

NINTH REPORT

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2005-06)

(FOURTEENTH LOK SABHA)

DEMANDS FOR GRANTS (2005-2006)

MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)

[Action Taken by the Government on the recommendations contained in the Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on Demands for Grants (2005-2006) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers)]

Presented to Lok Sabha on 13.12.2005

Laid in Rajya Sabha on 13.12.2005.



LOK SABHA SECRETARIAT

NEW DELHI

December, 2005/Agrahayana, 1927 (Saka)

CONTENTS

COMPOSITION OF THE COMMITTEE (2005-06)

INTRODUCTION

- CHAPTER I** Report
- CHAPTER II** Recommendations which have been accepted by the Government
- CHAPTER III** Recommendation which the Committee do not desire to pursue in view of the Government's reply
- CHAPTER IV** Recommendation in respect of which reply of the Government has not been accepted by the Committee
- CHAPTER V** Recommendations in respect of which final replies of the Government are still awaited

APPENDICES

- I** Minutes of the Fourth sitting of the Standing Committee on Chemicals & Fertilizers (2005-06) held on 30th November, 2005....
- II** Analysis of Action Taken by the Government on the recommendations contained in the Sixth Report (14th Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on Demands for Grants (2005-2006) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers).....

COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS

(2005-06)

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

- 2 Shri Afzal Ansari
- 3 Shri Prahlad Joshi
- 4 Sardar Sukhdev Singh Libra
- 5 Shri Tek Lal Mahato
- 6 Shri Punnu Lal Mohale
- 7 Shri A.K. Moorthy
- 8 Shri P. Rajendran
- 9 Shri Anantha Venkata Rami Reddy
- 10 Shri T. Madhusudhan Reddy
- 11 Shri Akshyay Pratap Singh
- 12 Shri Narsingrao H. Suryawanshi
- 13 Shri V.K. Thummar
- 14 Shri Bhanu Pratap Singh Verma
- 15 Shri Mansukhbhai Dhanjibhai Vasava
- 16 Shri A.K.S.Vijayan
- 17 Shri Bhal Chandra Yadav
- 18 Vacant
- 19 Vacant
- 20 Vacant
- 21 Vacant

Rajya Sabha

22. Shri Gireesh Kumar Sanghi
- 23 Shri Raju Parmar
24. Shri B.S.Gnanadesikan
25. Shri Ajay Maroo
26. Dr. Chhatrapal Singh Lodha
27. Shri Vasant Chavan
28. Shri R. Shunmugasundaram
29. Shri Raj Mohinder Singh Majitha
30. Shri T.R. Zeliang
31. Vacant

Secretariat

1. Shri John Joseph - *Secretary*
2. Shri P. Sreedharan - *Joint Secretary*
3. Shri Brahm Dutt - *Director*
4. Shri S.C. Kaliraman - *Under Secretary*
5. Shri Prem Ranjan - *Senior Executive Assistant*

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals & Fertilizers (2005-06) having been authorised by the Committee to submit the Report on their behalf, present this Ninth Report on Action Taken by the Government on the recommendations contained in the Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on Demands for Grants (2005-2006) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers).

2. The Sixth Report of the Committee was presented to Lok Sabha on 21st April, 2005. The replies of Government to all the recommendations contained in the Sixth Report were received on 1st August, 2005. The Standing Committee on Chemicals & Fertilizers (2005-06) considered the Action Taken Replies received from the Government and adopted the Draft Action Taken Report at their sitting held on 30th November, 2005.

3. An analysis of the Action Taken by the Government on the recommendations contained in the 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
December 6, 2005
Agrahayana 15, 1927 (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 Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on Demands for Grants (2005-06) relating to the Ministry of Chemicals & Fertilizers (Department of Fertilizers), which was presented to Lok Sabha on 21st April, 2005.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the recommendations contained in the Sixth Report within three months from the presentation of the Report i.e. by 21st July, 2005. The action taken replies of the Government in respect of all the 16 recommendations contained in the Report were received on 1st August, 2005.

These have been categorised as follows:-

- (i) Recommendations/observations which have been accepted by the Government:
Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 14 and 15.
- (ii) Recommendation/observation which the Committee do not desire to pursue in view of the Government's reply:
Sl. No. 9
- (iii) Recommendation/observation in respect of which reply of the Government has not been accepted by the Committee:
Sl. No. 13
- (iv) Recommendations/observations in respect of which final replies of the Government are still awaited:
Sl. No. 12 and 16.

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 the Government on some of their recommendations in the ensuing paragraphs:

A. Production performance of Nitrogenous and Phosphatic fertilizers

(Recommendation SI. No. 2)

5. While examining the Demands for Grants (2005-06) of the Department of Fertilizers, the Committee had noted that the indigenous annual capacity of nitrogenous fertilizer units had marginally declined to 119.98 lakh metric tonnes (LMT) at the end of 3rd year of 10th Five Year Plan (2004-2005) from 120.58 LMT at the end of 9th Five Year Plan (2001-02). The Committee also noted that there had been slippages in the production targets continuously for the last five years in respect of Nitrogenous fertilizers and four years in respect of Phosphatic fertilizers. As against the targets set, the percentage of actual production of Nitrogenous fertilizers declined from 99.96 in 2000-01 to 95.73 in 2004-05 (estimated). In case of Phosphatic fertilizers, the percentage of actual production which was 101.20% in 2000-01 fell steadily and reached 84.13% in 2004-05. Against the installed capacity of 119.98 lakh MT of nitrogen, the actual production during 2003-04 was only to the level of 106.34 lakh MT necessitating the Government to import 1.32 lakh MT of nitrogen. Similarly, as against the installed capacity of 54.20 lakh MT, the actual production of phosphatic nutrients during 2003-04 was to the tune of 36.30 lakh MT, necessitating import of 3.38 lakh MT of phosphate fertilizers. In this context, the Committee had recommended that immediate necessary steps should be taken by the Department of Fertilizers to ensure adequate and timely

availability of raw materials and also to remove other bottlenecks so that the actual production of fertilizers meet the targets set and also that all the fertilizer companies - Public, Private and Cooperative, operate at an optimum level of the installed capacity and that the dependence on imported fertilizers is kept to the bare minimum possible.

6. The Ministry, while giving the product-wise capacity utilization have stated as under:-

“Percentage of ‘N’ contributed by urea is 78.6%, and by DAP is 10.8%. Contribution of ‘P’ from DAP is 61.1% and from SSP is 17.4% and Complex fertilizers contribute 21.5% ‘P’ of total phosphatic capacity. During 2004-05 production of nitrogen (113.39 lakh MT) and phosphate (40.64 lakh MT) was highest so far. Production of urea and complexes has been highest. Out of the total urea capacity of 205.12 LMT only 194.60 LMT is in operation (Trombay-V of RCF have 3.30 LMT and DIL-Kanpur have 7.22 LMT are under unscheduled shutdown) . Urea capacity utilization during 2004-05 was 104.2% of the operative capacity.

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, on average, actual supply during 2004-0-5 was 23.79 MMSCMD only. The Department of Fertilizers is asking 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.

Problem in production of phosphatic fertilizers and steps taken:

Major portion of basic raw material for production of phosphatic fertilizer are rock phosphate or phosphoric acid i.e. P_2O_5 are imported because of limited sources in the country. Due to tight availability in the international market, the availability of these raw materials has been constrained leading to lower than the targeted production. However, all efforts are being made to improve the situation including encouraging Indian companies to enter into Joint Ventures with foreign suppliers of raw materials to ensure smooth flow of raw materials into the country.

All the phosphatic & potassic fertilizers are decontrolled. Manufacturers are now free to import the fertilizer, raw material/intermediates required for manufacturing these fertilizers directly.”

7. The Committee have been informed that to examine the issues related to supply of natural gas and LNG to fertilizer industry, an Inter-Ministerial Group has been constituted under the Chairmanship of the Finance Minister. The Committee hope that the matter would be examined by this Group at the earliest so that follow-up action on the recommendations of this Group could be initiated.

B. Proper and timely movement and availability of fertilizers to farmers in adequate quantity

(Recommendation SI. No. 3)

8. The Department of Fertilizers had informed that the availability of urea under the New Pricing Scheme (NPS), during Kharif 2004 was satisfactory in all the States/UTs and there were no reports of shortage from any State/UT. However, on having drawn attention of the Department to the reported non-availability of fertilizers in certain parts of the country, particularly in Punjab, Haryana and Western UP, the Secretary, Ministry of Chemicals & Fertilizers (Department of Fertilizers) in his deposition before the Committee had stated that the Department was fully aware of the problem and would endeavour to make available all types of fertilizers during the ensuing/current Kharif season beginning

in April, wherever they were required and would also ensure that there was no repetition of the crisis that occurred during the Rabi season. The Committee had recommended that the Department of Fertilizers should take all necessary steps in co-ordination with respective State Government for proper and timely movement and availability of fertilizers to farmers in adequate quantity during the ensuing/current Rabi season so that the farmers were not put to inconvenience and distress. The Committee had also recommended that the DOF should constitute monitoring Committees in co-operation with Fertilizers Industry Co-ordination Committee (FICC) in each State to periodically monitor the movement and availability of fertilizers to the farmers.

9. In their Action Taken Reply, the Ministry have submitted as follows:-

“The requirement of Urea, DAP and MOP is assessed for each State/UTs for each crop season for Kharif and Rabi before the commencement of the season in the Zonal Conference wherein the representatives of the Department of Agriculture & Cooperation, Department of Fertilizers, State Government and Manufacturers are present. The State Governments also project their monthly requirement. The Department of Fertilizers ensures availability of urea to each State on aggregate basis as per this requirement by way of making ECA allocations from 50% of production. Remaining 50% is moved as per the choice of the manufacturers. On the basis of the projected monthly requirement of each State/UT as above, the pattern of evolution of demand in different parts of the country, a monthly movement order for regulated urea is prepared and sent to States to apprise them about the likely movement of urea (both from regulated and deregulated quantity) against their projected requirement for the month.

In the case of DAP and MOP which are decontrolled fertilizers, no allocation is made by the Central Government. The demand and supply of decontrolled fertilizers is decided by the market forces. Further, Department through its Buffer stocking agent M/s. IPL, also maintains buffer stock of DAP and MOP at strategic locations in certain States to meet exigent situations when market forces fail to attract requisite quantities of

these decontrolled fertilizers. However, in the last season, necessary interventions were made by coordinating with suppliers, States and Railways to make available these fertilizers as per assessed requirement.

Since Department or Fertilizer Industry Coordination Committee (FICC) do not have any establishments in different States, the Department of Fertilizers monitors the dispatches of major fertilizers, namely, Urea, DAP and MOP to different States through its Movement Control Cell regularly. The supplies of fertilizers to different districts/areas within the State are to be coordinated by the State Government.

To further strengthen and improve monitoring, the Department has constituted a Grievance Cell under directions of Hon'ble Minister (Chemicals & Fertilizers) with a Toll Free No.1600114400 to receive complaints & suggestions pertaining to availability & quality of fertilizers. Based on these reports Department is taking expeditious action for resolving any problem of availability expeditiously. The recommendation of the Committee periodically monitor the movement and availability of fertilizers to the farmers will be implemented by the above mentioned arrangements.”

10. The Committee have been informed that a Grievance Cell has been constituted in the Ministry to receive complaints and suggestions pertaining to availability and quality of fertilizers. As per the press reports, there are cases of shortages of fertilizers in some of the States like Tamil Nadu. The Committee trust that this Cell would operate efficiently to take care of such shortages/complaints.

C. Working Group to review New Pricing Scheme (NPS)

(Recommendation SI. No. 10)

11. Under the New Pricing Scheme (NPS) for urea units, introduced with effect from 01.04.2003, the Retention Prices cum Subsidy Scheme (RPS) which was in vogue since November, 1977 came to an end and a group based New Pricing Scheme took its place. NPS is being implemented in Stages. Stage-I was of one year duration from 01.04.2003 to 31.03.2004 and Stage-II of two years duration from 01.04.2004 to 31.03.2006. The Committee had noted that the Department of Fertilizers had constituted a Working Group under the Chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage-I and II of New Pricing Scheme (NPS) and for formulating policy for urea units beyond Stage-II i.e. from 1.4.2006 onwards. The Working Group would also examine issues pertaining to formulation of feedstock policy especially with regard to the nature, pricing and availability, demand and supply of urea upto the end of 11th Five Year Plan, fixing milestones for conversion of existing naphtha and FO/LSHS based units to NG/LNG, mode of determination and methodology of payment of concession to urea units, de-control of movement and distribution of urea, balanced fertilization through urea pricing etc. The Committee had desired that the Working Group should give its report at the earliest and they be informed of the latest developments in this regard.

12. In their Action Taken Reply, the Ministry have submitted as follows:-

“The first meeting of the Working Group was held on 4.2.2005. Pursuant to decisions taken in the 1st meeting of the Working Group, following six sub committees have been constituted to deliberate and recommend on various important components of the urea pricing policy for the Working Group:

- a) Sub-Committee on ‘Demand and Supply of urea’
- b) Sub-Committee on ‘Future Vision of urea pricing policy in a time frame of 3, 5 and 10 years’
- c) Sub-Committee on ‘Costs and Supplies’
- d) Sub-Committee on ‘Movement and Distribution of urea’
- e) Sub-Committee on ‘Pricing and Availability of feedstock’
- f) Sub-Committee on ‘Practices of subsidizing production, distribution and consumption of fertilizers in other countries’.

The Department of Fertilizers is regularly monitoring the progress made by the Sub-Committees and has also urged them to submit their reports at the earliest. Convenors of all the Sub-Committees have been invited to make presentations before the Working Group during its 2nd meeting to be held on 29.6.2005.” *

* *At the time of factual verification, the Department of Fertilizers informed (November 2005) that two more meetings of the Working Group have also been held, one on 29.06.2005 and the other one on 24.08.2005. 4th meeting of the Working Group is scheduled to be held on 21st and 22nd November, 2005 to discuss the draft report.*

13. The Committee have been informed that the Working Group has constituted 6 Sub-Committees on various important issues relating to the fertilizers. The Committee would like to reiterate that the Report of the Working Group should be expedited to formulate the new/modified/revised long term fertilizer pricing policy much before the end of the second stage of the New Pricing Scheme (NPS) which is presently upto 31st March, 2006.

D. Revival of the sick fertilizer PSUs

(Recommendation SI. No. 13)

14. Out of the 10 Public Sector Undertakings (PSUs) under the administrative control of the Department of Fertilizers, viz. FACT, FCI, NFL, RCF, PPCL, MFL, PDIL, HFC, BVFCL and FAGMIL, the Committee had found that during the last four years i.e., from 2001-02 to 2004-05 (upto December, 2004) only four PSUs, namely, RCF, NFL, PDIL and FAGMIL were profit-making and the rest of them were either chronically sick or loss-making. The Committee had noted that in accordance with the agenda of the Government as outlined in the National Common Minimum Programme, the revival of the sick, loss making and closed fertilizer PSUs had been entrusted by the Department of Fertilizers to the Projects and Development India Ltd. (PDIL). PDIL had since submitted their reports with respect to fertilizer PSUs to the Department of Fertilizers and the same were currently under examination of the Department of Fertilizers in consultation with the respective PSUs. The Department of Fertilizers had informed that the

proposals for revival of these units based on their techno-economic viability would be sent to the Board for Reconstruction of Public Sector Enterprises (BRPSE) for their consideration. The Committee had recommended that the Department should expedite the process of examination of reports submitted by PDIL in consultation with respective fertilizer PSUs and submit their proposals for revival of PSUs to Board for Reconstruction of Public Sector Enterprises (BRPSE) at the earliest.

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

“The proposals for revival of Barauni & Durgapur units of HFC and Gorakhpur & Sindri unit of FCI based on the report prepared by PDIL have been received from the respective companies duly approved by their Boards. These proposals are under examination in the Department of Fertilizers. If these proposals are found techno-economically viable, the same will be submitted for consideration of the newly constituted Board for Reconstruction of Public Sector Enterprises (BRPSE) and further action to obtain approval of the competent authority in the Government will be taken based on the recommendations of the Board.”

16. The Committee are unhappy to note that the reply of the Ministry is not comprehensive stating the factual position in respect of all sick PSUs clearly. They would await detailed factual position in regard to revival of each of the sick PSUs under the administrative control of the Ministry. Needless to emphasise that the Department of Fertilizers would expedite finalisation/approval of revival packages of all sick fertilizer units.

E. Recovery of the legitimate dues from Karsan Limited, Turkey.

(Recommendation Sl. No. 16)

17. The Committee had observed that an amount of \$ 56.45 million plus EURO 13411.019 equivalent to Rs. 246.47 crore was recoverable from Karsan Limited, Turkey, on account of termination of contract by National Fertilizers Limited (NFL) due to non-performance and breach of trust by Karsan Limited in supply of 200,000 tonnes of urea. The Committee, however, had noted with concern that out of the same, only a sum of Rs. 1.02crore (US \$ 225,940) could be recovered so far from the account of Karsan Ltd. in Geneva, the only known assets identified in their name. The Department of Fertilizers had stated that the cases for recovery of the balance amount were in progress and were at different stages in various countries, and in some places the cases had reached final stage. According to the Department, the total identified assets in the name of various individuals including executives of Karsan, their relatives and associates in different countries was about US \$ 25 million which was equivalent to Rs. 108 crore approximately in Indian currency. The Committee had recommended that the Department of Fertilizers should pursue the matter vigorously with all concerned so that the legitimate dues were recovered expeditiously.

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

“Department of Fertilizers agrees with the recommendation of the Standing Committee. Subsequent to the reply by DOF to Standing Committee the US District Court has delivered a judgement on 23.6.2005 in favour of NFL awarding damages of US \$ 2 million plus interest as per US law against the beneficiaries of M/S Karsan. The matter is being pursued by NFL for executing said judgement/decreed against the assets of defendants to affect recoveries. The other recovery matters in Geneva, Monaco and Turkey are being pursued vigorously by NFL and the cases are at advanced stage. “

19. The Committee have been informed that the US District Court has delivered a judgement on 23.06.2005 in favour of National Fertilizers Limited (NFL) awarding damages of US\$2 million plus interest as per US law against the beneficiaries of M/s Karsan. The Committee would await conclusive action taken in regard to recovery of the entire money involved in NFL urea import episode.

CHAPTER – II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation Sl. No. 1)

The Committee find that the budgetary provisions of the Department of Fertilizers for the year 2005-06 are Rs. 17167.07 crore and the net estimates after adjusting the recoveries are Rs. 16398.82 crore. Out of the above, the Non-Plan component is Rs. 16287.00 crore and the Plan component is Rs. 111.82 crore. In the Revised Estimates of 2004-05, the total Non-Plan expenditure was pegged at Rs. 15698.00 crore. This shows an enhancement of Rs. 589.00 crore in 2005-06 in Non-Plan Budget. In the current year, the total subsidy outlay for indigenous, imported fertilizers and concessional sale of decontrolled fertilizers together is estimated at Rs.16253.90 crore which is about 99% of the total net Non-Plan budget provisions of the Department of Fertilizers.

The Committee also find that the Non-Plan loans to PSUs have been kept at Rs. 25.18 crore in the BE 2005-06, whereas it was Rs. 28.15 crore in the RE of 2004-05. Provision under Plan schemes to PSUs has been increased to Rs. 93.78 crore in BE 2005-06 from Rs. 74.55 crore in the RE for 2004-05. The Committee's scrutiny has revealed that while the expenditure incurred during the year 2004-05 under the Non-Plan heads more or less conformed to budgetary allocation (with the exception of Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL), the funds allotted under the Plan-heads largely remained unutilized. The Committee note that

during 2004-05 the expenditure on various Plan schemes under the Department of Fertilizers upto February, 2005 was only Rs. 39.35 crore which constitutes 30.23 per cent of the total Plan Budget Estimates of Rs. 130.17 crore. From the information made available to the Committee, it appears that the reasons for non-utilisation of funds were mainly owing to the, procedural delays. The Committee desire that the non-utilisation of budgetary allocations should be thoroughly looked into and corrective action taken not only from the point of assessing the budgetary requirements accurately, but also for ensuring that the targets laid down in the Plan are met effectively. The Committee also expect the Department of Fertilizers to contain the expenditure for this year within the sanctioned Budget and follow the instructions of Ministry of Finance to observe austerity. With this, the Committee endorse Demands for Grants of the Department of Fertilizers for the year 2005-06.

Reply of the Government

The Observations/Recommendations made in Para 1 (Recommendation No.1) are factual & advisory in nature. The Non-utilisation of Plan Fund during year 2004-05 was mainly due to procedural delays in obtaining the approval of CCEA for the 2nd Revised Cost Estimates for Namrup Revamped Project of M/s. Brahmaputra Valley Fertilizers Corporation Ltd. Efforts will, however, be made for ensuring that the targets laid down in Plan Budget for 2005-06 are met effectively and to keep the expenditure within the sanctioned budget.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 2)

The Committee are concerned to note that the indigenous annual capacity of nitrogenous fertilizer units had marginally declined to 119.98 lakh metric tonnes (LMT) at the end of 3rd year of 10th Five Year Plan (2004-2005) from 120.58 LMT at the end of 9th Five Year Plan (2001-02). What is disturbing the Committee is the fact that there have been slippages in the production targets continuously for the last five years in respect of Nitrogenous fertilizers and four years in respect of Phosphatic fertilizers. As against the targets set, the percentage of actual production of Nitrogenous fertilizers declined from 99.96 in 2000-01 to 95.73 in 2004-05 (estimated). In case of Phosphatic fertilizers, the percentage of actual production which was 101.20% in 2000-01 fell steadily and reached 84.13 in 2004-05 (estimated). Against the installed capacity of 119.98 lakh MT of nitrogen, the actual production during 2003-04 was only to the level of 106.34 lakh MT necessitating the Government to import 1.32 lakh MT of nitrogen. Similarly, as against the installed capacity of 54.20 lakh MT, the actual production of phosphatic nutrients during 2003-04 was to the tune of 36.30 lakh MT, necessitating import of 3.38 lakh MT of phosphate fertilizers. The shortfall in production of Nitrogenous and Phosphatic fertilizers during Kharif 2004 has been attributed to constraints in supply and quality of natural gas, equipment breakdown, delay in commissioning of Namrup-II and unscheduled shut down of RCF-Trombay-V and DIL Kanpur. In case of Complex fertilizers, low production was further attributed to shortage of phosphoric acid and imported /indigenous ammonia. From these facts, it is

abundantly clear that there is an urgent need to improve the production performance of both nitrogenous and phosphatic fertilizers.

In view of the above, the Committee recommend that immediate necessary steps should be taken by the Department of Fertilizers to ensure adequate and timely availability of raw materials and also to remove other bottlenecks so that the actual production of fertilizers meet the targets set and also that all the fertilizer companies. Public, Private and Cooperative, operate at an optimum level of the installed capacity and that the dependence on imported fertilizers is kept to the bare minimum possible.

Reply of the Government

The annual installed capacity of each product and their %age share in nutrients terms during 2003-04 & 2004-05 was as under: -

Name of the product	Annual Installed capacity ('000' MT)			% age share		
	Qty	N	P	Qty	N	P
Urea	20512.4	9435.7	0.0	50.7	78.6	0.0
A/S	671.5	141.0	0.0	1.7	1.2	0.0
CAN	942.5	235.6	0.0	2.3	2.0	0.0
A/C	128.0	32.0	0.0	0.3	0.3	0.0
DAP	7199.1	1295.8	3311.6	17.8	10.8	61.1
SSP	5899.8	0.0	944.0	14.6	0.0	17.4
COMPLEXES:	5098.0	857.9	1162.4	12.6	7.2	21.5
TOTAL:	40451.3	11998.1	5417.9	100.0	100.0	100.0

On seeing the table, percentage of 'N' contributed by urea is 78.6%, and by DAP is 10.8%. Contribution of 'P' from DAP is 61.1% and from SSP is 17.4% and Complex fertilizers contribute 21.5% 'P' of total phosphatic capacity. During 2004-05 production of nitrogen (113.39 lakh MT) and phosphate (40.64 lakh MT) was highest so far. Production of urea and complexes has been highest. Out of the total urea

capacity of 205.12 LMT only 194.60 LMT is in operation (Trombay-V of RCF have 3.30 LMT and DIL-Kanpur have 7.22 LMT are under unscheduled shutdown) . Urea capacity utilization during 2004-05 was 104.2% of the operative capacity.

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, on average, actual supply during 2004-0-5 was 23.79 MMSCMD only. The Department of Fertilizers is asking 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.

Problem in production of phosphatic fertilizers and steps taken:

Major portion of basic raw material for production of phosphatic fertilizer are rock phosphate or phosphoric acid i.e.P₂O₅ are imported because of limited sources in the country. Due to tight availability in the international market, the availability of these raw materials has been constrained leading to lower than the targeted production However, all efforts are being made to improve the situation including encouraging Indian companies to enter into Joint Ventures with foreign suppliers of raw materials to ensure smooth flow of raw materials into the country.

All the phosphatic & potassic fertilizers are decontrolled. Manufacturers are now free to import the fertilizer, raw material/intermediates required for manufacturing these fertilizers directly.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

Comments of the Committee

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

(Recommendation SI. No. 3)

The Department of Fertilizers have informed that the availability of urea under the New Pricing Scheme (NPS), during Kharif 2004 was satisfactory in all the States/UTs and there were no reports of shortage from any State/UT. However, on having drawn attention of the Department to the reported non-availability of fertilizers in certain parts of the country, particularly in Punjab, Haryana and Western UP, the Secretary, Ministry of Chemicals & Fertilizers (Department of Fertilizers) in his deposition before the Committee stated that the Department was fully aware of the problem and would endeavour to make available all types of fertilizers during the ensuing/current Kharif season beginning in April, wherever they are required and will also ensure that there is no repetition of the crisis that occurred during the Rabi season. The Committee recommend that the Department of Fertilizers should take all necessary steps in co-ordination with respective State Government for proper and timely movement and availability of fertilizers to farmers in adequate quantity during the ensuing/current Rabi season so that the farmers are not put to inconvenience and distress. The Committee also recommend that the DOF should constitute monitoring Committees in co-operation with Fertilizers Industry Co-ordination Committee (FICC) in each State to periodically monitor the movement and availability of fertilizers to the farmers.

Reply of the Government

The requirement of Urea, DAP and MOP is assessed for each State/UTs for each crop season for Kharif and Rabi before the commencement of the season in the Zonal Conference wherein the representatives of the Department of Agriculture & Cooperation, Department of Fertilizers, State Government and Manufacturers are present. The State Governments also project their monthly requirement. The Department of Fertilizers ensures availability of urea to each State on aggregate basis as per this requirement by way of making ECA allocations from 50% of production. Remaining 50% is moved as per the choice of the manufacturers. On the basis of the projected monthly requirement of each State/UT as above, the pattern of evolution of demand in different parts of the country, a monthly movement order for regulated urea is prepared and sent to States to apprise them about the likely movement of urea (both from regulated and deregulated quantity) against their projected requirement for the month.

In the case of DAP and MOP which are decontrolled fertilizers, no allocation is made by the Central Government. The demand and supply of decontrolled fertilizers is decided by the market forces. Further, Department through its Buffer stocking agent M/s. IPL, also maintains buffer stock of DAP and MOP at strategic locations in certain States to meet exigent situations when market forces fail to attract requisite quantities of these decontrolled fertilizers. However, in the last season, necessary interventions were made by coordinating with suppliers, States and Railways to make available these fertilizers as per assessed requirement.

Since Department or Fertilizer Industry Coordination Committee (FICC) do not have any establishments in different States, the Department of Fertilizers monitors the dispatches of major fertilizers, namely, Urea, DAP and MOP to different States through its Movement Control Cell regularly. The supplies of fertilizers to different districts/areas within the State are to be coordinated by the State Government.

To further strengthen and improve monitoring, the Department has constituted a Grievance Cell under directions of Hon'ble Minister (Chemicals & Fertilizers) with a Toll Free No.1600114400 to receive complaints & suggestions pertaining to availability & quality of fertilizers. Based on these reports Department is taking expeditious action for resolving any problem of availability expeditiously. The recommendation of the Committee periodically monitor the movement and availability of fertilizers to the farmers will be implemented by the above mentioned arrangements.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

Comments of the Committee

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

(Recommendation Sl. No. 4)

The Committee observe that during 1999-2000, due to favorable conditions, the fertilizer consumption in the country increased to a level of 181 lakh tonnes. Thereafter, the fertilizer consumption in the succeeding years declined and stood at 167.0, 173.6, 160.9 and 168.0 lakh metric tonnes in 2000-01, 2001-02, 2002-03 and 2003-04 respectively. Besides poor monsoon and floods, other reasons attributed by the Department of Fertilizers for low consumption of fertilizers are high cost of Potassic and Phosphatic fertilizers, diversification of agriculture, increase in cultivation of oilseeds and pulses crops. The Committee are of the opinion that apart from the reasons cited by the Department of Fertilizers for low consumption of fertilizers, low purchasing power of small and marginal farmer has contributed to variation in consumption of fertilizers in different States. While the consumption level was as low as 40.5 kg/hectare in Rajasthan and 41.4 kg/hectare in Orissa during the year 2003-04, the consumption level was high at 184.1 kg/hectare for Punjab, 167.1 Kg/hectare for Haryana, 136.8 Kg/hectare for Andhra Pradesh, 126.7 kg/hectare for Uttar Pradesh for the year 2003-04. Though the benefits of Green Revolution have been harvested by Punjab, Haryana and Uttar Pradesh, these benefits are required to be extended to other States too. The Committee, therefore, recommend that Government should take urgent corrective steps to remove regional imbalances in fertilizer consumption and to increase consumption in regions/States, where there is low consumption by making fertilizers (particularly Phosphatic and Potassic) available at reasonable rates. If required, the Department of Fertilizers might undertake a study in this regard during the ensuing Kharif and Rabi seasons.

Reply of the Government

The role of fertilizer in agriculture is well known and more than 50% growth in agricultural production is mainly due to use of fertilizers, introduction of high yielding varieties of seeds and pragmatic policies adopted by the Government. There was a spectacular growth in fertilizer consumption and agriculture productions. However, decontrol of Phosphatic and Potassic fertilizers in 1992 led to a sharp increase in their prices and resulted in decline in consumption (from 33.21 and 13.61 lakh tonnes in 1991-92 to 28.44 and 8.84 Lakh tones in 1992-93 for P & K fertilizers respectively). Despite introduction of concessional price scheme on Phosphatic and Potassic fertilizers, there was a slow growth in consumption of P&K fertilizers up to 1996-97. But during the next period of 1999-2000 and 2002-03, the consumption of P&K was reasonably good (at 40.19 and 16.01 lakh tones of P&K fertilizers respectively in 2002-03).

The consumption level of fertilizers depends on a number of factors like irrigation, monsoon, soil structure and texture, economic status of farmers in the region etc. However, Department of Fertilizers in acceptance of the suggestion for carrying out study on region-wise fertilizer consumption imbalance is examining in consultation with Department of Agriculture & Cooperation, the basic approach and thrust areas before embarking on the study.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 5)

The Committee are disturbed to note that consumption of Single Super Phosphate (SSP) which is considered as common man's fertilizer has been gradually declining over the years in the country. The Committee in their Second Report on Demands for Grants (2004-2005) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) while taking note of the neglect by the Governments in relation to the cost of production of SSP, both in terms of fixing MRPs and calculating the ad-hoc concession, had strongly felt that in the larger interest of the Indian agriculture sector, the importance of SSP needs to be recognized. They, therefore, had desired that certain recommendations of the Cost Accounts Branch (CAB) of the Ministry of Finance for extending some concessions 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. In their Action Taken Replies to the recommendations contained in the Second Report of the Committee on Demands for Grants (2004-05), the Department of Fertilizers had informed the Committee that they have examined the recommendations of CAB and methodology for working out a package for SSP is under finalization. The Committee recommend that the Department of Fertilizers should finalize SSP package expeditiously and grant suitable concessions with a view to making the SSP industry economically viable so that the fertilizer is available to the farmers at an affordable price. In the opinion of the Committee, this will undoubtedly result in enhancing the consumption of SSP.

Reply of the Government

Department of Fertilizers has already examined the recommendations of Cost Accounts Branch (CAB) and formulated a proposal of working out concession on SSP linking with indigenous DAP. An Expert Group set up by Department of Fertilizers under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission has also considered this issue. *

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 6)

The Committee find that the ideal NPK ratio of 4:2:1 is not being followed in the use of fertilizers in different parts of the country. There is a disproportionate use of NPK amongst different States ranging from high NPK ratio of 108:49:1 in Delhi and low NPK ratio of 1.3:0:6:1 in Kerala during 2003.04. This indicates that farmers at large are quite unaware of the benefits of balanced use of fertilizers. The Committee desire that with a view to removing distortions in use of NPK, the Department of Fertilizers should launch a nation-wide fertilizer education programme in cooperation with the Ministry of Agriculture & Cooperation for creating awareness amongst the farmers about the benefits of balanced use of fertilizers.

* *At the time of factual verification, the Department of Fertilizers informed (November 2005) that the Government after examination of CAB report and the interim recommendations of the Expert Group, has decided to increase the ad-hoc concession on SSP from Rs. 650 per MT to Rs. 975 per MT w.e.f. 01.09.2005. State Governments have also been requested to maintain the MRP of the SSP at the present level in their States.*

Reply of the Government

For balanced use of fertilizers, Department of Agriculture & Cooperation is promoting Integrated Nutrient Management (INM) which includes soil test based and judicious use of chemicals fertilizers in conjunction Farm Yard Manure (FYM), compost vermin-compost, bio-fertilizers etc. A centrally sponsored scheme “Balanced and Integrated Use of Fertilizers”(now subsumed under the Marco Management of Agriculture Scheme) is being implemented with the components on setting up/strengthening of Soil Testing Laboratories, organizing training for soil testing staff and national/regional seminars/workshops on soil testing. At present there are 547 soil-testing laboratories in the country (417 static+130 mobile) under the State Governments and fertilizer industry with annual analyzing capacity of about 7 million soil samples. The Department of Agriculture & Cooperation has also constituted a Task Force on Balanced Use of Fertilizers to determined future fertilizer needs of the country and to suggest appropriate pricing policy for the fertilizers. The Task Force had several rounds of deliberation and discussions and the final report is under the process of finalization. Apart from the above, ICAR has taken up the following activities to promote balanced use of fertilizers.

1. Develop ready reckoners for soil test based fertilizer recommendations to achieve the desired yield target.
2. Prepare soil fertility maps at national (Secondary and Micronutrient) and state (Nitrogen, Phosphorous, Potassium) levels.
3. Develop INM packages for different crops under various agro-ecological regions of the country.
4. Generate information for correcting micro and secondary nutrient related problems in soil plant system under All India Coordinated Projects and Micro and Secondary nutrients.
5. Organize training programme and Front Line Demonstrations (FLDs) to promote Integrated Plant Nutrient Supply in deficient areas.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 7)

The Committee note that the country is totally dependent on imports in case of Potassic fertilizer and a quantity of 15.48 lakh MT of it was imported in the year 2003-04 and 12.39 lakh MT till 30.11.2004 in the year 2004-05. In their Action Taken Replies to the recommendations contained in the Second Report of the Standing Committee on Chemicals & Fertilizers (14th Lok Sabha) on Demands for Grants (2004-05) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers), the Ministry had informed the Committee that 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 IFFCO, Chambal Fertilizers and SPIC respectively. As regards Potassic fertilizers, the Department of Fertilizers, in a written reply stated that there was no proposal to float joint venture for production of potassic fertilizers with the countries from which it is being imported. The Committee feel that there is a dire need to provide Potash at reasonable rates in time to Indian farmers. They, therefore, recommend that the Government should actively explore the possibilities for setting up joint ventures with potential countries where the raw material is available for production of Potassic fertilizers so that the total dependence on its import could be avoided.

Reply of the Government

The Department of Fertilizers has already stated that there is no proposal at present to float a joint venture for production of potassic fertilizers with the countries from which it is being imported. However Department agrees with the

recommendations of Standing Committee. A communication is being sent to Fertilizer Association of India (FAI) and M/S Indian Potash Limited with a request to explore the possibilities for joint ventures abroad for production of Potassic fertilizers.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 8)

A Joint Venture Project (OMIFCO) between Oman Oil Company and Indian Sponsors KRIBHCO and IFFCO is under construction at Sur in Oman for production of urea/ammonia. As per information furnished by the Department of Fertilizers, as on 03.02.2005, the overall progress made by the project was 97.26% in relation to construction, commissioning and supervision activities against the original target of 99.73%. Despite the slippage in the construction schedule, the OMIFCO Management is stated to be optimistic of commencing commercial production by 15.7.2005. The Committee note that as per Urea Off-Take Agreement (UOTA) entered into by Government of India with OMIFCO, the entire quantity of 16.52 LMT of urea produced by OMIFCO will be lifted by Government and accordingly higher allocation has been made in BE 2005-06 for subsidy on the imported fertilizers. Since the Budget Estimates for import of fertilizers are prepared on the assumption that the OMIFCO project will be commissioned as per the schedule, any delay in commissioning of the project would have an adverse impact not only on the budgetary front but also on the overall planning on the availability of fertilizers for domestic consumption during

the year. The Committee, therefore, recommend that the Department of Fertilizers should take all possible steps to ensure that the OMIFCO project will go on stream as per the schedule and that there are no cost and time overruns in the commissioning of the project.

Reply of the Government

As on 14th May, 2005, the project has achieved overall cumulative progress of 99.58%. The first trial run of ammonia was produced on 14.5.2005, the first trial run of urea was produced on 28.5.2005. The first shipment carrying trial run production arrived at Vizag on 16.5.2005. The second and third shipment had arrived in Chennai and Kandla Port on 17.6.2005 and 19.5.2005. All possible steps would be taken by Department of Fertilizers to let OMIFCO project go on stream as per the schedule and that there are no cost and time overrun in the commissioning of the project.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 10)

Under the New Pricing Scheme (NPS) for urea units, introduced with effect from 01.04.2003, the Retention Prices cum Subsidy Scheme (RPS) which was in vogue since November, 1977 came to an end and a group based New Pricing Scheme took its place. NPS is being implemented in Stages. Stage-I was of one year duration from 01.04.2003 to 31.03.2004 and Stage-II of two years duration from 01.04.2004 to 31.03.2006. The Committee note that the Department of

Fertilizers has constituted a Working Group under the chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage-I and II of New Pricing Scheme (NPS) and for formulating policy for urea units beyond Stage-II i.e. from 1.4.2006 onwards. The Working Group would also examine issue pertaining to formulation of feedstock policy especially with regard to the nature, pricing and availability, demand and supply of urea upto the end of 11th Five Year Plan, fixing milestones for conversion of existing naphtha and FO/LSHS based units to NG/LNG, mode of determination and methodology of payment of concession to urea units, de-control of movement and distribution of urea, balanced fertilization through urea pricing etc. The Committee hope that the Working Group would give its report at the earliest and they be informed of the latest developments in this regard.

Reply of the Government

The first meeting of the Working Group was held on 4.2.2005. Pursuant to decisions taken in the 1st meeting of the Working Group, following six sub committees have been constituted to deliberate and recommend on various important components of the urea pricing policy for the Working Group:

- (a) Sub-Committee on 'Demand and Supply of urea'
- (b) Sub-Committee on 'Future Vision of urea pricing policy in a time frame of 3, 5 and 10 years'
- (c) Sub-Committee on 'Costs and Supplies'
- (d) Sub-Committee on 'Movement and Distribution of urea'
- (e) Sub-Committee on 'Pricing and Availability of feedstock'
- (f) Sub-Committee on 'Practices of subsidizing production, distribution and consumption of fertilizers in other countries'.

The Department of Fertilizers is regularly monitoring the progress made by the Sub-Committees and has also urged them to submit their reports at the earliest. Convenors of all the Sub-Committees have been invited to make presentations before the Working Group during its 2nd meeting to be held on 29.6.2005. *

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

Comments of the Committee

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

(Recommendation Sl. No. 11)

The Committee note that Natural Gas/LNG is the preferred feedstock for the manufacture of urea over other feedstocks viz. naphtha and FO/LSHS as it is a clean and efficient source of energy and cost effective. It is also internationally competitive in terms of the manufacturing cost of urea, as feedstock accounts for 60 per cent of cost of production in respect of gas based units whereas for others it is 75 per cent. Against the total requirement of 33.32 MMSCMD, the average actual supply of domestic natural gas during 2003-04 was only 22.13 MMSCMD, thus creating a shortfall of 11.19 MMSCMD i.e. 33.6 per cent of total requirement. Due to this, even the gas based units are forced to partially use naphtha as feedstock. In the wake of the recently formulated policy for setting up new and

* *At the time of factual verification, the Department of Fertilizers informed (November 2005) that two more meetings of the Working Group have also been held, one on 29.06.2005 and the other one on 24.08.2005. 4th meeting of the Working Group is scheduled to be held on 21st and 22nd November, 2005 to discuss the draft report.*

expansion of urea units and switchover of non-gas based units to NG/LNG, the fertilizer industry has estimated that the total requirement of NG/LNG will increase to 55 MMSCMD. The Committee note that an Inter-Ministerial Group (IMG) had been constituted to examine the issue 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 IMG was held on 21.7.2004, in which it was decided to refer the matter to the Tariff Commission. The Tariff Commission has since submitted an interim report and the final report would be submitted by it after joining of the full time Chairman. In this context, the Committee have also been informed that the Ministry of Petroleum & Natural Gas's proposals on Revision of natural gas allocation and prices' have been referred to the Group of Ministers for examination in the first instance. The Committee feel that the issue relating to preferential allocation of domestic natural gas and making available imported LNG to fertilizer units at reasonable prices requires an expeditious examination and an early decision in the overall interests of the fertilizer industry.

(Reply of the Government)

2nd meeting of the Inter-Ministerial Group has not been held so far as the Tariff Commission is yet to submit its final report on the study entrusted to it. The Department of Fertilizers has requested the Tariff Commission to submit the final report expeditiously as full time Chairman has also been appointed now.

The issue of priority allocation of APM gas to fertilizer sector was under the consideration of the Government and now the Government has decided that all available APM gas would be supplied to only the power and fertilizer sectors against their existing allocations after meeting the requirements of specific end users committed under court orders.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 14)

The Committee note that while on the one hand, the financial health of several fertilizer PSUs remained critical, on the other hand, some of the Public Sector Undertakings, particularly MFL and NFL were not able to utilize their funds properly during the year 2004-05. In the case of MFL, non-utilisation of funds has been attributed to dropping of the project for replacement/ refurbishment of burner management scheme due to its obsolete design on the basis of observation by BHEL and sweeping of this schemes with another schemes viz. "Repairs to the 10000 MT capacity phosphoric Acid Storage Tank 'A' at Chennai Port Trust" As regards NFL, the IEBR provision of Rs. 69 crore made in BE (2004-05) went unutilized as several schemes for modernization/renovation of its units for which the funds were meant, could not be completed. In the opinion of the Committee, this is indicative of lack of proper management and requires suitable corrective/remedial action.

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.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation Sl. No. 15)

The Committee note that Namrup-II unit of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) which was originally scheduled to be commissioned by 1.2.2002 was delayed and underwent Revised Cost Estimates (RCE) twice. The first RCE was approved by the Government with the revised cost of Rs. 509.40 crore (on constant price basis) and a completion cost of Rs. 525.47 crore. Due to further delay in implementation of the project the Project Investment Board (PIB) had approved the second revised cost estimate for the project at a revised cost of Rs. 610.24 crore and the date of completion of the project as 31.12.2004. However, owing to delay in completion of work in Effluent Treatment Package, commissioning of Process Air Compressor and instrumentation jobs in Urea-II plant etc., the date of commissioning of the revamp project overshoot beyond

31.12.2004. The Ministry have informed that Namrup II revamp project is now expected to be completed by 30.4.2005. The Committee express their serious concern over the inordinate delay in the commissioning of the project due to which its cost has escalated The Committee expect that there would not be further time and cost overruns and the unit will go on stream as per the scheduled date of completion i.e. 30.04.2005. The Committee also note that since none of the Banks/Fis came forward to provide loans to the Namrup-II unit and as a result the entire funding of the project has been provided by the Government of India, it is imperative for the Government to undertake a thorough re-appraisal of the project from all angles, so that, the unit would not subsequently be confronted with operational difficulties.

Reply of the Government

Earlier the revamp project was expected to be commissioned by April, 2005. But on account of inadequate synchronisation of equipments like Process Air Compressor by original equipment manufacturers as well leakage detected in Boiler Feed Water Heater, the commissioning of the project is now expected by June, 2005. The suggestion of the committee for undertaking a through re-appraisal of the project from all angles have been taken note of.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

CHAPTER – III

RECOMMENDATION WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

(Recommendation Sl. No. 9)

As per the extant arrangement, the difference between the maximum retail price/indicative price and the actual cost of production of Fertilizers is reimbursed to the fertilizers companies as subsidy. In the current financial year 2005-06, the total outlay for fertilizer subsidy has been estimated at Rs. 16253.90 crore which is about 99% of the total net non-plan budget provision of the Department of Fertilizers. The Committee note that the main purpose of fertilizer subsidy is to provide fertilizers to farmers at an affordable price. However, the Committee note that farmers are still unable to reap the benefits of subsidy in a large measure due to various reasons including non-availability of fertilizers on account of hoarding/black marketing. Such problems can be overcome through adopting better techniques for management of subsidies. One such measure is to resort to direct payment of subsidy to the farmers. Unfortunately, the recommendation made by the Committee in their Second Report on Demands for Grants (2004-2005) for giving direct subsidies to the farmers did not find favour with the Department of Fertilizers. The Committee, therefore, would once again urge the Government to give a serious thought to this suggestion so that the underlying objective behind payment of subsidies become more meaningful. Steps should also be taken in consultation with the State Governments to contain

hoarding/black marketing with a view to ensuring availability of fertilizers to the farmers.

Reply of the Government

With the objective of making available fertilizers to farmers at a affordable price, urea, being the only controlled fertilizer, is sold at statutorily notified maximum retail price (MRP), and the decontrolled phosphatic and potassic fertilizers, such as DAP, MOP and NPK complexes are sold at indicative MRPs. MRP of single super phosphate is indicated by the respective State Governments. As the cost of production of fertilizers is generally more than the MRP/indicative MRPs, the benefit of subsidy/concession on fertilizers is passed on to the farmers in the form of making them available fertilizers at subsidized selling prices. As for giving direct subsidies to farmers, it is stated that payment of subsidy to farmers directly is a gigantic task and would involve huge administrative expenditure and logistics. In the present circumstances, the suggested proposal of direct subsidy to farmers is not logistically and administratively practical to implement and administer.

As for the steps taken in consultation with the States to contain hoarding/black marketing with a view to ensuring availability of fertilizers to the farmers, it is stated that the Department of Fertilizers has written to the State Governments to ensure equitable distribution within the States. Every month, a copy of movement order of urea is issued indicating supplier-wise details for the State to keep track of supplies and to ensure that no hoarding takes place. The Department of Fertilizers also monitors movement of major fertilizers State-wise and unit-wise continuously.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

CHAPTER – IV

RECOMMENDATION IN RESPECT OF WHICH REPLY OF THE GOVERNMENT HAS NOT BEEN ACCEPTED BY THE COMMITTEE

(Recommendation Sl. No. 13)

Out of the 10 PSUs coming under the purview of the Department of Fertilizers, viz. FACT, FCI, NFL, RCF, PPCL, MFL, PDIL, HFC, BVFCL and FAGMIL, the Committee find that during the last four years i.e., from 2001-02 to 2004-05 (upto December, 2004) only four PSUs, namely, RCF, NFL, PDIL and FAGMIL were profit-making and the rest of them are either chronically sick or loss-making. The Committee note that in accordance with the agenda of the Government as outlined in the National Common Minimum Programme, the revival of the sick, loss making and closed fertilizer PSUs has been entrusted by the Department of Fertilizers to the Projects and Development of India Ltd. (PDIL). PDIL has since submitted their reports with respect to fertilizer PSUs to the Department of Fertilizers and the same are currently under examination of the Department of Fertilizers in consultation with the respective PSUs. The Department of Fertilizers has informed that the proposals for revival of these units based on their techno-economic viability will be sent to the Board for Reconstruction of Public Sector Enterprises (BRPSE) for their consideration. The Committee recommend that the Department should expedite the process of examination of reports submitted by PDIL in consultation with respective fertilizer PSUs and submit their proposals for revival of PSUs to BRPSE at the earliest.

Reply of the Government

The proposals for revival of Barauni & Durgapur units of HFC and Gorakhpur & Sindri unit of FCI based on the report prepared by PDIL have been received from the respective companies duly approved by their Boards. These proposals are under examination in the Department of Fertilizers. If these proposals are found techno-economically viable, the same will be submitted for consideration of the newly constituted Board for Reconstruction of Public Sector Enterprises (BRPSE) and further action to obtain approval of the competent authority in the Government will be taken based on the recommendations of the Board.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

Comments of the Committee

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

CHAPTER – V

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

(Recommendation Sl. No. 12)

On 29.01.2004 the Department of Fertilizers announced a new policy for de-bottlenecking/revamp/modernization of existing urea units. Among others, the salient features of the new policy are as follows:

- (a) The de-bottlenecking/revamp/modernization of the plant should result in not less than 10% increase in the existing urea production capacity.
- (b) The company will be required to obtain prior permission of the Department of Fertilizers (DOF) before embarking upon any de-bottlenecking/revamp/modernization of its urea plant(s).
- (c) The de-bottlenecking/revamp/modernization should lead to increase in production entirely based on Natural Gas (NG)/Liquefied Natural Gas (LNG) only as fuel and feedstock and no increase in production capacity based on any other costlier feedstock/fuel will be allowed.
- (d) The additional urea capacity, created by de-bottlenecking/revamp/modernization shall be used for sale for agricultural purposes within the country. The units may also export or sell to complex manufacturers or for any other industrial use with the prior permission of DoF. However, concession will be admissible only for direct sale of urea for agricultural purposes.
- (e) The Government reserves the right to mop up this additional production under the Essential Commodities Act, 1955 (ECA) allocation, where exigencies on the demand and supply situation so warrant.

The Committee have been informed that no fertilizer unit has undergone do-bottlenecking/revamp/modernization during the last three years. However, revamp of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) which

commenced on 02.11.1998, much before the new policy came into effect is still under implementation. The Committee are constrained to note that even after lapse of more than a year since the notification of the new policy by the Department of Fertilizers, there appears to be a lukewarm response by the fertilizer industry to revamp their existing units. Only three proposals for de-bottlenecking in respect of IGFL, Jagdishpur, TCL, Babrala and IFFCO, Aonla and Phulpur have been received by the Department of Fertilizers, which are under their consideration. The Committee recommend that the Department of Fertilizers should process the proposals for debottlenecking pending before them expeditiously so that it would lead to enhancement in the installed capacity of these units. The Committee also recommend that if necessary, the guidelines laid under the new policy may be reviewed with a view to making them industry friendly so that more fertilizer units would come forward for debottlenecking/revamp, which in turn may go a long way in augmentation of the capacity of the indigenous industry and thereby improve self-sufficiency of the country in fertilizer production.

Reply of the Government

The recommendations of the Committee have been noted. However, proposals for de-bottlenecking from fertilizer units continue to be received by Department, the latest one being from M/s Chambal Fertilizers & Chemicals Limited and are under the consideration of the Government.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

(Recommendation SI. No. 16)

The Committee observe that an amount of \$ 56.45 million plus EURO 13411.019 equivalent to Rs. 246.47 crore was recoverable from Karsan Limited, Turkey, on account of termination of contract by National Fertilizers Limited (NFL) due to non-performance and breach of trust by Karsan Limited in supply of 200,000 tonnes of urea. The Committee, however, note with concern that out of the same, only a sum of Rs. 1.02crore (US \$ 225,940) could be recovered so far from the account of Karsan Ltd. in Geneva, the only known assets identified in their name. The Department of Fertilizers have stated that the cases for recovery of the balance amount are in progress and are at different stages in various countries, and in some places the cases have reached final stage. According to the Department, the total identified assets in the name of various individuals including executives of Karsan, their relatives and associates in different countries is about US \$ 25 million which is equivalent to Rs. 108 crore approximately in Indian currency. The Committee recommend that the Department of Fertilizers should pursue the matter vigorously with all concerned so that the legitimate dues are recovered expeditiously.

Reply of the Government

Department of Fertilizers agrees with the recommendation of the Standing Committee. Subsequent to the reply by DOF to Standing Committee the US District Court has delivered a judgement on 23.6.2005 in favour of NFL awarding damages of US \$ 2 million plus interest as per US law against the beneficiaries of

M/S Karsan. The matter is being pursued by NFL for executing said judgement/decreed against the assets of defendants to affect recoveries. The other recovery matters in Geneva, Monaco and Turkey are being pursued vigorously by NFL and the cases are at advanced stage.

[Ministry of Chemicals & Fertilizers, Department of Fertilizers
O.M. No. 5 (1)/2005-Fin.II (Part-I) dated 29.07.2005]

Comments of the Committee

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

NEW DELHI
December 6, 2005
Agrahayana 15, 1927 (Saka)

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

Appendix-I

MINUTES

**STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2005-06)**

**FOURTH SITTING
(30.11.2005)**

The Committee sat from 1600 hrs. to 1630 hrs.

Present

Shri Anant Gangaram Geete - Chairman

***Members
Lok Sabha***

2. Sardar Sukhdev Singh Libra
3. Shri A. Venkatarami Reddy
4. Shri T. Madhusudhan Reddy
5. Shri V.K. Thummar

Rajya Sabha

6. Shri B.S. Gnanadesikan
7. Shri Ajay Maroo
8. Dr. Chhatrapal Singh Lodha
9. Shri Vasant Chavan

Secretariat

1. Shri P. Sreedharan - Joint Secretary
2. Shri Brahm Dutt - Director
3. Shri S.C. Kaliraman - Under Secretary

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

3. Thereafter, the Committee considered the Draft Report on Action Taken by the Government on the recommendations contained in the Sixth Report of the Committee on Demands for Grants (2005-06) 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 authorised the Chairman to make consequential changes, if any, arising out of the factual verification of the Report by the Ministry of Chemicals & Fertilizers (Department of 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 Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2004-05) on Demands for Grants (2005-06) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers).

I	Total No. of Recommendations	16
II	Recommendations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 14 and 15)	12
	Percentage to Total	75%
III	Recommendation which the Committee do not desire to pursue in view of Government's Reply (Vide Recommendation at Sl. No. 9)	1
	Percentage of Total	6.25%
IV	Recommendation in respect of which reply of the Government has not been accepted by the Committee (Vide Recommendation at Sl. No. 13)	1
	Percentage of Total	6.25%
V	Recommendations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos.12 and 16)	2
	Percentage of Total	12.5%