposed schemes could not be generated by the company. The plan proposals were to be partially implemented from their own internal accruals. However, this company made continuous losses throughout the Tenth Plan period, thereby, leaving no surplus resources for implementation of the proposed schemes.
- ii) M/s MFL could spend only Rs. 66.86 crore out of projected outlay of Rs 99 crore due to :-
  - (a) Insufficient allocation of funds under Budgetary Support by the Planning Commission.
  - (b) Continuous losses by Company leading to resource crunch.

iii) Some of the schemes could not be implemented due to change in fertilizer policies for Urea and Phosphatic Fertilizer from 2003 onwards, during the Tenth Plan Period. The schemes, especially, by M/s. RCF and M/s. KRIBHCO were proposed in view of the ongoing retention price scheme in 2002 which was later on substituted with a Group Based New Pricing Scheme from April, 2003 onwards.

However, the Ministry has noted the observations of the Standing Committee and all the schemes which have been proposed for the Eleventh Plan Period are being individually scrutinized for the objective of the scheme and its techno-economic feasibility. The Department has also decided to have a review of Plan Expenditure every three months for all the companies, at the level of AS&FA, to oversee the plan expenditure in line with that proposed under the plan.

**(Rec. Sl. No. 6 – Disbursal of direct subsidy to farmers)**

The report from FAI on the direct subsidy model was received. The report was considered in the Department and it has been found that model is not desirable as it leads to increase in administrative costs without any tangible benefit either to the Government or to the farmers. The issue of direct subsidy to farmers and targeted subsidy to small and marginal farmers was also placed for consideration in Group of Ministers (GOM), which was constituted under the Chairmanship of Agriculture Minister to look into sustainable use of fertilizers and pertinent pricing and subsidy issues. The GOM in its final recommendations has not recommended any change in the existing delivery mechanism for fertilizer subsidy through the producers.

**(Rec. Sl. No. 7 – Nutrient/Feedstock based subsidy to farmers)**

As regards the direct subsidy to farmers, the status is as indicated in the reply to Recommendation No. 6. With regard to nutrient based subsidy, it is submitted that the same is under consideration of the Government and no final decision has been taken in the matter. However, nutrient based pricing of fertilizers has been approved by the Government on 12.6.08 and the same is being implemented w.e.f. 18.6.08.

As regards the mechanism to find out the production capacity of the fertilizer units and discourage gold plating etc., it is submitted that the installed capacities of urea units in the country has already been reassessed at the start of New Pricing Scheme in 2003. After the reassessment, there is no case of hidden capacity in the units.

**(Rec. Sl. No. 8 – Concession Policy for P&K and SSP fertilizers)**

Based on the examination of the fresh cost price study conducted by the Tariff Commission on Phosphatic and Potassic fertilizers and also the long term approach suggested by the Expert Group under the chairmanship of Prof. Abhijit Sen (October, 2005) on Di Ammonium Phosphate (DAP) and Phosphoric Acid adopted by IMG, the policy on concession to decontrolled P & K fertilizers w.e.f. 1.4.2008 is at an advance stage of consideration and is expected to be finalized very soon.

**(Rec. Sl. No. 11 – Delay in declaration of the fertilizer policy)**

The Department has noted the concern of the Committee regarding increasing import dependence. To encourage indigenous production in the country by way of new capacity additions, the Government is in process of finalizing a policy for new investments in the urea sector both within the country and abroad. The expert committee set up under the Chairmanship of Prof. Abhijit Sen, Member Planning Commission to look into the options for new investment policies has submitted its report on 7.5.08. The policy based on the recommendations of Prof. Sen Committee is expected to be finalized shortly.

It is expected that with the announcement of new investment policy, there will be additions to the existing indigenous capacity leading to reduction in import dependence.

**(Rec. Sl. No. 15 – Projects/schemes for benefit of North-Eastern Region)**

The Department has allocated a sum of Rs. 20 crore for the development of North Eastern Region which is 10% of the annual plan fund of Rs. 200 crore for the year 2008-09.

The TEFR for revamp/ brownfield plant at Namrup is under consideration of Planning Commission.

**(Rec. Sl. No. 16 – De-bottlenecking/revamping/modernization and expansion of fertilizer units)**

Under the New Pricing Scheme Stage III effective w.e.f. 1.10.06, the requirement of Government approval for debottleneck/revamp projects has been done away with. The companies are expected to take their own commercial decisions based on the provisions under New Pricing Scheme Stage III for addition of new capacities.

Further as indicated in the reply to Recommendation No. 1(11), policy for attracting new investments in urea sector is under finalization. Under the proposed New Investment Policy, the revamp of existing urea units is also proposed to be encouraged through a new pricing dispensation which will incentivise investments in existing urea units. The new investment policy is also expected to encourage expansion of fertilizer units, as a separate pricing dispensation is proposed for such capacity additions.

**(Rec. Sl. No. 18 – Revival of closed fertilizer units)**

As regards the revival of closed and loss making fertilizers units, expeditious steps are being taken and the process of obtaining the necessary approvals are under various stages of implementation, which are briefly described as under:-

In respect of Barauni unit of HFCL and Ramagundam unit of FCIL, the National Fertilizers Ltd. (NFL) has got Techno Economic Feasibility Report (TEFR) prepared through PDIL. The TEFR which has been received in the Department on 27th June 2008 is under examination.

In respect of Talcher unit and Sindri Unit of FCIL as well as Durgapur unit of HFCL, the Rashtriya Chemicals & Fertilizers Ltd. (RCF) has got the TEFR prepared through PDIL. The reports which have been received in the Department on 27th June 2008 are under examination.

In respect of Gorakhpur unit of FCIL, KRIBHCO has shown interest in its revival and the TEFR which are already been prepared will be updated and further action would be taken after finalization of the new investment policy of the Government.

Regarding the availability of gas and obtaining of in-principle approvals for funds as necessary, a draft Note for the Cabinet Committee on Economic Affairs (CCEA) has been circulated for inter-ministerial consultation. The comments of Ministry of Petroleum and Natural Gas (P&NG), M/o. Law and Justice and comments of Planning Commission have been received which are under examination. The draft Cabinet Note will be submitted on receipt of comments from other Ministries consulted, after incorporating the changes as may be necessary.

As regards restructuring of FACT, a study was got conducted by consultants M/s. Deloitte and their report has been received which is under examination. In order to sustain the operations of the company in the interregnum, a one-time grant of Rs. 200 crore has been released to the company. The production units which were closed due to financial crisis have since resumed production by the company.



For financial restructuring of Madras Fertilizers Ltd. (MFL) a study by the Consultants M/s. Deloitte was commissioned by the company and their report is expected to be received soon. The recommendations will be included in the Draft Note under preparation for approval of the CCEA.

As regards PPCL, the Patna High Court vide order dated 12.7.2007 has ordered the company to be wound up and an Official Liquidator has been appointed by the Court. The Official Liquidator has taken over the assets of the company and consequently the Board of Directors has ceased to exist. However, options are being explored for revival of the Amjhore Mines of the company, through an other PSU namely FAGMIL.

**(Rec. Sl. No. 20 – ‘Sankat Haran Bima Yojana Policy, Scheme for farmers)**

A copy of the report has been circulated to fertilizer manufacturers inviting their comments / suggestions regarding replicability of the scheme and on the recommendations of the report.

**(Para 7 of Rec. Sl. No. 1 – Statement made by Minister on original Report)**

Department will ensure that in future the statement made by the Minister on each of the original Reports will be made within the specific period i.e. 6 months after the presentation of Report to Parliament as per direction 73-A of the direction by Speaker, Lok Sabha.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**(Recommendation Sl. No. 2)**

The Committee note that during the Tenth Five Year Plan (2002-2007), there has been a shortfall in utilization of plan funds and the Department of Fertilizers had given various reasons for non-utilization of funds during this period. The total plan outlay for the 10<sup>th</sup> Plan period was Rs.5900 crore against the above outlay, the actual expenditure was only Rs.2,383.11 crore, which is even less than 50% of the total plan outlay. The Committee are unhappy to note that during the Tenth Plan period, there was a shortfall in utilization of funds in almost all the major projects/schemes being undertaken by various PSUs under the administrative control of Department of Fertilizers resulting into continuous failure in achieving the target fixed for Tenth Plan period. The reasons given by Department for under-utilization of funds are (i) non-availability of gas for Hazira Expansion Project of KRIBHCO and Thal Expansion project of RCF; (ii) Repatriation of Government of India's equity by IFFCO as IFFCO is no more a Cooperative under Department of Fertilizers; and (iii) Closure of Fertilizer Corporation of India (FCI). As regards the FACT, there was no internal generation of funds for investment as planned at the outset of Tenth Plan as such there was constraints of funds. The Committee, therefore, recommend that re-appropriation of funds from one scheme to another should be carried out, so that the amount allocated to the Department is fully utilized in the particular financial year.

**Reply of the Government**

During the Tenth Plan period, there was a shortfall of expenditure for the reasons already stated. However, as recommended, during the Eleventh Plan, the PSUs are being separately advised to plan and complete the schemes in a time bound manner so that if needed, the re-appropriation of funds from one scheme to another scheme can be carried out so that the amount allocated under the annual plan is fully utilized during the relevant financial year itself.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**(Recommendation Sl. No. 3)**

The Committee note that the plan Budget proposal of the Department of Fertilizers was discussed in the Planning Commission. The Planning Commission had agreed with the proposals of the Department in respect of Internal and Extra Budgetary Resources (IEBR) generated by PSUs, but they have provided a Gross Budgetary Support (GBS) of Rs.200.00 crore against the projected requirement of Department of Rs.1031.72 crore. Against the projected requirement of Rs.800.00 crore for payment of capital subsidy towards conversion of FO/LSHS plants to Gas in 2008-09, only Rs.150 crore has been allocated which is inadequate to initiate the conversion projects in the coming year. In view of the above, it has been decided to explore alternative means of financing the conversion projects. Accordingly, an alternate 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 Committee also note that the fund provided under various heads under the Plan and Non-Plan expenditure has not been utilized. However, the Committee desired that the fund utilization and the expenditure under various heads should improve in 2008-09. The Budget estimates for the year 2008-09 may be made accordingly. The Committee feel and recommend the Department of Fertilizers to strengthen the monitoring mechanism so that the PSU under the Department are able to implement their programme effectively by proper utilization of fund by each PSU during each year of the Eleventh Plan so that real benefit should reach the people.

**Reply of the Government**

In order to monitor expenditure of plan funds on the approved schemes of the PSUs, the physical output and outcomes of the schemes/programmes are reviewed in the quarterly review meetings held regularly in the Department. In addition, the Department has also undertaken to review Plan expenditure of all the companies every three months at the level of Additional Secretary & Financial Adviser so as to ensure that there is no shortfall in utilisation of plan fund vis-à-vis the plan targets.

The mechanism is expected to result in higher utilisation of plan funds during the current financial year.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**(Recommendation Sl. No. 5)**

The Committee note that there has been an increase in the demand of fertilizers in the last few years with urea consumption in the current year estimated to be approximately 240 lakh tones. The increase in consumption of fertilizers is expected to continue in the Eleventh Plan period with the demand of urea projected at 287.55 lakh tones in 2011-12. Similarly, the demand projected for DAP at 95.1 lakh tones, for complex fertilizers at 93.30 lakh tones, for SSP at 45.6 lakh tones and for MOP 37.40 lakh tones in 2011-12. The Committee also note that various steps have been taken by the Department of Fertilizers to meet the projected demand for urea and phosphatic fertilizers during the 11<sup>th</sup> Plan period viz., implementation of Stage III of NPS w.e.f. 1<sup>st</sup> October, 2006 to 31<sup>st</sup> March 2010, conversion of non-gas based urea units in the country to gas with a definite time frame, capacity addition in the existing urea units, revival of seven urea units of HFC and FCI and setting up of joint venture projects abroad where abundant reserves of gas is available. The Department has also informed that steps are also being taken by the Government to ensure monitoring of fertilizers availability up to the block level in all parts of the country. While appreciating the efforts made by the Department for meeting the demand of fertilizer by increasing indigenous production through availability of gas and strengthening the delivery mechanism, the Committee would like that godowns should be established at block level and distribution of fertilizers to farmers is monitored from block level. The Committee understand that further distribution of fertilizers especially urea from block level is the prerogative of the State Government even though the Department cannot escape from its responsibility to provide fertilizers to farmers as they may have to face the brunt in case of non-availability of fertilizers to farmers. The Committee, therefore, recommend that the Department should devise a mechanism in coordination with the

State Governments for monitoring the fair distribution of fertilizers from block level in order to ensure the transparency in distribution system.

### **Reply of the Government**

The contents have been noted. The Department has been impressing upon the State Governments to upload the information relating to block-wise requirement / supply plan of urea on the web-based Fertilizer Monitoring System (FMS) to monitor its availability at block level.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

### **Comments of the Committee**

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

### **(Recommendation Sl. No.7)**

The Committee observe that due to outdated machinery and old age technology as in the case of BVFCL about which the committee were apprised during their study tour, consumption of energy is more which is ultimately responsible for the rise in the cost of fertilizers resulting into the cost of subsidy. As such, it is imperative that Government should also ponder over the root cause of increasing subsidy bill in indigenous production and try to plug the loopholes and revamp the system. The Committee feel that increase in the subsidy amount is not the permanent solution rather the Department should go into the root cause of high subsidy bill and accordingly modernize the existing machinery /technology.

### **Reply of the Government**

As indicated in our reply to the recommendation No.6, the sharp increase in subsidy bill is mainly due to sharp increase in international price of fertilizer inputs and finished fertilizers coupled with the constant selling price of subsidized fertilizers in the country. Steady increase in consumption of fertilizers have also contributed towards increase in subsidy bill.

As regards BVFCL, it is submitted that the units in BVFCL are very low capacity units based on old technology, leading to low energy efficiency. The low efficiency do impact the cost of production of urea in these units. However, the average cost of production from the two units in Namrup is estimated at Rs.10000/-PMT of urea for the year 2007-08, as compared to the average cost of production of indigenous urea at Rs.10425/- in 2007-08. It also needs to be noted that the import price of urea currently is more than Rs.25000/-PMT.

In above context and keeping in view the location of Namrup units in the North-Eastern part of the country, the production of BVFCL is crucial towards meeting the demand in North Eastern region of the country. Nevertheless, there is a case for improving the energy efficiency in BVFCL. The same is being taken up separately with the company for making the necessary investments required towards improvement of energy efficiency in the units.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

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

**(Recommendation Sl. No. 8)**

The Committee note that fertilizer bonds are issued by Ministry of Finance in lieu of cash release of fertilizer subsidy. The Secretary, Department of Fertilizers apprised the committee during the discussions that Ministry of Finance had issued first tranche of Fertilizer Bonds. However, the fertilizer industry has been unwilling to take Fertilizer Bonds in lieu of cash as it has additional financial implications for the companies as the industry feels that bonds can be traded only at discounted rates. Moreover the tenure of Bond is too long. The Department of Fertilizers has, therefore, requested the Ministry of Finance to provide cash allocation for release of fertilizer subsidy in future. The Department has also requested for a shorter period bonds as demanded by the fertilizer industry. As stated by the Secretary, Department of

Fertilizers during the course of evidence that discounted rate of bond at 7 to 8% is bothering industry due to that there is nil investment in the fertilizer sector. The Committee, therefore, recommend that the Department of Fertilizer should take up this issue with the Ministry of Finance in right earnest and resolve the issue to the satisfaction of fertilizer industries. The Committee also recommend that the concerted efforts should be made by the Government to minimise the subsidy dues so that the same are not carried forward in the coming years.

### **Reply of the Government**

DoF has taken up the issue with Ministry of Finance for additional allocation of funds for release of fertilizer subsidy in 2008-09 in cash and not bonds. The effort is being made to get adequate allocation so that minimum subsidy dues are carried over to next year.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

### **(Recommendation Sl. No. 9)**

The Committee note that the payment of subsidy to fertilizer industries is not made in time. The Committee, therefore, recommend that the payment of subsidy should be made in time. The Committee are of the view that fertilizers industries should not be deprived of their money which they have invested and forced to sell the fertilizers at the reduced price which is much lower than the actual price. The Committee, therefore, recommend that the Government should not make any inordinate delay in the payment of subsidy.

### **Reply of the Government**

The payment of fertilizer subsidy is a continuous process and the DoF is making all efforts to release fertilizer subsidy to fertilizer companies on time, subject to availability of budget. Further, the matter is being regularly taken up with the

Competent Authority for additional allocation of funds to meet the requirement of fertilizer subsidies.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**(Recommendation Sl. No. 10)**

The Committee have observed during their field visits that there has been non-availability of fertilizers in many parts of the country. However, the Committee has been apprised by the Ministry that the availability of urea, which is the only fertilizer under partial movement control of Government, remained satisfactory throughout the Kharif 2007 season as well as during the current Rabi 2007-08. The Committee have also been informed that every effort is made by the Department of Fertilizers to see that atleast 50% of the months' requirement is available in the beginning of the month and the balance 50% is supplied during the first fortnight of the month. The Committee also note that preparation of monthly supply plan, payment of subsidy to fertilizer companies only on reaching fertilizers to each District, compensation of freight based on actual road and rail heads, Fertilizer Monitoring System(FMS), strengthening the State Institutional Agencies and assessment of demand at Block level are some of the effective steps taken by the Department in this direction. In addition to this, Secretary, Department of Fertilizers during his evidence before the Committee stated that from June 2008 onwards they will be able to send the fertilizers to the Block level. He further stated that they are also making efforts to see that the entire requirement of the Block for the month of June, 2008 is made available by the end of May, 2008 itself. While appreciating the steps taken by the Government for timely availability of fertilizers in all parts of the country in the coming years, the Committee feel that a realistic action plan be formulated and implemented in a time bound manner so that fertilizer is actually made available to farmers for the Rabi and Kharif crops. The Committee are happy to note that the Department of Fertilizers has taken initiative to supply the fertilizers at Block level from June, 2008 onwards. The Committee, therefore, recommend that an effective coordination and monitoring mechanism be evolved to implement this system successfully so that the availability



of fertilizers should not remain in official records only but it reaches to the masses actually.

### **Reply of the Government**

The Department has been impressing upon the State Governments to upload the information relating to block-wise requirement / supply plan of Urea,DAP, MOP and complex fertilizers on the web-based Fertilizer Monitoring System (FMS) and also to ensure that fertilizer actually reaches every block within the state as per the supply plan. As on date 11 states have prepared block level supply plan for all fertilizers for the month of July, 2008 and also uploaded the information on FMS. The DOF is vigorously pursuing with other states also and by July end, all states would be in a position to prepare block-wise supply plan every month and to ensure movement of fertilizers as per block level supply plan.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

### **Comments of the Committee**

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

### **(Recommendation Sl. No. 12)**

The states of North East are facing difficulties of movement and transportation of fertilizers in certain parts of the States. The per tonne cost of transportation has also been exceedingly high as compared to the rest of the country. These are the major bottlenecks in supplying of urea to these States in time. The Committee note that as per the information furnished by the Department, Government have decided to reimburse the freight for carrying urea on actual basis through a Special Freight Reimbursement Scheme for these States. The Committee, therefore, recommend that the Department of Fertilizers should evaluate the success of this scheme from time to time and to see the result and efficacy of the scheme with a view to implementing it in remote and hilly areas also.

The Committee has been apprised that in North Eastern States availability of urea in all the months of the year is always more than the assessed requirement except in Arunachal Pradesh. As there is limited warehousing in Arunachal Pradesh, Brhamputra Valley Fertilizer Corporation Limited (BVFCL) has been supplying urea to the dealers of Arunachal Pradesh on regular basis from Tezpore and North Lakhimpore as nodal points. The full requirement of the State can be supplied by BVFCL alone. Despite several requests, Arunachal Pradesh has lifted only 163 MT of urea against their requirement of 500 MT during the last six months. The Committee also note that to maintain the mandatory buffer stocks in North Eastern States specifically in Arunachal Pradesh, a proposal for creation of buffer stock in the North Eastern States will be examined in consultation with BVFCL and the State Governments.

The Committee, therefore, recommend that sufficient warehousing capacity be created in Arunachal Pradesh to reduced its dependence on neighbouring States as the transport facilities in the North Eastern States are not adequate and cost effective as in other parts of the country. The Committee also recommend that the Department should take up the matter with the Governments of North Eastern States to maintain a mandatory buffer stock in the North Eastern States on priority basis in consultation with BVFCL and State Governments. The Committee further recommend that warehouses for fertilizers may either be constructed by the BVFCL in case Government of Arunachal Pradesh does not establish the same or godowns may be constructed by sharing the mutually agreed amount by BVFCL and the Government of Arunachal Pradesh.

### **Reply of the Government**

The contents have been noted. The matter is being explored with the State Governments in the North East and M/s. BVFCL.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

### **Comments of the Committee**

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

**(Recommendation Sl. No. 13)**

The Committee note that at present 72 small and medium scale fertilizer units in the Department of Fertilizers are engaged in operation and producing Single Super Phosphate (SSP). Presently DAP, MOP, SSP and 11 grades of complex fertilizers covered under the Concession Scheme on decontrolled P & K fertilizers. In regard to availability of Single Super Phosphate at a uniform price across the country, the Department is considering a proposal for a uniform all India Maximum Retail Price (MRP) of SSP. This forms a part of the input based concession policy on SSP, which is on advanced stage of finalization. The Committee also note that the Department is also considering to provide freight on transportation to all the fertilizers, including SSP on actual basis. The Committee, therefore, recommend that the Department should undertake an effective long term planning to ensure early finalization of the proposal regarding concession on SSP with input prices. The Committee desire that for the interests of poor and marginal farmers State Governments should also be consulted in this regard. The Committee would also like Department to complete the process of providing freight on transportation to all fertilizers on actual basis without any loss of time so as to enable manufacturers to supply fertilizers in all parts of the country especially in hilly and remote areas.

**Reply of the Government**

At present, 78 SSP manufacturing units are covered under the Concession Scheme. Department of Fertilizers has announced revised Concession Scheme for Single Super Phosphate (SSP) fertilizer for 2008-09 on 30.04.2008 w.e.f. 1.5.2008. Accordingly, the following decisions have been taken:

- (a) Uniform all India MRP of SSP has been announced at Rs.3400/- per metric tonne (PMT) for powdered SSP. The MRP of the granulated SSP would be higher by Rs.400/-PMT. For boronated SSP, the

manufacturers/marketers are allowed to charge additional 10% of the MRP of SSP.

- (b) Department of Fertilizers has decided to provide separate rate of concession for SSP manufactured based on indigenous and imported Rock Phosphate. The base concession rate for SSP manufactured using indigenous Rock Phosphate would be Rs.3658/- PMT and for SSP manufactured using imported Rock Phosphate would be Rs.5630/-PMT. For SSP manufactured using both indigenous and imported Rock Phosphate, the rates of concession would be settled in proportion to the production of SSP through the use of the same respectively. The final rates of concession will be announced based on the average of low and high C&F prices for the preceding month published in FMB or the actual weighted average of the imported Sulphur and imported Rock Phosphate arrived in the same period.
- (c) The entire SSP shall be marketed by large producers manufacturing more than 1 lakh MTPA of SSP or through NPK/Urea manufacturers who are already covered under the Concession Scheme and having a wide marketing network in the country. 11 manufacturers of SSP have been found to producing SSP more than 1 lakh MTPA.
- (d) The manufacturers/marketers of SSP will be entitled to receive 'On Account' payment of 85% (90% with Bank Guarantee) of the claims on the basis of arrival/receipt of fertilizers in a district of a state duly certified by the Statutory Auditor of the marketer. The balance claims would be released on the expiry of the 30 days from the generation of the claims. The State Governments are required to send certification of receipt/arrival of the entire quantity of SSP. In those cases where concession has been availed by the manufacturers/marketers but later found to be malafide, recovery of ten times of concession would be made.

- (e) It has been decided to monitor details of raw materials/production/dispatch and receipt of SSP in the districts under the Fertilizer Monitoring System (FMS) with effect from 1.5.2008.

As regards the proposal to provide freight on transportation to all fertilizers on actual basis, the same is being implemented separately.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**(Recommendation Sl. No. 17)**

The Committee note that in line with the Common Minimum Programme of the Government, the possibilities of revival of FCIL, HFCL and PPCL are being explored. A proposal was submitted to the board for Reconstruction of Public Sector Enterprises (BRPSE) for obtaining 'in principle' approval in respect of FCIL and HFCL. As regards PPCL, the feasibility of reviving the Amjhore Pyrite mines is being examined. The Committee also note that some of the viable fertilizer PSUs/Cooperatives like RCF, NFL and KRIBHCO have expressed their interest in the revival of these Units. Timely availability and connectivity of gas and allocation of requisite funds are the main constraints for revival of closed units. In regard to availability of gas, Group of Ministers (GoM) in their meeting have assured that gas would be made available to meet the requirements of fertilizer Industry. Regarding allocation of funds, Department of Fertilizers has sought an allocation of Rs.5000 crore under 11<sup>th</sup> Plan as Gross Budgetary Support (GBS). The Committee recommend that approved revival/proposals should be implemented within a time bound manner. The Committee also desire that the Department of Fertilizers should pursue the matter seriously with the Planning Commission for allocation of requisite funds from time to time for early finalization of financing model for revival of closed fertilizer PSUs. The Committee, in their earlier Reports, have repeatedly been recommending that fertilizer sector should be given top priority in the allocation of gas. The Committee is of the view that this matter is serious and desire that immediate corrective steps should be

taken by the Department of Fertilizers to ensure that adequate gas should be made available to fertilizer Industries to meet their requirements in a time bound manner. Besides ensuring the adequate supply of gas to fertilizer sector, revival package should emphasize on up gradation of technology, technical know-how, incentives for skilled workers and engineers. Surplus and unskilled workers which are liability for the industry should be given retirement under Voluntary Retirement Scheme (VRS) and adequate funds should be made available for providing money required for VRS to the companies. As submitted to the Committee during their study visit to BVFCL at Guwahati the VRS evoked poor response from workers as they reluctant to leave the job, the Committee are of the view that Department should formulate a policy in consultation with PSUs and Ministry of Finance for surplus and unskilled workers.

### **Reply of the Government**

The Government has already initiated steps for revival of closed fertilizers Units and appropriate plan allocations are expected to be available at the time of final decision in the matter. As emphasized by the Committee in its Reports, the question of allocation of gas to the fertilizers sector on priority basis has also been taken up with the Ministry of Petroleum and N.G. from time to time and Department of Fertilizers has been assured of availability of gas on a priority basis.

Department of Public Enterprises (DPE) vide their OM No.2(32)/97-DPE(WC)GL-XXII dated 05.06.2000 has issued guidelines for Voluntary Retirement Scheme (VRS) for enterprises that make marginal profits or loss making enterprises. As per the guidelines, the managements of PSUs shall introduce these schemes with the approval of their Board and the Administrative Ministries. In implementing the VRS Scheme, managements shall ensure that it is extended primarily to such employees whose services may be dispenses without detriment to the company. Care will be exercised to ensure that highly skilled and qualified workers are not given the option. As there shall be no recruitment against vacancies arising due to VRS, it is important that the organization is not denuded of talent. In view of this, in case of M/s BVFCL, the company will be advised to submit a proposal to Department

of Fertilizers for VRS/VSS scheme with the approval of their Board. The Department of Fertilizers will examine the proposal in consultation with Department of Public Enterprises (DPE) for implementing the scheme and with Minister of Finance for providing necessary funds.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**(Recommendation Sl. No. 18)**

From the facts placed before the Committee about the performances of individual Undertakings/Cooperative under the administrative control of the Department of Fertilizers, the Committee find that KRIBHCO, RCF and NFL are profit earning units. The other PSUs viz. FACT, MFL and BVFCL are loss making units and FCI, HFC and PPCL are closed units. The Committee note that most of the PSUs are suffering losses year after year as their projects are not completed in a time bound period and remain under various stages of implementation and no major project has been undertaken by them. The Committee found that non-availability of assured quantity of gas, non-finalization of New Investment Policy, under examination of policy relating to conversion of non-gas based fertilizer units to gas based units, delay in finalization of financial restructuring proposal and revival proposals are the main factors responsible for their losses. However, some initiatives have been taken to examine the feasibility to revive/ set up new plants at the existing sites of HFCL, FCIL and PPCL. The Committee desire that the Department of Fertilizers should review and monitor the working of all PSUs on a regular basis and to give suitable directions to them for taking remedial measures. The Committee also desire that urgent steps should be taken by the Department for early finalization of the revival and restructuring proposals. The Committee recommend that the Department of Fertilizers should tackle both the issues regarding availability of gas and finalization of New Investment and conversion policies at priority basis.

**Reply of the Government**

The Department of Fertilizers is reviewing and monitoring the performance of all PSUs under it on a regular basis through the Quarterly Review Meetings (QRMs) at the level of Secretary (Fert.). The working of all PSUs are also being monitored through the mechanism of Memorandum of Understanding (MOU) entered into with the respective PSUs every year, by which the performance parameters are reviewed to see whether the targets are achieved.

Suitable directions are issued to the PSUs wherever deficiencies are noticed, to take remedial measures and to improve the performance.

As regards the revival and restructuring proposals, expeditious steps are being taken and the process of obtaining the necessary approvals are under various stages of implementation, which is briefly described as under:-

In respect of Barauni unit of HFCL and Ramagundam unit of FCIL, the National Fertilizers Ltd. (NFL) has got Techno Economic Feasibility Report (TEFR) prepared through PDIL.

In respect of Talcher unit and Sindri Unit of FCIL as well as Durgapur unit of HFCL, the Rashtriya Chemicals & Fertilizers Ltd. (RCF) has got the TEFR prepared through PDIL, which are being updated in conformity with the present market conditions.

In respect of Gorakhpur unit of FCIL, KRIBHCO has shown interest in its revival and the TEFR which are already been prepared will be updated and further action would be taken after finalization of the new investment policy of the Government.

Regarding the availability of gas and obtaining of in-principle approvals for funds as necessary, a draft Note for the Cabinet Committee on Economic Affairs (CCEA) has been circulated for inter-ministerial consultation.



As regards restructuring of FACT, a study was got conducted by consultants M/s. Deloitte and their report has been received which is under examination. In order to sustain the operations of the company in the interregnum, a one-time grant of Rs. 200 crore has been released to the company. The production units which were closed due to financial crisis have since resumed production by the company.

For financial restructuring of Madras Fertilizers Ltd. (MFL) a study by the Consultants M/s. Deloitte was commissioned by the company and their report is expected to be received soon. The recommendation will be included in the Draft Note under preparation for approval of the CCEA.

As regards BVFCL, the renovation of the plants is being implemented to enhance the capacity utilization by the company.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**CHAPTER-III**

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

-----NIL -----

**CHAPTER-IV****RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE****(Recommendation Sl. No. 4)**

The Committee note that the installed capacity and production of Nitrogen and Phosphate has reached a level of 120.61 lakh MT and 56.59 lakh MT respectively as on 31<sup>st</sup> January, 2008. The Committee also note that the target for indigenous production of fertilizers is fixed in consultation with the fertilizer industry and the production plan for the year indicated by them. To achieve the targeted production of urea in the country, the Government has announced the New Pricing Scheme (NPS) Stage-III on 8<sup>th</sup> March, 2007, under which the production of urea beyond 100% of reassessed capacity in the existing units has been incentivised. The Committee recommend that incentive should also be given to those companies who have achieved targets more than 90 per cent. The Committee further note that concerted efforts are being made by the Department to achieve full capacity utilization of all major fertilizers in the coming years. The Committee, therefore, recommend that process regarding revival of closed/sick fertilizer units should be completed at the earliest and the Government should finalize the various policy decisions pending with them without any delay to increase the indigenous production of urea and to achieve the production targets fixed for the 11<sup>th</sup> Plan period.

**Reply of the Government**

The concern of the Committee has been noted by the Government. As regards, the incentive to the companies for production beyond 90% of their reassessed capacity, it is submitted that the production of urea in the country is more than 100% of the installed capacity in the country. Further, production beyond 100% of installed capacity has already been incentivised under NPS Stage III effective w.e.f. 1<sup>st</sup> October, 2006.

The revival of closed fertilizer units in the country is under active consideration of the Government and Draft proposal for budgetary support from Government towards revival is currently under inter-ministerial consultations.

As regards the new policy for attracting investments in urea sector, the status is indicated in the reply to Recommendation No. 1(11). Further, a new policy for encouraging production and application of fortified/coated fertilizers has been approved by Government and notified w.e.f. 1<sup>st</sup> June, 2008.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

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

**(Recommendation Sl. No. 6)**

The Committee note that during the last few years the fertilizer subsidy bill has increased substantially mainly because of sharp increase in international prices of fertilizer leading to increase in delivery costs of fertilizers at the farmgate level. An additional allocation of Rs. 8985.60 crores(net) is required in the current year for reimbursement of all subsidy bills to fertilizer units pending for the year 2007-08. The Committee were informed that the third Supplementary Demands for Grants (2007-08) of the Department is likely to be only Rs. 4000 crore which would result in carry over liability of approximately Rs.5000 crore from the year 2007-08 to 2008-09 towards payment of fertilizer subsidy. As far as the year 2008-09 is concerned in January, 2008, the Department of Fertilizer would require Rs. 60,000 crore to meet the subsidy requirement. Against the current assessment of Rs.90.000 crore the availability in the Budget Estimates (2008-09) is only Rs.31,000 crore.

The Committee are surprised to note that there has been a tremendous increase in the subsidy amount during the last five year. It has gone almost six times since 2004-05. The Committee are apprehensive about the authenticity of subsidy

amount to the tune of Rs. 90,000 crore as submitted by the Secretary, Department of Fertilizers. The Committee, therefore, recommend that industry-wise break up of the subsidy amount be furnished to them and the issue regarding the quantum of such a huge subsidy amount should be reevaluated. The Committee, therefore, recommend that after reevaluating the subsidy amount, the Government should make sufficient budgetary provision to meet the fertilizer subsidy bill including the carryover from the previous years. The Planning Commission and the Ministry of Finance should also be apprised to the concern of the Committee in this regard. The Committee, therefore, recommend that Department of Fertilizers should pursue the matter with the Planning Commission so that the adequate amount is allocated to the Department of Fertilizers for meeting the subsidy bill during the first year of 11<sup>th</sup> Plan period.

### **Reply of the Government**

It is submitted that the substantial increase in the amount of subsidy over last 3-4 years is mainly on account of sharp increase in prices of fertilizer inputs and finished fertilizers in the international market. This has led to increase in the delivered cost of fertilizers at farm gate level and consequently increase in per tonne subsidy released on fertilizers. It may be noted that the subsidy on fertilizers is the difference between the normative delivered cost of subsidised fertilizers at farm gate level and the selling prices of these fertilizers notified by the Government. The selling prices of these fertilizers have remained constant since 28.2.02 till 17<sup>th</sup> June, 2008 and are as below:-

<b>Maximum retail prices of fertilizers, by product</b>			
<b>Fertilizer</b>	<b>From 1<sup>st</sup> March 2002 onwards</b>	<b>2008/09 as on 1.5.2008</b>	<b>2008/09 w.e.f 18.6.2008</b>
<b>(Rs./tonne product)</b>			
Urea	4830	4830	4830
DAP	9350	9350	9350
MOP	4455	4455	4455
SSP	Fixed by State Government	3400	3400
10-26-26	8360	8360	7197
12-32-16	8480	8480	7637
14-28-14	8300	8300	7050
14-35-14	8660	8660	8185
15-15-15	6980	6980	5121
16-20-0	7100	7100	5875
17-17-17	8100	8100	5804
19-19-19	8300	8300	6487
20-20-0	7280	7280	5343
23-23-0	8000	8000	6145
28-28-0	9080	9080	7481

As can be seen from the table above, the prices of complex fertilizers has been further reduced w.e.f. 18<sup>th</sup> June, 2008.

On the other hand, the prices of fertilizer inputs and finished fertilizers have increased sharply over last four years. The prevailing average international price of fertilizers over last few years is as below:-

USD/PMT

<b>Year</b>	<b>DAP</b>	<b>MOP</b>	<b>Urea</b>
	<b>C&amp;F(FOB US Gulf+freight Tampa Mundra)</b>	<b>FOB(FSU)</b>	<b>FOB(Arabian Gulf)</b>
2003-04	239.10	97.37	154.44
2004-05	277.69	133.62	215.55
2005-06	296.04	158.75	245.77
2006-07	329.40	172.07	256.72
2007-08	657.57	263.27	341.20
May 08 prices	1270.00	540.00	645.00

There has also been a continuous increase in consumption of fertilizers and consequently sales of fertilizers in last four years, which is as below :

<b>Year wise sales of fertilizers (LMT)</b>					
<b>Year</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>% increase in 2007-08 over 2004-05</b>
UREA	205.47	221.91	244.85	261.67	27.3
DAP	60.79	67.51	69.24	75.55	24.2
MOP	23.14	28.01	23.93	27.82	20.2

In view of the above, the estimated requirement of subsidy for 2008-09 is Rs. 95013 crore(net) including Rs. 5000 crore carry over from 2007-08. The above estimates have been intimated to Ministry of Finance with all details, to make available adequate funds for release of subsidy during 2008-09.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

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

**(Recommendation Sl. No.11)**

The Committee observed that the Department of Fertilizers maintain buffer stock of urea through State Institutional Agencies/ Fertilizer companies upto 5% of the seasonal demand in only 14 major fertilizer consuming States. The Committee, therefore, recommend that in view of the increased demand of fertilizers, the similar initiative should be taken by the Department in the remaining States/ Union Territories also to ensure uninterrupted supply of fertilizer to all the States and Union Territories.

**Reply of the Government**

The contents have been noted.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

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

**CHAPTER-V**  
**RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH**  
**FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED**

**(Recommendation Sl. No. 14)**

The Committee note that the import of urea on Government account is made to bridge the gap between assessed demand and supply. The State Trading Enterprises arrange imports of urea on behalf of Government. The Committee find that the indigenous production of urea is less than the requirements of urea and the requirements beyond indigenous production have to be met through higher imports. Similarly, the demand of DAP has been increasing during the years whereas indigenous production has been almost static due to lack of investment in fertilizer sector, leading to increase in import of DAP. Considering these facts, the committee recommend that concerted efforts should be made by the Department to encourage the investment in fertilizer sector and in the production of fertilizers so as to enhance the production capacity of these fertilizers and to reduce the dependence of the country on imports. The Committee are of the view that investment in domestic capacity addition is feasible option to fulfil the burgeoning demand. The Committee feel that investment in fertilizer sector will be forthcoming only, if reasonable rate of return on investment, comparable to other investment avenues available in the country is ensured.

**Reply of the Government**

The Department is in the process of finalising a New Investment Policy for urea sector which is expected to encourage investments and addition of indigenous capacities in future. The policy is proposed to be finalised based on the recommendation of the Expert Committee under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission. The new Policy is expected to provide a reasonable rate of return on investments in urea sector.



Further, in phosphatic sector also an import parity based policy has been approved on 26.6.08 w.e.f. 1.4.08 to encourage production of phosphatic fertilizers in the country and also facilitate possibility of new investments in this sector.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

### **Recommendation Sl. No.15**

The Committee note that the Government has approved the pricing policy for urea units for Stage-III of New Pricing Scheme (NPS) w.e.f. 1.10.2008 to 31.03.2010. The policy has been formulated keeping in view the recommendations of the Working Group set up under the Chairmanship of Dr. Y.K. Alagh. The main aim of Stage-III of NPS is to increase further investment in urea sector, incentivising additional urea production and encouragement for setting up joint venture projects abroad. The committee also note that specific problems submitted by fertilizer companies which their units may face under NPS-III have been examined by the Department. The draft proposal for modifications in the provisions under NPS-III to resolve issues raised by fertilizer companies is currently under inter-ministerial consultations. The committee recommend that a stable and final policy be formulated at the earliest to implement the Stage-III of NPS successfully. The Committee also recommend that in order to achieve the aim of NPS-III, the proposal for suitable modifications in the provisions under this scheme be finalised by the Department in a stipulated time bound period. The Committee, therefore, urge the Department to take all possible measures so that the objectives set under Stage-III of NPS are met. The Committee also desire that the Department of Fertilizers should explore the feasibility of pricing policy based on normative parameters away from cost based formula. The Committee may be apprised of the action taken in this regard.

### **Reply of the Government**

The provisions of new Pricing Scheme Stage III are currently under implementation. The proposal for modification in the provision under NPS III to resolve issues raised by fertilizer companies is under inter-ministerial consultations

and is expected to be decided shortly. As regards the feasibility of Pricing Policy based on normated parameters is concerned, a policy for new investments in urea sector based on normated parameter like import parity bench mark is under active consideration of the Department and is expected to be decided shortly. For the existing urea units, possibility of normated parameters based policy is being explored separately. However, since units are functioning on various feed stock like gas, Naphtha, FO/LSHS etc. with wide variation in cost of production, it will take some time to evolve equitable policy for all the existing units based on normated parameters. Possibility of appointment of financial Consultants to look into the matter is also being examined in the Department.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**(Recommendation Sl. No. 16)**

The Committee note that the policy announced in January, 2004 envisaged the creation of addition capacity through debottlenecking/ revamp/modernization of Fertilizer Units, provided that the additional production comes from using natural gas/LNG as feedstock. The Committee also note that as per the information furnished by the Department, three expansion projects have not been finalized due to lack of confirmed availability of gas. Further, a policy proposal for incentivizing conversion of FO/LSHS plants is under inter-ministerial consultation. The Committee further note that the policy for new investments in urea sector has not yet been finalized by the Government. In view of the stagnated production capacity and lack of investment in the fertilizer sector, the Committee once again reiterate that the Department of Fertilizers should regularly pursue the matter with the Ministry of Petroleum and Natural Gas and other related agencies for allocation of the natural gas to fertilizer sector on priority basis as envisaged in the Draft Natural Gas Utilization Policy. While expressing the concern over the inordinate delay in finalization of policy for conversion of non-gas based units of gas based units and new investment policy in urea sector, the Committee recommend that both the policies may be finalized without

any further delay. The Committee would also like to be apprised of the action taken in this regard.

### **Reply of the Government**

The Department has noted the concerns of the committee. An Expert Committee under Prof. Abhijit Sen, Member(Agriculture) was constituted by the Group of Ministers (GOM), which was set up to look into issues relating to fertilizer sector. The committee was mandated to examine various options for a New Investment Policy in urea sector and make suitable recommendations. The Committee has submitted its final report on 27th May, 2008. The proposal for New Investment Policy is currently under Inter-Ministerial consultation and the same is expected to be finalized shortly.

The Policy for conversion of Non-Based Gas Units to gas is also under Inter-Ministerial consultations and is expected to be finalized shortly.

With regard to allocation of Natural Gas to fertilizer sector, it is to inform that the EGOM, on gas issues, in its meeting held on the 28<sup>th</sup> May, 2008, has decided to accord first priority to existing urea plants in the country for allocation of gas. Further, it has also been decided to accord highest priority to fertilizer sector including existing urea units, de-bottlenecking, expansion and revival of closed units, for allocation of gas.

[M/o of Chemicals and Fertilizers (Department of Fertilizers)  
O.M. No. 5 (3)/2008-FinII dated 16.07.2008]

**NEW DELHI**  
**November 7, 2008**  
**Kartika 16, 1930 (Saka)**

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

## MINUTES

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

## THIRD SITTING

**(06.11.2008)**

The Committee sat from 1400 hours to 1500 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 Ashok Kumar Rawat
7. Shri Anantha Venkata Rami Reddy
8. Shri Narsingrao H. Suryawanshi
9. Shri D. Venugopal
10. Shri Bhanu Pratap Singh Verma

***Rajya Sabha***

11. Shri B.S. Gnanadesikan
12. Shri A.A. Jinnah
13. Shri Raj Mohinder Singh Majitha
14. shri Raghunandan Sharma

***Secretariat***

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

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

3. \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\* \*\*  
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4. The Committee then took up for consideration the draft Report on Action Taken by the Government on the recommendations contained in the Twenty-sixth Report of the Committee on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers). The draft Report was also adopted by the Committee without any amendment.

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

6. \*\* \*\* \*\*^  
 \*\* \*\* \*\*^

***The Committee, then, adjourned.***

**APPENDIX – II**

*(Vide Para 3 of the Introduction)*

*Analysis of Action Taken by the Government on the recommendations contained in the Twenty-sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2007-08) on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).*

I	<b>Total No. of Recommendations</b>	18
II	Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 2, 3, 5, 7, 8, 9, 10, 12, 13, 17 and 18)	12
	Percentage to Total	66.66%
III	Recommendations/observations which the Committee do not desire to pursue in view of Government's Replies	Nil
	Percentage of Total	Nil
IV	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendation at Sl. Nos. 4, 6 and 11)	3
	Percentage of Total	16.67%
V	Recommendations/observations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos. 14, 15 and 16)	3
	Percentage of Total	16.67%