FOURTH REPORT

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2004-05)

(FOURTEENTH LOK SABHA)

DEMANDS FOR GRANTS

(2004-2005)

MINISTRY OF CHEMICALS & FERTILISERS
(DEPARTMENT OF FERTILIZERS)

[Action Taken by the Government on the Recommendations contained in the Second Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on 'Demands for Grants (2004-2005) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers)']

Presented to Lok Sabha on 15.03.2005

Laid in Rajya Sabha on 15.03.2005

LOK SABHA SECRETARIAT
NEW DELHI
March, 2005/Phalguna, 1926 (Saka)

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4. Shri Santosh Kumar - *Committee Officer*
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INTRODUCTION

I, the Chairman, Standing Committee on Chemicals & Fertilizers (2004-05) having been authorised by the Committee to submit the Report on their behalf, present this Fourth Report on Action Taken by the Government on the recommendations contained in Second Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on 'Demands for Grants (2004-2005) of Ministry of Chemicals & Fertilisers, Department of Fertilizers'.

2. The Second Report of the Committee was presented to Lok Sabha on 20th August, 2004. The Replies of Government to all the recommendations contained in the Second Report were received on 6th December, 2004. The Standing Committee on Chemicals & Fertilizers (2004-05) considered the Action Taken Replies received from the Government and adopted the Draft Action Taken Report at their sitting held on 10th March, 2005.

3. An analysis of the Action Taken by Government on the recommendations contained in the Second 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
<u>March 11, 2005</u>
Phalguna 20, 1926 (Saka)

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

CHAPTER – I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Second Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on Demands for Grants (2004-05) relating to Ministry of Chemicals & Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 20th August, 2004.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) was requested to furnish replies to the recommendations contained in the Second Report within three months from the presentation of the Report i.e. by 20th November, 2004. The action taken replies of the Government in respect of all the 22 recommendations contained in the Report were received on 6th December, 2004. These have been categorised as follows:-

(i) Recommendations/observations that have been accepted by the Government:-
Sl. Nos. 4, 5, 6, 7, 13, 14, 15 and 21.

(ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies:
Sl. Nos. 9, 12 and 18.

(iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee.
Sl. Nos. 2 and 8.

(iv) Recommendations/observations in respect of which final replies of the Government are still awaited:
Sl. Nos. 1, 3, 10, 11, 16, 17, 19, 20 and 22.

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been furnished by the Government should be furnished expeditiously.

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

A. Under utilisation of funds

Recommendation No. 2 (Para No. 14)

5. While examining the Demands for Grants (2004-05) of the Department of Fertilizers, the Committee had observed that out of Rs.5900.00 crore which had been made as outlay for the fertilizer PSUs and for Departmental schemes in the 10th Plan, the actual expenditure in the first two years of the 10th Plan had been Rs. 1138.58 crore. This was only 19.3% of the total plan outlay for the 10th Plan whereas a whopping 80.7% of the outlay had been left to be utilized during the remaining three years of the plan. The Committee did not appreciate the pattern where the major share of the outlay was carried forward to the end of the plan period resulting in substantial component of the allocation remaining unutilised. During the 9th Plan period too overall utilization of funds was just 42.4%. The casualty on such occasions was planned economic development. The Committee had desired that planning should be done with vision and commitment based on the analysis of the past achievements and failures, to achieve the objectives set forth. The Committee, therefore, had recommended synchronized planning and uniform spending during each plan period. The Committee had also recommended that Department of Fertilizers should impress upon PSUs to take up shortlisted major projects/schemes and to generate the required funds for the same. Nodal officers responsible for timely implementation of projects should be asked to ensure that the deficiencies noticed once, should not recur.

6. The Ministry in their reply to the above recommendation have stated as under:-

> *"Department of Fertilizers nominates its representatives on the Board of Directors of PSUs under the administrative control of this Department. Department regularly monitors follow up action with regard to activities of the major projects/schemes which Government emphasis from time to time by way of taking regular meetings with the Nodal Officers responsible for timely implementation of projects. Department has a technical division which is consulted while taking decision on implementation of projects so that deficiencies should not recur."*

7. The Committee note that the Ministry have merely intimated the existing mechanism regarding monitoring. The Committee had specifically pointed out the dismal State of expenditure of 19.3% only in the first two years of the 10th Plan out of Rs. 5900 crore allocated for the fertilizer PSUs and for Departmental Schemes in the 10th Plan. The Committee had also reminded about low utilization of this fund during the 9th Plan period. To overcome this problem of low spending, they had recommended that the PSUs should be asked to take up shortlisted major projects/schemes along with generation of required funds for them and asking nodal officers, responsible for timely implementation of projects to ensure that the deficiencies noticed once, do not recur. However, after going through the reply of the Ministry, the Committee find that the Government has not given a satisfactory reply. The reply has not indicated what steps have been taken to ensure uniform spending of fund, generation of fund and non-recurrence of deficiencies. The third year of the 10th Plan period is about to end within couple of months and no corrective proposal based on the assessment of the 9th Plan period and three financial years of the 10th Five Year Plan has yet been formulated. The Committee, therefore, reiterate their earlier recommendation and desire that in the present scenario of financial constraints, there should be physical progress in the utilisation of plan funds in a systematic way in each year of the Five Year Plan period.

B. Production of Complex Fertilizers

(Recommendation No. 8, Para No. 88)

8. Tariff Commission in its report on cost price study of complex fertilizers divided their manufacturers into two groups based on the feedstock for sourcing their 'N'. Group-II consists of manufactures of complexes using ammonia based on Naptha/fuel oil. There are only three manufactures namely 'The Fertilizers and Chemicals Travancore Limited' (FACT), 'Madras Fertilizers Limited' (MFL) & GNFC in group-II. The other complexes manufactures based on import ammonia and those using ammonia made from indigenous gas are in group-I. Based on the cost price study on complex fertilizers by Tariff Commission, the base rate for making "on account" payment for complexes w.e.f 1st January, 2004 was made Rs.638 to Rs.2757 per MT for Group-I and Rs.1611 to Rs.3609 per MT for Group-II. Thus while working out concessions, plants in group-II get a substantially higher payment to compensate their higher feedstock cost. Concession received by group -I are lower than group-II. Group-I plants are further put to disadvantage by disallowing the handling cost of ammonia. The Government treat low cost producer and high cost producer equally without giving any incentives to low cost producers, which further leads to wide variations in maximum retail prices of different grades of complex fertilizers. The Committee, therefore, desire that the Department of Fertilizers should encourage low cost producers by giving them incentives, while compensating the higher cost producers to the extent that the units do not turn financially unviable.

9. In their action taken reply, the Ministry have submitted as follows:-

> *"In the case of complexes, Group-I manufacturers are being compensated based on the recommendations of Tariff Commission approved by CCEA. In the case of Group-II where the cost of 'N' is higher through naphtha, the original recommended price of Rs.198 per unit cost of 'N' has already been trimmed to Rs.180 per unit cost of 'N'. Since the units in Group-II are primarily PSUs, two from the Government of India and one Gujarat state PSU treating them at par with Group-I would make them totally financially unviable. However, while framing the new complex policy, this issue will be considered afresh."*

10. While considering the production of Complexes, the Committee had observed that Group-I plants were put to disadvantage on account of receipt of low concession as compared to Group-II (compensation for higher feedstock cost) and by disallowing the handling costs of Ammonia. The Committee had thus recommended that the Department of Fertilizers should encourage low cost producers by giving them incentives while compensating the higher cost producers to the extent that units did not turn financially unviable. The Ministry, in their reply, have referred to the recommendation of the Tariff Commission and approval of Cabinet Committee on Economic Affairs (CCEA) in case of Group-I manufacturers. For Group-II, they have simply stated that the cost of 'N' through Naphtha has been trimmed from Rs. 198 to Rs. 180 per unit cost and have concluded that treating Group-II manufacturer at par with Group-I would make them (Group-II) totally financially unviable. The Committee are not satisfied with the reply of the Ministry as to how treating Group-II plants at par with Group-I would make them totally financially unviable. They feel that all is not well with Group-I plants and their problems also need to be urgently addressed. Accordingly, the Committee desire that while framing the New Complex Policy the low cost producers be encouraged by giving them incentives so that their future prospects may not become bleak.

C. Pricing and Availability of Natural Gas and LNG.

Recommendation No. 21 (Para No. 110)

11. Regarding the pricing of LNG, the Committee in their earlier Report had observed that though the potential demand is huge, it has been restrained by the reluctance of the anchor customers in the fertilizer industry to accept the higher price band for imported LNG and the newly discovered indigenous gas. Fertiliser industry had estimated that LNG should be made available at a delivered price of US $ 3.0 –3.5 per MMBTU to remain competitive in the international market. The Committee had urged upon the Department of Fertilizers (DOF) to explore the possibility of delinking the pricing of gas to the international price of fuel oils in consultation with the concerned Ministries. The Committee had also strongly recommended that the gas pricing should be based on cost of production and strategic considerations. They had also desired that the DOF should ensure that the price of imported LNG was competitive *vis-à-vis* domestic gas by sorting out the related taxation issues.

12. The Ministry, in their action taken reply, have now stated as under:-

> *"An Inter-Ministerial Group (IMG) has been constituted under the chairmanship of Finance Minister to examine issues relating to ensuring preferential allocation of domestic natural gas to the fertilizer industry and making available imported LNG to fertilizer units, its pricing and related taxation issues. The first meeting of the IMG has been held on 21.7.2004. In pursuance of the decision the first meeting of IMG, a study has been entrusted to Tariff Commission on pricing of various components of R LNG and transportation tariff of NG/RLNG. The Tariff Commission has commenced the study. It is expected that Tariff Commission will be able to submit its report by mid December 2004. IMG will finalize its recommendations keeping in view the report of the Tariff Commission.*
>
> *As regards pricing of natural gas, which is currently indexed to international fuel oil and with a cap of Rs.2850/ MCM, the matter related to revision of natural gas price is currently under examination by the Ministry of Petroleum & Natural Gas. The Ministry of P&NG has called for the comments on revision of natural gas prices from various other Ministries/departments. On receipt of comments, the Ministry of P&NG would take a view and submit a note for consideration of the Cabinet.*

As for sorting out of related taxation issues, the Department of Fertilizers has taken up the matter with the Inter State Council for considering the rationalisation of rates of sales tax on natural gas, naphtha and furnace oil/LSHS used in the manufacture of fertilizers, the Department has suggested that either the State Governments should levy sales tax on raw materials/inputs viz. natural gas, naphtha, fuel oil and LSHS, at rates not more than the floor rates of 4%, or alternatively, natural gas, naphtha, fuel oil and LSHS used in the manufacture of fertilizers be declared as goods of special importance under Section-14 of the Central Sales Tax Act, 1956. This measure would bring in uniformity, or at least, a ceiling in the rate of sales tax on these raw materials and inputs."

13. The Committee note that the Government has reported that Inter-Ministerial Group (IMG) will finalise its recommendations regarding preferential allocation of domestic natural gas to fertilizer industry and making available imported LNG to fertilizer units, its pricing and related taxation issue after receiving report from Tariff Commission. In view of the urgent need of preferential allocation of domestic natural gas to Fertiliser Industry, the Committee desire that Tariff Commission be persuaded to finalise their recommendation at the earliest and action taken in this regard be intimated to them instantly. Further, on pricing of natural gas, Ministry have stated that the Ministry of Petroleum & Natural Gas would take a view and submit a note for consideration of the Cabinet after receiving the comments on revision of natural gas prices from various other Ministries/Departments. The Committee strongly feel that this matter too, be processed expeditiously so that the supply of feedstock, particularly of natural gas to the fertilizer industry might be ensured avoiding further delay.

CHAPTER – II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No. 4 (Para No. 16)

The Committee are happy to observe that the Oman India Joint Venture Project (OMIFCO) is nearing completion leaving only 9.42% of the work to be done before July, 2005. The Committee find that DOF is rigorously reviewing and monitoring the work to avoid time and cost overruns, by obtaining monthly progress reports from OMIFCO. The Committee hope that the project would be completed in the stipulated time and the urea starts flowing to make up the deficit as per the long term buy back agreement.

Reply of the Government

By 15th September, 2004, the overall cumulative progress of OMIFCO Joint Venture Project has been 96.42% leaving only 3.58% of the work yet to be completed. It is expected that the project will be commissioned by its due date i.e., by mid - July, 2005.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 5 (Para No. 85)

The Committee find that the budgetary provisions of the Department of fertilisers for the year 2004-05 is Rs.13294.17 crore and the net requirement after adjusting the recoveries on sale of imported urea is Rs.12828.17 crore. Out of the above net requirement, the Non Plan component is Rs.12698.00 crore which is more than 98% of the total budget. In the Revised Estimates of 2003-04, total Non Plan expenditure was pegged at Rs.12073.00 crore. This shows an enhancement of Rs.615.00 crore in 2004-05 in Non Plan Budget. In the current year total subsidy outlay both for indigenous, imported fertiliser and concessional sale of decontrolled fertilisers scheme together is estimated at Rs.12662.15 crore which is more than 99% of the total net Non Plan budget provisions of the Department of Fertilisers. The higher expected outgo on account of payment to manufacturers/agencies for concessional sale of decontrolled fertilisers has been cited as reasons by the Department of Fertilisers for the enhanced gross requirement for the year 2004-05. The Committee also find that the Non Plan loans to PSUs has been kept at Rs.28.15 crore in the BE of 2004-05, whereas it was Rs.268.65 crore in the RE of 2003-04. Provision under Plan schemes for investments and loans to PSUs too has come down to Rs.130.17 crore in BE 2004-05 from Rs.197.00 crore in the Revised Estimates for 2003-04. This is on account of the closure of some of the urea units and the restricted outlay due to the pending disinvestment proposal with regard to some other units. The Committee hope that the Ministry would contain the expenditure for the year within the sanctioned Budget of the Ministry and the Committee endorse Demands for Grants of the Department of Fertilisers for the year 2004-05

Reply of the Government

The recommendation made by the Committee has been noted for compliance. All out efforts will be made by the Department of Fertilizers to contain the expenditure for the year 2004-05 within the sanctioned Budget.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 6 (Para No. 86)

From the figures of actual sale of Di-ammonium Phosphate (DAP), Muriate of Potash (MOP) and Complexes in the country, the Committee find that the consumption of decontrolled fertilizers have started showing stagnation. In their 41st Report (13th Lok Sabha) also, the Committee had expressed concern over decreasing consumption of these fertilizers. During evidence, the Committee were informed that non-increase in cultivable land, optimum exploitation of soil potential, erratic monsoon and non-addition of irrigation facilities etc. are the main reasons for stagnation in the use of fertilizers in the country. However, the Committee feel that this stagnation in consumption of fertilizers is also due to rise in the prices of fertilizers and decrease in the prices of agricultural products. The Committee, therefore, would like the Department to make an assessment of the real cause behind the problem. They desire that the Department of Fertilizers in collaboration with the Ministry of Agriculture should look into the aspects of easy affordability of fertilizers, awareness among farmers regarding the need for ideal consumption for optimum output and the implications of the policy environment in the phosphatic and potassic sector. Moreover, the Committee feel that it is high time to make realistic assessments regarding the expected consumption of these fertilizers to bring down the gap between the budget estimates and actual expenditure on payment for concessional sale of decontrolled fertilizers.

Reply of the Government

A Task Force has been constituted by the Department of Agriculture & Cooperation under the chairmanship of Additional Secretary, Department of Agriculture & Cooperation to examine various issues of pricing urea and other decontrolled fertilizers and other policy related issues in the decontrolled fertilizer sector. This Task Force is examining in detail the reasons for stagnant fertilizer consumption and ways to improve the balanced fertilization.

Support is provided to the States for strengthening extension programmes through a number of schemes viz. (i) Kisan Call Centres utilizing massive telecom infrastructure, (ii) Mass Media Support to Agriculture Extension using low and high power transmitters of Doordarshan for providing areas specific telecast and utilizing FM Transmitter network of AIR to provide area specific broadcast, (iii) Establishment of Agriculture Clinics and Agri Business by Agricultural Graduates, (iv) Innovations in Technology Dissemination for transfer of technology and (v) Women in Agriculture. All these schemes are operated by the Directorate of Extension, Department of Agriculture and Cooperation which focuses on decentralized and demand driven extension, farming systems approach; multi-agency extension services; use of media and information technology, human resources development etc. All these components supplement State's efforts for awareness creation among farmers not only on the package of practices technology of various crops but also on other 'inputs like use of quality seeds, fertilizers, pesticides, access to loans etc.

In addition, the Government has made following efforts for promoting the balanced use of fertilizers:-

(i) A Central Sector Scheme on Balanced and Integrated Use of Fertilizers has been implemented during IX Plan with financial assistance for setting up/strengthening of soil testing laboratories in the country, setting up of mechanical plants for conversion of city waste into compost. The scheme has since been subsumed into Macro Management Scheme.

(ii) The Government is promoting soil test based judicious use of chemical fertilizers in conjunction with organic manures and bio-fertilizers.

(iii) A Central Sector Scheme of National Project on Development and Use of Biofertilizers has been implemented till September 2004 for production, promotion and quality control of Biofertilizers in the country.

(iv) A Central Sector Scheme National Project on Organic Farming has since been approved by Government with an outlay of Rs.57.05 crore for implementation during remaining period of X Plan for the production, promotion, market development and certification of organic farming in the country. This includes financial support for setting up of production units for organic inputs.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 7 (Para No. 87)

The Committee find that the Department has adopted two group policy for working out the concession on DAP from 1.4.2003. Plants in group-I use indigenous phosphoric acid made out of imported raw materials viz. rock phosphate and sulphur, whereas group-II units use imported phosphoric acid as such for the production of DAP. 62% of DAP productions in the country is based on imported phosphoric acid and 38% on indigenous phosphoric acid. The normative delivered price recommended by the Tariff Commission for group-I was lower than the normative delivered price recommended for group-II. Even the base rate announced for 2003-04 w.e.f. 1.4.2004 shows a lower price of Rs.2120/MT for group-I when compared to Rs.2635/MT for group-II. But in 2003-04, the prices of rock phosphate and sulphur were ruling high in the international market, whereas the phosphoric acid prices remained uniform at $356/MT. Therefore, the Committee recommend that the Department should work out a judicious mix of indigenous and imported phosphoric acid based production of DAP for meeting the requirement of phosphatic fertilizers in the country. In view of the inadequate availability of basic raw materials viz. phosphoric acid, rock phosphate and sulphur for the production of phosphatic fertilizers, the Committee also recommend that the fertilizer companies should set up more joint ventures in countries where these raw materials are available in plenty. They desire that the Government should give necessary incentives for such ventures.

Reply of the Government

The phosphatic and potassic industry is already decontrolled and the decision of joint ventures is being taken based on the commercial viability assessed by the company. In this respect, three joint ventures have already been established at Senegal, Morocco and Jordan by M/s. IFFCO, Chambal Fertilizers and SPIC respectively. The Government is also encouraging to exploit the rock phosphate reserves for long-term contracts and in this respect, a meeting of major phosphatic fertilizer manufacturers has been convened with coordination of Ministry of External Affairs to inform regarding the opportunities abroad.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 13 (Para No. 93)

In urea units the erstwhile subsidy regime based on unit-wise Retention Pricing Scheme has given way to group based New Pricing Scheme from 1.4.2003. Under NPS, all policy parameters for determination of concession rates upto the end of Stage-II of NPS i.e. 31.3.2006, have already been made known to all the urea manufacturing units in advance. The rates of concession worked out under NPS are based on the averaging of the retention price of all urea units in each group as on 31.3.2003. Escalation, de-escalation in the variable cost, related to changes in the price of feedstock, fuel, purchased power and water is provided under NPS. Units having exceptionally high or low retention price i.e. deviation of 20% and above with reference to group average have been treated as outliers in their respective groups. Those units which have lower retention price than the weighted group average are to get the concession as per their individual retention price. The remaining units (excluding outliers) are to get the concession based upon the weighted group average retention price. Outliers have been given special treatment by way of structural adjustment which is 50% of the difference between their respective retention price and the group average. It is also stated by DOF that due to increased energy efficiency and production there has been a general improvement in the profits of various urea units during 2003-04, as compared to the preceding years. But the Committee are not that optimistic about the health of our urea units under the New Pricing Scheme. Industry reports show that the finances of some of the units would be under severe strain due to reduced post tax returns on net worth, tightening of energy norms during stage-II due on efficiency consideration and reduction in concession during Stage-II due to reduction in capital related charges. The Committee recommend that the DOF should find solutions to the existing problems in a way that would help the industry to face the new challenges and exploit the new opportunities.

Reply of the Government

New Pricing Scheme (NPS) for urea units was formulated with a view to replace the cost plus and unit specific Retention Price Scheme (RPS). The aim of NPS is to ensure greater uniformity, transparency and efficiency in disbursement of subsidy to urea units and inducing them to take cost reduction measures on their own to be competitive. As the NPS is efficiency based scheme as against the cost plus nature of erstwhile RPS, norms have been prescribed under NPS. Moreover, pre-set energy norms notified for urea units are based on the actual energy consumption norms achieved by the urea units in past.

Furthermore, under NPS, while there would not be any reimbursement of the investment by a unit for improvement in operations, urea units are allowed to retain the gains made by them as a result of operational efficiency. Furthermore, under NPS, there is no capping on production of urea.

The Department has recently formulated policy for conversion of existing naphtha and FO/LSHS based urea units to natural gas/LNG as feedstock/fuel.

Such a conversion will enable the non-gas urea units to remain competitive and viable in the changed scenario.

Furthermore, the Department of Fertilizers is in the process of constituting a Working Group for formulating a policy for Stage-III of NPS commencing from 31.3.2006, which would *inter alia,* review the effectiveness of Stage-I and Stage-II of NPS.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 14 (Para No. 94)

The Government has taken 25% of urea production out of movement control for six months from 1.4.2003 and 50% of urea distribution was decontrolled from 1.10.2003. From the movement trend of deregulated urea, it is observed that about 56.5% of despatches are made to the home States of fertilizers plants and only 5% has been sent to far flung North Eastern States, Uttaranchal, Himachal Pradesh, Jammu & Kashmir and Chattisgarh. In fact these states account for about 18 to 19% of the total requirement of the country. To meet the requirement, ECA allocation to these states had to be kept between 90 to 100% during Kharif 2003 and Rabi 2003-04. Keeping in view the despatch trend, a decision was taken to continue with only 50% deregulation of distributions instead of going for full decontrol from 1st April 2004 onwards. The Committee feel that the North-East region and Central India are very much deprived of fertilizer production as the location of fertilizer plants is highly skewed in favour of Western and Northern regions. Moreover, the high cost of feeding the Central, Eastern and North-East areas will prevent fertilizer units from sending stock to these areas, which has been highlighted in the movement trend of 2003-04. The Committee apprehend that in the event of total decontrol, shortage of fertilizers in certain pockets would aggravate leading to further distortions in consumption pattern. The Committee, therefore, recommend that the proposed total decontrol of urea should be reviewed. The Government should ensure equitable distribution of urea to the states which are geographically placed in difficult terrains. The Committee also recommend that even in the partially decontrolled set up, the requirements of the hilly, tribal and remote areas of the country should be met through ECA allocations.

Reply of the Government

Under the new pricing policy for urea, the distribution of urea was proposed to be totally decontrolled with effect from 1.4.2004 after review of movement of deregulated urea during 2003-04 and with the concurrence of the Ministry of Agriculture (Department of Agriculture & Cooperation).

The Department of Agriculture & Cooperation (DAC) after holding discussions with the State Governments had proposed that the present arrangement of 50% deregulated regime should be continued for Kharif 2004 and for Rabi 2004-05 seasons.

Keeping in view the recommendations of the DAC and the dispatches of deregulated urea in the year 2003-04 and Kharif 2004 by manufacturers, the existing system of ECA allocation up to 50% of the installed capacity for each unit is being continued for Rabi 2004-05 season also.

Even under this partial distribution decontrol scheme, the farflung and Eastern States were given ECA allocations catering to near total requirement of these States. For example during Rabi 2004-05 season, 100% ECA allocation has been made to remote and inaccessible States/UTs like Jharkhand, Himachal Pradesh, Jammu & Kashmir, Tripura, Manipur, Meghalaya, Nagaland, Arunachal Pradesh, Sikkim, Mizoram Pondicherry, Andeman & Nicobar Island, Daman & Diu, Dadra & Nagar Haveli. In the case of far-flung Eastern States like Bihar, Orissa and West Bengal allocation is given in the range 78% to 90%. The allocation to States housing large number of production units, however has been lower since deregulated urea moves into these States freely owing to proximity of production units.

The proposed total decontrol of urea is under review and decision regarding further distribution decontrol would be taken in consultation with the DAC.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 15 (Para No. 95)

The urea units are required to supply urea upto 100% of their reassessed capacity for sale to farmers. However, the Committee understand that the New Pricing Policy for urea allows sale of surplus urea production in excess of ECA allocations and upto 100% of reassessed capacity, to complex fetilizer units. The policy also allows such units to undertake export on principles of Import Parity Price, with the prior approval of DOF on the condition that 50% of the net gains will be surrendered to the Government. If the urea sold is in excess of 100% of reassessed capacity, the net gains will be shared by the Government and the unit in the ratio of 65:35 respectively. The Committee strongly feel that the sharing clause would act as a disincentive for the producer in a competitive environment. The general prevailing trend of low import parity price of urea too would dampen the spirit of the manufacturers. The Committee therefore, recommend that the clause regarding the sharing of gains from the sale of decontrolled quantities of urea may be reviewed by the Government and suitable amendments be made.

Reply of the Government

The policy regarding sale of surplus urea production in excess of ECA allocations and up to 100% re-assessed capacity was decided keeping in view the following factors:

(i) The entire capital cost of the urea plants has already been fully paid by the Government. Only in case of few post-92 plants, part of the capital cost is still remaining unpaid, which is now being paid through the concession scheme;

(ii) Therefore, Government has first right on the entire urea produced by these units to be used for agriculture purposes. In other words, the urea units are required to supply urea upto 100% of their reassessed capacity or even beyond if so desired by the Government, for sale to farmers;

(iii) Even after reassessment of the installed capacities of urea plants with effect from 1.4.2000, these plants still have the large hidden capacities as is evident from the past track record of actual production levels achieved by them. While the reassessed capacities are nearly 120%, the actual production touched a level of nearly 150% of the original capacity. Therefore, urea units cannot be left free to take their own business decisions;

(iv) The gas based unit would be able to to produce extra urea only with the additional usage of costlier naphtha and the same has been decided to be recognized in their escalation/de-escalation claims as per actual input ratio, subject to norms;

(v) The fixed (non-variable) cost components generally comprising the conversion cost, depreciation and the capital related charges (CRC), have been fully paid for production at 90% level in Naphtha/FO/LSHS based units and at 95% level in Gas based units. In other words, for production beyond 90/95% of the re-assessed capacity, the units actually incur only the variable cost; and

(vi) In the existing policy of sharing of net gain in the ratio of 50:50 for production upto 100% capacity and in the ratio of 65:35 for production beyond 100% capacity, between Government and the unit, the share allocated to the unit is purely an incentive paid out of the Government kitty with a view to enhance indigenous production.

The sharing clause in the existing policy is not acting as a disincentive for the producer in a competitive environment. Rather, it is working as an incentive for the urea units. Even the import parity price of urea, as determined by DOF on quarterly basis, do not act as a deterrent for the urea manufacturers as they are free to sell urea to complex manufacturers or export at the mutually agreed price. The import parity price is used either for procurement by the Government against the import requirement or for the purpose of calculating the net gain to be shared with the Government. The policy has been well accepted by the industry. The Department has not received any representation from any urea unit against the aforesaid policy.

In view of the above, the existing policy for sale of urea upto and beyond 100% of the re-assessed capacity, with sharing of net gains by the Government and the unit, is working well and also 7.73 lakh MT urea over and above the re-assessed capacity is estimated to be produced in the current year by increasing the number of stream days and postponing shutdowns under the present scheme.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 21 (Para No. 110)

Regarding the pricing of LNG, the Committee observe that though the potential demand is huge it has been restrained by the reluctance of the anchor customers in the fertilizer industry to accept the higher price band for imported LNG and the newly discovered indigenous gas. Fertiliser industry has estimated that LNG should be made available at a delivered price of US $ 3.0 –3.5 per MMBTU to remain competitive in the international market. The Committee urge upon the DOF to explore the possibility of delinking the pricing of gas to the international price of fuel oils in consultation with the concerned Ministries. The Committee also strongly feel that the gas pricing should be based on cost of production and strategic considerations. They also desire that the DOF should ensure that the price of imported LNG is competitive vis-à-vis domestic gas by sorting out the related taxation issues.

Reply of the Government

An Inter-Ministerial Group (IMG) has been constituted under the chairmanship of Finance Minister to examine issues relating to ensuring preferential allocation of domestic natural gas to the fertilizer industry and making available imported LNG to fertilizer units, its pricing and related taxation issues. The first meeting of the IMG has been held on 21.7.2004. In pursuance of the decision the first meeting of IMG, a study has been entrusted to Tariff Commission on pricing of various components of R LNG and transportation tariff of NG/RLNG. The Tariff Commission has commenced the study. It is expected that Tariff Commission will be able to submit its report by mid December 2004. IMG will finalize its recommendations keeping in view the report of the Tariff Commission.

As regards pricing of natural gas, which is currently indexed to international fuel oil and with a cap of Rs.2850/ MCM, the matter related to revision of natural gas price is currently under examination by the Ministry of Petroleum & Natural Gas. The Ministry of P&NG has called for the comments on revision of natural gas prices from various other Ministries/departments. On receipt of comments, the Ministry of P&NG would take a view and submit a note for consideration of the Cabinet.

As for sorting out of related taxation issues, the Department of Fertilizers has taken up the matter with the Inter State Council for considering the rationalisation of rates of sales tax on natural gas, naphtha and furnace oil/LSHS used in the manufacture of fertilizers. The Department has suggested that either the State Governments should levy sales tax on raw materials/inputs viz. natural gas, naphtha, fuel oil and LSHS, at rates not more than the floor rates of 4%, or alternatively, natural gas, naphtha, fuel oil and LSHS used in the manufacture of fertilizers be declared as goods of special importance under Section-14 of the Central Sales Tax Act, 1956. This measure would bring in uniformity, or at least, a ceiling in the rate of sales tax on these raw materials and inputs.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Comments of the Committee

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

CHAPTER – III

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

Recommendation No. 9 (Para No. 89)

The Committee were informed last year that Department of Fertilizers was rationalizing the MRPs of these complexes based on Tariff Commission Report. From 1.4.2003, the concession rates of complexes are being worked out on the basis of normative cost of production. The Committee also find that the Inter-Ministerial Group (IMG) constituted on 19.12.2002, for rationalization of MRPs of complexes has submitted the report. IMG had examined various alternatives for adopting a scientific and rational methodology for working out the MRPs so that inter-se distortions are minimized. But the Committee find that in the proposed MRP the minimum for N:P:K complex fertilizers is Rs.6920/MT whereas the maximum is Rs.9180/MT which shows a variation of Rs.2260/MT between different grades of complexes. The Committee strongly feel that the decisions should aim at encouraging the use of phosphate and potash vis-à-vis nitrogen by the farmers, so that the ideal N:P:K ratio of 4:2:1 can be achieved. The Department should not delay the process of assessing the impact of the IMG recommendations regarding the rationalization of MRPs of complexes. The Committee also desire that Department of Fertilizers should finalise other policy related issues in the decontrolled fertilizer sector.

Reply of the Government

A Task Force has been constituted by the Department of Agriculture & Cooperation under the chairmanship of Additional Secretary, Department of Agriculture & Cooperation to examine various issues of pricing urea and other decontrolled fertilizers and other policy related issues in the decontrolled fertilizer sector. This Task Force is examining in detail the reasons for stagnant fertilizer consumption and ways to improve the balanced fertilization.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 12 (Para No. 92)

The Committee find that the average net subsidy borne by the Government on each tonne of urea sold for agricultural use has increased from Rs. 2450.00 in 1994-95 to Rs. 4473.00 in 2003-04. Still the resource poor medium and marginal farmers find it difficult to purchase the needed fertilizers at affordable prices. The Ministry has argued that the subsidy to the farmers is routed through the fertilizer industry as the country does not have the requisite infrastructure to support the administrative mechanism to provide subsidy to each farmer as more than 90% of the land holdings in the country are with marginal/small and semi-medium farmers. However, the Committee feel that the Government should explore the possibility of disbursing the subsidy on fertilizers directly to the farmers. The mode of distribution of subsidy may be worked out by roping in the banking system which already has an extensive rural network.

Reply of the Government

Since the fertilizers are made available to farmers at the statutorily notified maximum retail price (MRP) or indicative MRPs, which are far less than the cost of production of fertilizers, the benefit of subsidy is passed on to farmers in the form of subsidized sale prices of fertilizers. As for the payment of subsidy directly to farmers in the country, it is reiterated that payment of subsidy to farmers directly is a gigantic task and would involve huge administrative expenditure and logistics. As for the roping in of the banking system, it is stated that the matter was taken up with Reserve Bank of India (RBI), which has indicated the inability of banking system for channelizing of fertilizer subsidy to farmers through bank branches because it would lay additional pressure on the bank branches, which have to fulfil their lending targets and also participate in various credit linked schemes of the Central/State Governments. Further, RBI has stated that the disbursement of subsidy to farmers through banks may increase the cost of operations of banks in rural areas and affect the functioning of the branches, which will ultimately affect flow of credit.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 18 (Para No. 98)

Projects and Development India Ltd. (PDIL) is basically an organisation involved in research and development. PDIL has three divisions namely Engineering and Consultancy Division, Catalyst Division and Research and Development Division. Though the company incurred losses during the period between 1998-2003, the provisional profit estimated for the year 2003-04 is Rs.8.05 crore. PDIL's consultancy division was involved in Namrup revamp, upgradation of plants etc. As a measure to expand its sphere of activities, PDIL has been making sustained efforts to diversify and secure jobs in other sectors especially in the gas and oil sector. Techno Commercial Audit of SSP and DAP units are also conducted by PDIL. R&D division ha contributed to the development of catalysts and process know-how required for various industries. But the company was declared sick in 1992 by BIFR. The Committee also observe that a revival package for PDIL has been approved by the Government which inter-alia envisages closure of R&D division of the company and offer VRS/VSS to its employees. But the Committee strongly feel that there is an urgent need to encourage research and development in the fertiliser sector to find out the weaknesses and strength of the sector. Taking note of the satisfactory performance of the R&D projects undertaken by PDIL, the Committee desire that the Government should ensure the revival of R&D Division of PDIL

Reply of the Government

The revival package of PDIL approved by the Government of India in April 2003 was based on a comprehensive techno-economic analysis. This revival package envisaged closure of R&D Division and Sindri unit of the E&C Division and to offer VRS/VSS to their staff. It is pointed out that before taking the decision of closure of R&D Division, Department of Fertilizers had explored the possibility of its takeover by CSIR etc. but none has come forward to take over the same.

The revival package approved by Government of India has also been sanctioned by the Board for Industrial & Financial Reconstruction (BIFR) on 26.3.2004 and the same is under implementation. The company had already released the surplus manpower which also includes the staff of R&D Division by granting them VRS/VSS benefits.

Now that the R&D Division had already been closed and the manpower engaged there in had been released on VRS/VSS long back in August – September 2003, it would not be possible to consider its revival at this stage.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

CHAPTER – IV

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

Recommendation No. 2 (Para No. 14)

The Committee observe that out of Rs.5900.00 crore which has been made as outlay for the fertilizer PSUs and for Departmental schemes in the 10th Plan, the actual expenditure in the first two years of the 10th Plan has been Rs. 1138.58 crore. This is only 19.3% of the total plan outlay for the 10th Plan whereas a whopping 80.7% of the outlay has been left to the utilized during the remaining three years of the plan. The Committee do not appreciate the pattern where the major share of the outlay is carried forward to the end of the plan period resulting in substantial component of the allocation remaining unutilised. During the 9th Plan period, overall utilization of funds was just 42.4%. The casualty on such occasions is planned economic development. Planning should be done with vision and commitment based on the analysis of the past achievements and failures, to achieve the objectives set forth. The Committee recommend synchronized planning and spending during each plan period. The committee also recommend that Department of Fertilizers should impress upon PSUs to take up shortlisted major projects/schemes and to generate the required funds for the same. Nodal officers responsible for timely implementation of projects should be asked to ensure that the deficiencies noticed once, should not recur.

Reply of the Government

Department of Fertilizers nominates its representatives on the Board of Directors of PSUs under the administrative control of this Department. Department regularly monitors follow up action with regard to activities of the major projects/schemes which Government emphasis from time to time by way of taking regular meetings with the Nodal Officers responsible for timely implementation of projects. Department has a technical division which is consulted while taking decision on implementation of projects so that deficiencies should not recur.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Comments of the Committee

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

Recommendation No. 8 (Para No. 88)

For the production of complexes, the Committee find that the plants in group-I use imported ammonia made from indigenous gas. Manufacturers using ammonia made out of naphtha/fuel oil, are clubbed together in group-II. While working out the concessions, plants in group-II get a substantially higher mileage to compensate their higher feedstock cost. Concessions received by group-I are much lower. Group-I plants are further put to disadvantage by disallowing the handling costs of Ammonia and the higher cost of 'N' from imported urea. The Committee feel that instead of encouraging low cost production, such producers are penalized by treating them at par with high cost producers of complex fertilizers. This does not seem to go well with the concept of making the industry cost competitive. Therefore, the Committee desire that the Department of Fertilizers should encourage low cost producers by giving them incentives, while compensating the higher band producers to the extent that the units do not turn financially unviable.

Reply of the Government

In the case of complexes, Group-I manufacturers are being compensated based on the recommendations of Tariff Commission approved by CCEA. In the case of Group-II where the cost of 'N' is higher through naphtha, the original recommended price of Rs.198 per unit cost of 'N' has already been trimmed to

Rs.180 per unit cost of ‘N’. Since the units in Group-II are primarily PSUs, two from the Government of India and one Gujarat state PSU treating them at par with Group-I would make them totally financially unviable. However, while framing the new complex policy, this issue will be considered afresh.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Comments of the Committee

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

CHAPTER – V

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

Recommendation No. 1 (Para No. 7)

The Committee find that the total installed capacity of nitrogen as on 1.4.2004 was 119.98 lakh MTs whereas the actual production was 106.34 lakh MTs leaving a gap of 13.64 lakh MTs. Production of nitrogen suffered mainly on account of inadequate supply of gas. Even the Trombay-V unit of Rashtriya Chemicals & Fertilizers Ltd. (RCF) , a major producer of urea, has to be shut down owing to gas limitation since June 2002. Equipment related problems and financial difficulties in some units too have come in the way of realizing cent percent production in urea units. In the case of phosphatic fertilizers, as against an annual installed capacity of 54.20 lakh MT in 2003-04 actual production was only 36.31 lakh MT. This is 33% short of full capacity utilization. The main problem in the production of phosphatic fertilizers was stated to be due to limitation of main raw materials i.e. phosphoric acid and ammonia. The Committee are pained to observe that the very same problems have been cited as reasons for the lower actual production since 1998-99. It is quite unfortunate that the lacunae are carried forward without solving them. The Committee strongly feel that it is the duty of the Government to ensure the availability of the feedstock for any industry for its survival. The Committee recommend that the Department of Fertilizers should ensure the supply of required quantity of feedstock for both nitrogenous and phosphatic fertilizers, thereby facilitating full utilization of the installed capacity in the country.

Reply of the Government

Main problem in production of nitrogenous fertilizers is the limited availability of gas. Against the total requirement of gas of 33.32 MMSCMD of gas by the existing gas based units, the average actual supply during 2003-04 was 23.24 MMSCMD only. As the supplies of domestic natural gas are dwindling, the gap between supply and demand is to be met, among other things, by import of LNG. The Department of Fertilizers is for preferential allocation of domestic natural gas to fertilizer sector and making available LNG to fertilizer sector at reasonable rates. It is in this context that an Inter-Ministerial Group has been constituted under the Chairmanship of Finance Minister to examine issues related to supply of natural gas and LNG to fertilizers industry. IMG has been given the task of examining and working out a framework which ensures preferential allocation of domestic natural gas to the fertilizer industry and making available imported LNG to fertilizer units, its pricing and related taxation issues. The first meeting of IMG was held on 21.7.2004. Based on the decisions taken in the first meeting of IMG, the issue of reasonableness of pricing of various components of RLNG being marketed by Petronet LNG Limited (PLL) has been referred to the Tariff Commission.

Problem in production of phosphatic fertilizers and steps taken:

All the phosphatic & potassic fertilizers are decontrolled. Manufacturers are free to import the fertilizer raw material/intermediates required for manufacturing these fertilizers at the price negotiated by them with the suppliers.

Government of India is paying concession on these P&K fertilizers under the Concession Scheme. The prevailing prices of these raw materials/ intermediates are recognized as per the approved methodology for working out concession rates under the Scheme. Phosphoric acid is one of the main component used in manufacturing of DAP & complex fertilizers. About 2/3rd of the total production of DAP comes through imported phosphoric acid.

Government of India has recognized the price of phosphoric acid at US $ 395.45 per MT C&F on cash basis for working out the concession rates for DAP & Complex fertilizers for the year 2004-05. This price is based on the price negotiated by the Phosphoric acid Consumer Group with the international suppliers. It is expected that with the recognition of phosphoric acid price by Government DAP manufacturers would be manufacturing these fertilizers in full swing.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 3 (Para No. 15)

The Committee are constrained to note that the Hazira and Thal Projects which are spill overs from the 9th Plan period are yet to take off even after two years into the 10th Plan period. The Committee find that the Hazira Urea Expansion Project of KRIBHCO and Thal Urea Expansion Project of RCF are provided with substantial outlay in the 10th Plan. Rs.1440.00 crore has been provided for Hazira Project whereas Thal Project's outlay is Rs.1331.00 crore. KRIBHCO and RCF could not commence implementation of these urea expansion projects in 2002-03 or 2003-04 because the pricing policy for investments in expansion projects of urea has been finalized and notifed only in January,2004. Accordingly KRIBHCO has submitted the proposal for Rs.1750 crore for approval of Government. Disinvestment proposal was an added disadvantage in case of RCF in going ahead with its expansion project. The uncertainty and the wavering policies had kept development on hold and the delay in finalizing the pricing policy for expansion projects of urea has been the major stumbling block. Proper planning is not possible in the absence of long term policies and it makes the going very tough for manufacturers. As Department of Fertilizers has finally notifed the Pricing Policy for investments made in new and expansion projects, the Committee recommend that all out efforts should be made to ensure that the approved project of KRIBHCO and RCF materialise during 10th Plan period itself. The Committee would also like the Government to take the investment decision on KRIBHCO's proposal at the earliest as they strongly feel that the capacity expansion in the cooperative sector should be on Government's priority.

Reply of the Government

Hazira ammonia-urea Expansion project of KRIBHCO was given first stage clearance by the Government on 21.8.2003. The Detailed Project Report (DPR) for the Hazira Fertilizer Project Phase-II was prepared by PDIL, a consultancy PSU under the administrative control of Department of Fertilizers. The Note for obtaining investment approval of the Public Investment Board (PIB) in respect of KRIBHCO's Hazira Urea Expansion Project for additional annual production of 10.56 lakh tones of urea, at an estimated cost of Rs. 1750 crore, has been prepared and circulated for consideration of PIB in July, 2004 and the same is awaiting its approval. As regards, Thal Expansion Project of RCF, the management of RCF had submitted Detailed Project Report. However, in order to factually assess costs and benefits on a competitive basis, the company has been asked to furnish Techno-economic Feasibility Study Report for de-bottlenecking of plants also.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 10 (Para No. 90)

The Committee observe that Single Super Phosphate (SSP) is recognized as a poor man's fertilizer which contains important elements like sulphur and calcium alongwith phosphate nutrient. The role of sulphur in enhancing the productivity of the soil is recognized as an essential nutrient for fertilizing the soil especially for the oilseed crops. However, the SSP consumption has been suffering due to erratic policies. Unlike other decontrolled fertilizers, the MRP of

SSP is fixed by State Governments. The Committee regret to note that the cost of production of SSP has been neglected over the years both in fixing MRPs and in calculating the adhoc concessions. They strongly feel that in the larger interest of the Indian agriculture sector, the importance of SSP needs to be recognized. Otherwise, the already high closure rate of SSP units due to financial constraints would further affect the SSP sector adversely. Therefore, the Committee desire that the recommendations of the Cost Accounts Branch (CAB) of the Ministry of Finance be implemented at the earliest so that the industry is saved and quality SSP is made available to the farmers at reasonable prices throughout the country.

Reply of the Government

The Department has examined the recommendation of CAB and a methodology for working out a package for SSP is under finalisation. The report based on the Department's view would be put up before CCEA for ensuring that the industry is viable and quality SSP is made available to the farmers.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 11 (Para No. 91)

The Committee in its 41st and 44th Reports (13th Lok Sabha) had expressed concern over the callous approach of the State Governments in issuing sales certificates which ultimately delays the payment of concession to the units. The Committee find that the Department had tried to expedite the payment of dues to urea units and the outstanding has come down to Rs.98.52 crore. The Committee over the years have taken note of the difficult experience the producers of DAP/complexes have undergone under the system of certification by States. This state of affairs should not be allowed to continue. Therefore, the Committee urge upon Department of Fertilizers to expedite working out the details of the new scheme which should replace certification by

States. This new scheme should be based on the data of imports, productions and dispatches of fertilizer/fertilizer inputs. The Committee also desires that the consultations with Department of Agriculture and Cooperation (DAC), DOE and State Governments be completed with the urgency they deserve so that the new scheme in lieu of existing methodology can be implemented at the earliest.

Reply of the Government

The Department is working on the suggestion of the Committee to substitute sales certification with a scheme based on imports, production and despatches of fertilizer inputs. In this respect, the Department has already formulated a methodology, which is under examination by the various stakeholders.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 16 (Para No. 96)

The Committee note that as against the last year's allocation of Rs.150.25 crore for plan loans, the amount earmarked has been reduced to Rs.63.32 crore on account of the closure of Fertilizers Corporation of India Ltd.(FCI),Hindustan Fertilizer Corporation Ltd., (HFC), Pyrites, Phosphates and Chemicals Ltd. (PPCL) and some divisions of Projects and Development India Ltd. (PDIL). Out of the plan loans of Rs.63.32 crore, a major share of Rs.40.50 crore has been kept for the revamp of the Namrup-II of HFC which has become a separate PSU viz. Brahamputra Vaslley Fertilizer Corporation Ltd.(BVFCL). The Namrup revamp which was to be completed by July,2003, is now expected to be completed by 1.10.2004. The Committee were assured last year that the entire revamp would be completed by February, 2004. The Committee express their dissatisfaction over the inordinate delay of 31 months causing a loss of Rs.74.37 crore to the exchequer. While taking a serious note of the delay the Committee desire that the Government should ensure that there is no further slippage in the completion schedule of the Namrup revamp.

Reply of the Government

Namrup I & III have commenced production after revamp in March,2003. As per the overall physical progress of the Narmup Revamp Project II plant which was expected to be completed by 1.10..2004, has now been scheduled for commissioning by 31.12.2004. This slippage was due to unforeseen reasons, like ethnic violence in Assam in Nov/Dec,2003, delay in receipt of essential parts from overseas vendors and slow progress by Erection contractor. All efforts to rigorously review and monitor the completion of construction work and commissioning of the project by 31.12.2004 are being made by Department of Fertilizers.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 17 (Para No. 97)

FACT and MFL are stated to be the two PSUs facing financial difficulties. High cost of Ammonia production using Naphtha, reduced profits from Caprolactum and Ammonium Sulphat, inadequate compensation for Factamfos are the main reasons for the strained financial situation of FACT. Urea Plant of FACT at Cochin has been shut down. The Government of India has waived outstanding interest on loans and reduced the interest rates of loans for the units to 7%. The Committee also note that high price of naphtha as a feedstock, reduced compensation for energy consumption, inadequate compensation for cost of ‘N’ and investments made in revamp resulted in turning MFL financially sick. The Government has taken steps to cushion the negative effects by waiving off interest and by proposing a third and long term financial restructuring package for revival of MFL. However, the Committee feel that more has to be done by the Govenrment by way of financial assistance and writing off outstanding loans. They recommend that the High Powered Committee which has been set up in the Ministry for revival of closed fertilizer units, should explore the possibility of reviving all the closed urea plants as early as possible. The Committee also desire that DOF should make vigorous efforts to finalise the third and long term financial restructuing package for MFL and the Committee may be apprised of the same.

Reply of the Government

The process of formulating comprehensive financial restructuring package for MFL for Inter-ministerial Consultations is under way. FACT is also being considered for financial restructuring package in order that Government would not extend any financial support during 2004-05 onwards. Comments/views of Ministries/Department's are being sought on the proposed package in Inter-ministrial consultations. The committee will be informed soon after taking final decision in the matter. As regards, revival of closed public sector units, PDIL has been asked to make a detailed study and furnish reports/recommendations.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 19 (Para No. 108)

The Committee find that the Hindustan Fertilizer Corporation Limited (HFC) and Fertilizers Corporation of India Limited (FCI) units in the North Eastern region have been closed down. The Department has submitted that the share of production of HFC and FCI units to the total consumption in the country is negligible (1.5% in 1999-2000, 1.24% in 2000-01 and 0.38% in 2001-02) and the closure of these units will have no impact on the total urea availability in the country. The Committee feel that this may be the case from a holistic perspective. But looking from the regional angle, the existence of only one urea unit which is in production viz. Brahmaputra Valley Fertilizer Corporation Limited in the North-Eastern region is a serious matter as far as regional balance is concerned. The North-Eastern and Central India are very much deprived of the fertilizer units. The movement trend during the first stage of partial decontrol has confirmed the apprehensions of the Committee that the maximum dispatches will be made in the home states of the plants and only meagre distribution will be there to farflung hilly areas. The Committee, therefore, strongly urge upon the DOF to make concerted efforts for reviving the closed units in the North Eastern region and to explore the possibility of setting up ammonia-urea plants based on synthesis gas from coal gasification after going into the techno-economic feasibility of setting up such plants.

Reply of the Government

In the light of the National Common Minimum Programme, the issue regarding the revival of the closed fertilizer Public Sector Undertakings (PSUs) is being re-examined based on the market demand and their techno-economic viability. For this, Projects & Development India Ltd. (PDIL), a PSU under the administrative control of Department of Fertilizers (DOF) has been commissioned to undertake the evaluation. Further action will be taken based on its report. The setting up of ammonia-urea plant based on synthesis gas from coal gasification will depend on the availability of this feedstock based on the techno-economic viability. Ministry of Coal has been requested to take up a pilot plant study of the various technologies using Indian coal as a feedstock for manufacturing fertilizers.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 20 (Para No. 109)

The cost pricing of feedstock is extremely important for the fertilizer sector as the cost of feedstock accounts for about 60% to 75% of the total cost of production. Natural gas/Liquefied Natural Gas is going to be the most preferred feedstock as it is cheaper and efficient. The recently formulated policies also give thrust to gas/LNG as the feedstock for new and expansion projects of urea. But the availability of gas at present is only 20.50 million metric standard cubic meters per day (MMSCMD) leaving a shortfall of 12.29 MMSCMD. It is also estimated that the requirement would shoot up to 55 MMSCMD by 2011-12. An Inter-Ministerial Group (IMG) has also been constituted to look into the aspect of ensuring preferential allocations of domestic gas to the fertilizer industry, making available imported LNG to fertilizer units, its pricing and related issues. The Committee note that the production of urea in many units and fresh investments suffer due to non-availability of gas. It is the duty of the Government to make available the preferred feedstock on a priority basis from existing reserves as well as from the new reserves that would be available in future. To facilitate adequate availability of feedstock, the matter of preferential allocations to fertilizer sector pending with the IMG, should be finalized immediately. The Government should also give support to gas exploration projects. The Committee again emphasise that the policy on pricing and availability of feedstock be finalized without any further delay.

Reply of the Government

An Inter-Ministerial Group (IMG) has been constituted under the chairmanship of Finance Minister to examine issues relating to ensuring preferential allocation of domestic natural gas to the fertilizer industry and making available imported LNG to fertilizer units, its pricing and related taxation issues. The first meeting of the IMG has been held on 21.7.2004. In pursuance of the decision the first meeting of IMG, a study has been entrusted to Tariff Commission on pricing of various components of R LNG and transportation tariff of NG/RLNG. The Tariff Commission has commenced the study. It is expected that Tariff Commission will be able to submit its report by mid December 2004. IMG will finalize its recommendations keeping in view the report of the Tariff Commission.

Furthermore, we have taken up the matter with the Ministry of Petroleum Natural Gas for preferential allocation of natural gas to fertilizer sector. Ministry of Petroleum & Natural Gas is in the process of formulating a policy for ensuring preferential allocation of existing natural gas under Administrative Price Mechanism (APM) to fertilizer and power sectors.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

Recommendation No. 22 (Para No. 111)

In regard to the conversion of existing naphtha and fuel oil/LSHS units into gas based units, the Committee find that the Government has formulated policies on investment in new and expansion projects of urea. The Committee note with concern that the quantum jump in subsidy over the years has been due to increase in the price of feedstock and especially the huge subsidies given on urea produced using naphtha and fuel oil/LSHS. Therefore, the Committee feel that it is most important to keep the cost of feedstock at low levels to have a viable fertilizer industry. Costly fuel mode plants need to be converted into gas based plants at the earliest. The Committee would expect the industry to move at a faster pace to add capacity by revamp, modernisation or debottlenecking. The only solution to reduce the subsidy burden on the exchequer is to accelerate the conversion of naphtha and fuel oil/LSHS plants into gas based plants. All these things are possible only if the Government ensure clarity on pricing and availability of natural gas/LNG. The Committee, therefore, recommend that the Government should address these issues with a sense of urgency. The Committee also look forward to the DOF extending all possible help in making the industry strong enough to face the challenges.

Reply of the Government

The Government has, in its recently formulated policy on conversion of the existing non-gas based units to NG/LNG, including policies on investment in new and expansion projects of urea and de-bottlenecking/revamp/modernisation of existing urea units, made it clear that NG/LNG is going to be the preferred feedstock for production of urea, as natural gas is cheaper as well as environment friendly and fertilizer units make the most efficient use of natural gas, utilising both its chemical as well as heat energy.

With a view to ensure preferential availability of domestic natural gas and making available imported LNG to fertilizer sector including the existing non-gas based urea units switching over to NG/LNG, an Inter-Ministerial Group (IMG) has been constituted under the chairmanship of Finance Minister to examine issues relating to ensuring preferential allocation of domestic natural gas to the fertilizer industry and making available imported LNG to fertilizer units, its pricing and the related taxation issues. The first meeting of the IMG has been held on 21.7.2004. In pursuance of the decision the first meeting of IMG, a study has been entrusted to Tariff Commission on pricing of various components of R LNG and transportation tariff of NG/RLNG. The Tariff Commission has commenced the study. It is expected that Tariff Commission will be able to submit its report by mid December 2004. IMG will finalize its recommendations keeping in view the report of the Tariff Commission.

Moreover, the Working Group proposed to be constituted for framing policy for Stage-III commencing from 1.4.2006, would also be entrusted the task of fixing milestones for conversion of existing naphtha and FO/LSHS based units to NG/LNG.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
O.M. No. –5(1)/2004-Finance-II dated 6.12.2004]

NEW DELHI
March 11, 2004
Phalguna 20, 1926 (Saka)

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

Appendix-I

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2004-05)

NINTH SITTING (10.03.2005)

The Committee sat from 1630 hrs. to 1700 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

1. Shri Afzal Ansari
2. Shri Sukhdev Singh Libra
3. Shri A.K. Moorthy
4. Shri Narsingrao H. Suryawanshi
5. Shri V.K. Thummar

Rajya Sabha

6. Shri Sanjay Rajaram Raut
7. Shri Gireesh Kumar Sanghi
8. Shri Raj Mohinder Singh
9. Shri T.R. Zeliang

Secretariat

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

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

3. Thereafter, the Committee considered the draft Report on action taken by the Government on the recommendations contained in the Second Report of the Committee on Demands for Grants (2004-05) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers). After a brief discussion, the draft Report was adopted by the Committee without any amendment.

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

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 Second Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on 'Demands for Grants (2004-05) of the Ministry of Chemicals & Fertilizers, Department of Fertilizers'.

I	Total No. of Recommendations	22
II	Recommendations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 4, 5, 6, 7, 13, 14, 15 and 21)	8
	Percentage to Total	36.36%
III	Recommendations which the Committee do not desire to pursue in view of Government's Reply (Vide Recommendations at Sl. Nos. 9, 12 and 18)	3
	Percentage of Total	13.64%
IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 2 and 8)	2
	Percentage of Total	9.09%
V	Recommendations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos. 1, 3, 10, 11, 16, 17, 19, 20 and 22)	9
	Percentage of Total	40.91%