TENTH REPORT

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2009-2010)

(FIFTEENTH LOK SABHA)

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS (2009-2010)

[Action Taken by the Government on the recommendations contained in the Second Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2009-10) on Demands for Grants (2009-10) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)]

Presented to Lok Sabha on 12.08.2010
Laid in Rajya Sabha on 12.08.2010

LOK SABHA SECRETARIAT
NEW DELHI

August, 2010/*Shravana,* 1932 *(Saka)*

CC&F No. 10

Price : Rs. 63.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Fourteenth Edition) and printed by National Printers, New Delhi-110 028.

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[$] Shri Gopinath Munde — *Chairman*

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20. & 21. Vacant

[$] Nominated *w.e.f.* 07.05.2010.

[&] Nominated *w.e.f.* 11.01.2010.

[**] Nominated *w.e.f.* 26.02.2010.

[*$] Nominated *w.e.f.* 04.08.2010.

[*] Consequent upon nomination to the Committee on Information Technology Shri Tufani Saroj, MP(LS) ceased to be member of the Committee *w.e.f.* 13.10.2009.

Rajya Sabha

22. Shri Raghunandan Sharma
23. Dr. C.P. Thakur
24. Shri Brijlal Khabri
25. Shri A.A. Jinnah
26. Shri Biswajit Daimary

**27. Prof. Anil Kumar Sahani

***28. Smt. Naznin Faruque

#29. Vacant

%30. Vacant

£31. Vacant

SECRETARIAT

1. Shri N. K. Sapra — *Additional Secretary*
2. Shri Ashok Sarin — *Joint Secretary*
3. Shri C. S. Joon — *Director*
4. Shri Madhu Bhutani — *Committee Officer*

** Nominated *w.e.f.* 26.02.2010.

*** Nominated *w.e.f.* 26.04.2010.

Vacancy arisen due to demise of Shri Mahendra Sahni, MP (RS) *w.e.f.* 6.11.2009.

% Shri J.D. Seelam ceased to be Member of this Committee *w.e.f.* 21.06.2010 after his retirement from Rajya Sabha.

£ Shri Raj Mohinder Singh Majitha ceased to be Member of this Committee *w.e.f.* 04.07.2010 after his retirement from Rajya Sabha.

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2009-10) having been authorised by the Committee to present the Report on their behalf present this Tenth Report on Action Taken by the Government on recommendations contained in the Second Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2009-10) on 'Demands for Grants (2009-10)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Second Report of the Committee was presented to Lok Sabha on 8 December 2009. The replies of Government to all the recommendations contained in the Second Report were received on 8 March 2010. The Standing Committee on Chemicals and Fertilizers (2009-10) considered the Action Taken Replies received from the Government and adopted the Draft Action Taken Report thereon at their sitting held on 5 August 2010.

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

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

NEW DELHI;
5 *August* 2010
14 *Shravana*, 1932 *(Saka)*

GOPINATH MUNDE,
Chairman,
Standing Committee on
Chemicals and Fertilizers.

CHAPTER I

REPORT

This Report of the Standing Committee on Chemicals and Fertilizers deals with the action taken by the Government on the Observations/Recommendations contained in the Second Report (Fifteenth Lok Sabha) of the Committee on Demands for Grants (2009-10) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 8 December 2009. The Report contained 27 Observations/Recommendations.

2. The Ministry of Chemicals and Fertilizers (Department of Fertilizers) were requested to furnish replies to the Observations/Recommendations contained in the Second Report within three months from the date of presentation of the Report, *i.e.* by 8 March 2010. The Action Taken Replies of the Government in respect of all the 27 Observations/Recommendations contained in the Report have been received from the Ministry of Chemicals and Fertilizers, Department of Fertilizers *vide* their O.M. No. 5(5)/2009-Fin.-II dated 8 March 2010. These have been categorized as follows:—

(i) Observations/Recommendations which have been accepted by the Government:—

Sl. Nos. 1, 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 16, 17, 19, 20, 21, 23, 24 and 27.

(Total-21)
Chapter-II

(ii) Observation/Recommendation which the Committee do not desire to pursue in view of the Government's replies:—

Sl. No. 18.

(Total-01)
Chapter-III

(iii) Observation/Recommendation in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:—

Sl. No. 15.

(Total-01)
Chapter-IV

(iv) Observations/Recommendations in respect of which replies of the Government are of interim nature:—

Sl. Nos. 7, 22, 25 and 26.

(Total-04)
Chapter-V

3. **The Committee desire that the Action Taken Notes on the Observations/Recommendations contained in Chapter-I of this Report and the final replies in respect of the Observations/Recommendations for which only interim replies have been furnished by the Ministry should be furnished expeditiously.**

4. The Committee will now deal with action taken by the Government on some of their Observations/Recommendations that require reiteration or merit comments.

A. Planned and progressive utilization of the approved outlays

(Para Nos. 29, 107, 146)

5. The Committee in para 29 of their original Report had observed that for the Eleventh Five year Plan (2007-12), the Planning Commission had approved an outlay of Rs. 20,627.87 crore consisting of Rs. 1,492.00 crore as Domestic Budgetary support and Rs. 19,135.87 crore as Internal and Extra Budgetary Resources (IEBR) for taking up the approved schemes of underperforming fertilizers PSUs and research activities by renowned technical/research institutes. It was observed that out of the total outlay of Rs. 20,627.87 crore during the 11th Plan, the allocation during the BE stage of the first three years, *viz.* 2007-2008, 2008-2009 and 2009-10 amounted to Rs. 1,037.96 crore, Rs. 1,924.93 crore and Rs. 2,269.56 crore, respectively making a total of Rs. 5,232.45 crore. The allocations at RE stage during 2007-08 and 2008-09 were further brought down to Rs. 434.18 crore and Rs. 699.17 crore respectively. Therefore, more than 80% of the plan outlay was not allocated and was to be sanctioned and utilized in the remaining two years of the plan. The Committee were concerned over such an unrealistic approach which

would jeopardize the whole planning process in a vital sector of the economy and desired that necessary steps should be taken at least in future with a view to ensuring appropriate and methodical allocation of approved outlays so that the Department could implement the targeted programme/activities in a scientific manner. The Committee had felt that the actual utilization of funds by the Department of Fertilizers had also been equally unsatisfactory. As against Rs. 1,037.96 crore (BE) sanctioned in 2007-08 and Rs. 1,924.93 crore (BE) sanctioned in 2008-09, the utilization was only Rs. 264.26 crore and Rs. 377.48 crore, respectively. Similarly, the utilization of funds allocated to Rashtriya Chemicals and Fertilizers Ltd. (RCF) and National Fertilizers Ltd. (NFL) in the first two years of the 11th plan had been about 50% only. This clearly shows the poor performance of Department in the utilization of plan allocation which was the least. The Committee had emphasized for an imperative need for planned and progressive utilization of the sanctioned outlay so that the set objectives were fully achieved. The Committee had, therefore, recommended that the Department should review the progress of all plan projects on a regular basis for their timely completion in a more effective manner and submit a status report to the Committee.

In para 107 of the original Report the Committee had pointed out that the implementation of schemes/programmes during the first two years of the 11th Plan has not been satisfactory in certain PSUs. The shortfalls had been attributed to delay in finalization of feasibility/project report, non finalization of proposals, impact of global meltdown, etc. The Committee had, therefore, desired that the reasons for the poor performance should be analysed thoroughly and necessary corrective action taken to achieve the plan targets in the remaining years of the 11th Plan.

The Committee in para 146 of the original report had noted that though the overall performance of Rashtriya Chemicals and Fertilizers Ltd.(RCF) had been satisfactory, the fact was that the Company could utilize only Rs. 241.83 crore out of the allocated funds of Rs. 812.43 crore (BE) Rs. 469.06 crore (RE) for the year 2008-09 for the 11th plan scheme. The Committee had been informed that a number of schemes could not be taken up in 2008-09 due to reasons such as global price scenario, revision of cost of raw materials, revision of scope, etc. resulting in lesser utilization of resources. The Committee had desired that all out efforts be made by the company for implementation of all plan schemes to achieve the desired objectives of 11th Five Year Plan. The Committee would like to be apprised of the updated status in this regard.

6. In reply to all the aforesaid paras, the Department of Fertilizers have stated as under:—

"Eleventh Plan projections of Department of Fertilizers consist of two category of expenditure; Gross Budgetary Support (GBS), which is provided by Government out of allocation made to Department of Fertilizers by the Planning Commission under various Annual Plans; and (ii) Fertilizer PSUs/cooperative plan their own capital expenditure and mobilize resources to meet their own expenditure through Internal and Extra Budgetary Resources (IEBR).

The Gross Budgetary Support provided by the Government is basically allocated to three loss making PSUs; namely Madras Fertilizers Ltd. (MFL), Fertilizers and Chemicals Travancore Ltd. (FACT) and Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL). Five profit making companies; namely FCI Aravali Gypsum and Minerals India Ltd. (FAGMIL), National Fertilizers Ltd. (NFL), Projects and Development India Ltd. (PDIL), Rashtriya Chemicals and Fertilizers Ltd. (RCF), and Krishak Bharti Cooperative Ltd. (KRIBHCO), generate their own resources through IEBR for their capital expenditure planned for revamp, expansion, debottlenecking and any other capital related expenses.

Eleventh Plan outlay, as approved, consist of Rs. 1,492 crore as Gross Budgetary Support (GBS) and Rs. 19,135.87 crore as Internal and Extra Budgetary Resources (IEBR). It may, therefore, be seen that bulk of outlay projections during Eleventh Plan are supposed to be met by profit making companies through their own resources for various activities during the Five Year Plan period. Eleventh Plan projections were made at the beginning of the Eleventh Plan keeping in view the investment environment, policy framework expected during medium term and likely international environment. Annual Plans are then framed according to investment priorities, immediate requirement and future projections of market behavior, availability of raw material as well as investment climate.

The Annual Plan projections as well as expenditure during 2007-08, 2008-09 and likely expenditure in 2009-10 have been reviewed, company-wise and scheme-wise, for each of first three years of Eleventh Five Year Plan. In case of GBS, expenditure was realized as per allocation made by Planning Commission out of Government budgetary support, except in 2008-09 when Rs. 150 crore earmarked for conversion of FO/LSHS plants could not be utilized since investment policy for conversion of these plants was not finalized by the government. The earlier proposed policy for capital grant to these plants has now been changed and as per latest policy, government has approved a Non Plan scheme for meeting the investment requirements for conversion of these plants. It is expected that Rs. 200 crore allocated for 2009-10 as GBS will be spent. Regarding IEBR, a detailed review of company-wise/scheme-wise Annual Plans for the years 2007-08, 2008-09 and 2009-10 revealed that various schemes of profit making companies could not be taken up due to variety of reasons, some of which are given below:—

"RCF projected Plan expenditure of Rs. 253.24 crore during Annual Plan of 2007-08, against which only Rs. 118.57 crore was actually spent. The shortfall was observed in case of DAP project, carbon recovery, ammonia revamp, additional ammonia/urea at Thal, upgradation of methanol plant, Gypcrete project and ANP modifications. These projections were delayed because of technical, financial and operational reasons. DAP project, ammonia revamping, additional ammonia and urea at Thal and ANP modifications were again planned during Annual 2008-09. During 2008-09, as against an outlay of Rs. 469.06 crore, only Rs. 241.83 crore were actually spent. The DAP project could not be taken up due to volatility in input prices like rock phosphate and sulphur in the international market which made the whole project unviable. Ammonia revamping scheme was modified due to new urea policy announced by the Government for revamp and expansion in September 2008. Similarly, additional ammonia and urea at Thal could not be fructified due to further study of financial viability. ANP modification expenditure was not realized as planned due to delay in engineering and procurement work-order. Similarly, no expenditure was incurred on scheme of joint ventures since no viable proposal could be tied-up. The budgeted outlay for the year 2009-10 (BE) was Rs. 988.05 crore. This was subsequently revised to (RE) Rs. 250.68 crore. This revision was necessitated on account of deferment of major projects like Additional Ammonia-Urea at Thal, DAP project in Rajasthan, Real Estate Development, etc. and rescheduling of certain expenditure like Thal Ammonia Revamp Project. The revised outlay for 2009-10 is Rs. 250.66 crore against which only Rs. 90.72 crore up to November 2009 has been actually spent. The actual expenditure report is up to November 2009 and the shortfall is likely to be made up. For the project already under implementation like Ammonia revamping, Methanol Upgradation, etc. the outlay provided will be sufficient. However, developmental project like Joint Venture abroad, Feasibility studies, etc. the expenditure may be lower than the provision made.

In case of NFL, their major scheme of change-over of feedstock at Bhatinda, Nangal and Panipat could not be taken up during 2007-08 since policy for financing of the project was not finalized. Another major scheme of revamp of Vijaipur-I could not take off and was postponed to 2008-09 after policy for new investment in urea sector was announced. During 2008-09, the planned investment was Rs. 154.25 crores. However, NFL realized only Rs. 48.05 crores during this Plan mainly because Rs. 105 crores envisaged for investment on conversion of FO/LSHS plants to gas could not take off again because of non-finalization of policy. Government has now finalized the policy and it is hoped that bulk of the investment will be incurred in next couple of years. During 2009-10, the Plan expenditure was initially projected at Rs. 550.15 (BE) which has since been reduced to Rs. 139.25 crores (RE) because of revised projections of investment on Major Schemes such as conversion of FO/LSHS plants to gas based, revamp of Vijaipur-I and capacity enhancement at Vijaipur-II. Also, installation of CDR, which was earlier planned for 2009-10, will now be taken up along with the capacity enhancement projects which will take couple of years more.

In case of KRIBHCO, outlays for projects such as Hazira expansion/ joint ventures planned during 2007-08 could not be started due to financial non-viability of project in absence of any clear government policy. Plan expenditure on Hazira expansion during 2008-09 again could not be spent due to late announcement of new investment policy for urea. However, during 2008-09, KRIBHCO invested around Rs. 240 crore as additional equity participation in GSEG and KSFL. During 2009-10, KRIBHCO initially projected a Plan outlay of Rs. 497 crore (BE) which is now revised to Rs. 421.50 crore (RE). Company has assured that they will be able to meet Annual Plan expenditure target during 2009-10.

PDIL has more or less achieved its Annual Plan targets, rather they will exceed the Plan expenditure of Rs. 5.35 crore projected at the beginning of 2009-10 (BE) and will now spend Rs. 8.38 crore (RE) during 2009-10. FAGMIL under-spent their annual Plan expenditure projection during 2007-08 and 2008-09 because Plan expenditure on wind energy project was deferred due to risk involved and postponement of expenditure on construction of office building due to delay in handing-over of land. Plan expenditure during 2009-10 has now been revised to Rs. 4.35 crore since schemes such as wind energy, potash mining and office building were not taken up.

During the review, it was impressed upon the companies that they should realistically project their Annual Plan expenditure and all steps should be taken to meet the Plan capital expenditure targets. Companies have assured that they will try to achieve the projected Plan expenditure during 2009-10 and realistic projections would be made in future. Department of Fertilizers will further review Plan expenditure during Quarterly Review Meetings of each PSU under the Chairmanship of Secretary (Fertilizers) on a regular basis."

7. The Committee in their earlier Report had desired the Department to take necessary steps with a view to ensuring appropriate and methodical allocation of approved outlays so that the targeted programmes/activities could be implemented in a scientific manner. The Committee had also recommended that the Department of Fertilizers should review the progress of all plan schemes on a regular basis to ensure planned and progressive utilization of the sanctioned outlays and the Committee should be apprised of a status report in this regard. However, according to the Department certain difficulties have been experienced such as non finalization of policy for financing of project of NFL, financial non-viability of project of KRIBHCO, etc. The Committee feel that the reasons advanced by the Department are not convincing enough and are not unavoidable. The past performance of various PSUs under the administrative control of Department has not been encouraging and sincere efforts are required to be made in this regard. The Committee calls upon the Department to overcome the difficulties with proper planning and utilize the best of the available resources to convert the action plan into success. The Committee, therefore, recommend that all out efforts should be made by the Department to remove the bottlenecks by taking timely action and implement the projects/schemes in a time bound manner as the delay in completion of various formalities not only effect the expansion programmes of the PSUs but also result in avoidable time and cost overrun.

B. Payment of direct subsidy to farmers

(Para No. 49)

8. The Committee in para 49 of their original Report had been informed that an Inter-Ministerial Group with Secretary (Fertilizers) as Chairman and Secretaries of Department of Expenditure, Agriculture and Planning Commission as members was constituted in November 2008 to look into all aspects of payment of direct subsidy to the farmers. The Committee had noted that the IMG recommended to implement a nutrient based subsidy regime wherein the farmgate prices of fertilizers were

decontrolled and subsidy was fixed for each fertilizer based on nutrient content. According to IMG, the new regime could be carried on till such time when authenticity of land records allowed them to move towards disbursement of fertilizer subsidy as direct cash transfer to the farmers' bank account based on land record details. The Committee were further informed that a Group of Ministers (GoM) was constituted on 31 July 2009 to look into the nutrient based subsidy policy and measures for rationalization of fertilizer subsidy disbursement with the objective to promote balanced fertilization. According to the Department of Fertilizers, the GoM was expected to look into all options of release of subsidy including direct subsidy to farmers. The Committee had desired that the whole exercise will expeditiously completed and that they would like to be informed of the progress made in the matter.

9. In reply to the aforesaid para, the Department of Fertilizers have stated as under:—

> "The Group of Ministers (GoM) constituted on 31 July 2009 to examine the Nutrient based subsidy policy and measures for rationalization of fertilizer subsidy disbursement in its meeting held on 20 January 2010 considered the matter relating to NBS including the issue of direct subsidy to farmers. The GoM recommended that the first phase of NBS policy for decontrolled P&K fertilizers can be implemented *w.e.f.* 1 April 2010.
>
> The Government has decided to implement the Nutrient Based Subsidy (NBS) Policy on decontrolled Phosphatic and Potassic fertilizer with effect from 1 April, 2010. It has been decided to fix the subsidy on the nutrients 'N'-Nitrogen, 'P'-Phosphorus, 'K'-Potash and 'S'-Sulphur contents for the year 2010-11. In addition to the fixed subsidy on above mentioned nutrients, there will be an additional per tonne subsidy for subsidized fertilizer carrying other secondary nutrients and micro nutrients in formulations approved under FCO 1985. The subsidy will continue to be disbursed through the industry during the first phase."

10. While taking note of the fact that a Group of Ministers (GoM) constituted on 31 July 2009 was expected to look into the nutrient based subsidy policy and all options of release of subsidy including direct subsidy to farmers, the Committee had desired to be apprised of the position in this regard. The Department have now informed that in accordance with the recommendations of GoM, the Government

have decided to implement Nutrient Based Subsidy (NBS) policy on decontrolled phosphatic and potassic fertilizers *w.e.f.* April, 2010 and the subsidy will be disbursed through the industry during the first phase. The Committee regret to point out that though they had been repeatedly emphasizing the need for payment of direct subsidy to farmers, the Department have so far taken no steps in this direction and the subsidy is to be disbursed to farmers through industry. Considering the importance of the issue, the Committee reiterate that the Department should explore all possibilities for achieving the long cherished goal of direct subsidy to farmers by overcoming any problems/ difficulties and take suitable steps accordingly. The Committee would like to be apprised of the positive steps taken in this regard within three months of presentation of the Report.

C. Allocation of Gas to Fertilizer Industry

(Para No. 77)

11. The Committee, in para 77 of their original Report, had noted that for firm allocation of gas for the new fertilizer projects in the country, policy for enabling conversion of FO/LSHS based units to gas had already been notified on 6 March 2009. The policy envisaged reimbursement of cost of conversion of FO/LSHS units through subsidy. Some of the naphtha based units where the gas pipeline connectivity was available had already been converted to gas. The remaining naphtha based units had not been able to convert to gas due to lack of gas pipeline connectivity and gas availability. According to the Department of Fertilizers, the Ministry of Petroleum and Natural Gas had indicated the target dates of completion for the pipeline connectivity. The Committee had, therefore, desired that the Department of Fertilizers should vigorously pursue the matter with the Ministry of Petroleum and Natural Gas and to ensure that the connectivity schedule was properly honoured. The Committee were of the view that the Department of Fertilizers should also impress upon the Ministry of Petroleum and Natural Gas for a firm commitment towards allocation of gas for the new fertilizer projects in the country to enable capacity additions.

Further, the Committee were concerned to note that their earlier recommendation for nominating a nodal authority in the Ministry of Petroleum and Natural Gas for allocation of gas to the fertilizer industry was yet to be acted upon. The Committee had, therefore, desired that the decision in the matter be expedited and would like to be informed of the outcome.

12. In reply to the aforesaid para, the Department of Fertilizers have stated as under:—

"The demand of natural gas for expansion and revamp of fertilizer plants, revival of closed fertilizer plants has been projected to Ministry of Petroleum and Natural Gas.

So far as nominating a nodal authority in the Ministry of Petroleum and Natural Gas for allocation of gas to the fertilizer industry is concerned, decision in the matter from the Ministry of Petroleum and Natural Gas is awaited."

13. The Committee had desired that the Department of Fertilizers should vigorously pursue the matter of gas pipeline connectivity with the Ministry of Petroleum and Natural Gas and also ensure their firm commitment towards allocation of gas for the new fertilizer projects in the country to enable capacity additions. In their reply the Department have stated that the Empowered Group of Ministers (EGOM) has considered the demand of fertilizer sector and decided that they would be supplied natural gas as and when they are ready to utilize the gas. It was further decided that trunk natural gas pipelines, which are needed to connect Naphtha and FO/LSHS and closed fertilizer plants to source of gas, would be constructed expeditiously. The Committee are of the view that the whole process of revamping expansion and revival of existing urea units and setting up of Greenfield/Brownfield projects depend upon the confirmed and adequate availability of gas at reasonable prices. The Committee, therefore, recommend that the process of natural gas pipeline connectivity should be completed in a time bound and coordinated manner with all the concerned agencies involved in this issue. The precise action initiated in this regard and the progress made should be intimated to the Committee.

Regarding nomination of a nodal authority in the Ministry of Petroleum and Natural Gas, for allocation of gas to the fertilizer industry, the Committee had recommended that the decision in the matter should be expedited by the Department of Fertilizers. According to the Department, the decision from Ministry of Petroleum and Natural Gas is still awaited. The Committee are unhappy to point out that the issue of nominating a nodal authority in the Ministry of Petroleum and Natural Gas for allocation of gas to the fertilizer industry is pending with the Government for a considerable period of time. The Committee desire that the Department of Fertilizers should take up this issue with the Ministry of Petroleum and Natural Gas at the apex level for early decision in the matter.

D. Shortage/Scarcity of fertilizers

(Para No. 86)

14. The Committee, in para 86 of their original Report had noted that there was tightness in the availability of NPK in some states due to low production. The web based Fertilizer Monitoring System available with the Department of Fertilizers was capable of monitoring the supply of fertilizers by manufacturers/suppliers in accordance with the agreed supply plan. The Committee were of the view that the system should be modified/upgraded to take care of scarcity of fertilizers occurring at State levels also so that necessary corrective action should be initiated well in time by the authorities concerned. The Committee would like to be informed of the action taken in the matter. The Committee had also desired that strict action should be taken by the authorities against the offenders/hoarders/dealers and others involved in creating artificial scarcity/black marketing. The Committee would like that a list of offenders/hoarders should be furnished to them and the action taken against each of them.

15. In reply to the aforesaid para, the Department of Fertilizers have stated as under:—

> "Adequate quantity of fertilizers have been supplied to the States to match with the assessed requirement/sales. As such there has been no scarcity of fertilizer at state level. There is some tightness in availability of NPK because of low production and also that these can not be imported as these are not covered under Concession Scheme. The distribution of fertilizers within the state rests with the State government.
>
> Under the Fertilizer (Control) Order, the State governments have been empowered to take action against the offenders/hoarders/dealers involved in black marketing etc." However, the observations of the Standing Committee have been communicated to the State Governments for immediate compliance.

16. The Committee had impressed upon the Department to take strict action against the offenders/hoarders/dealers and others involved in creating artificial scarcity/black marketing and furnish the list of offenders/hoarders to the Committee alongwith action taken against each of them. The Department of Fertilizers have stated that the observations of the Standing Committee have been communicated to the State Governments for immediate compliance. The Committee are not satisfied with such a casual reply. The Department of Fertilizers have neither made any mention of the action taken against the

offenders/hoarders/dealers, if any, involved in creating artificial scarcity of Fertilizers in some States nor furnished any list of offenders/hoarders to the Committee. The Committee, therefore, desire that the details of complaints regarding artificial scarcity of fertilizers during the last three years should be furnished to them without any further delay. The Committee should also be apprised of the initiatives taken by the Department to modify and upgrade the monitoring system at the State level so as to check the problem of artificial scarcity well in time. In order to ensure proper and equitable distribution of fertilizers in all parts of the country, the Committee recommend that Department of Fertilizers should analyse indepth the assessed requirement of fertilizers for each State for the ensuing rabi season and take corrective measures accordingly, well in time.

CHAPTER II

OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1, Para No. 7)

The 26th Report of the Committee on Demands for Grants (2008-09) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) was presented to Lok Sabha on 16 April 2008 and Rajya Sabha on 23 April 2008. The 29th Report of the Committee on Action Taken by the Government on the recommendations contained in the 26th Report was presented to Lok Sabha on 16 December 2008.

The analysis of the Committee on implementation of recommendations by the Government has revealed that out of the total eighteen recommendations, the Department of Fertilizers have implemented only six recommendations, *viz.* recommendations Sl. Nos. (2, 3, 7, 8, 9 and 13) so far, whereas the implementation process with regard to nine recommendations, *viz.* recommendations Sl. Nos. (1, 5, 10, 12, 14, 15, 16, 17 and 18) relating to investment in fertilizer sector, exploring the feasibility of pricing policy, giving priority for allocation of natural gas to fertilizer sector, etc. as per latest information submitted to the Committee, are at various stages of implementation. The Committee, therefore, desire that the Government should implement the remaining recommendations expeditiously. They would also like to be apprised of the conclusive action taken in regard to such recommendations.

Reply of the Government

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

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

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

Reply of the Government (Latest)

The Government has notified on 4th September 2008, a new investment policy for urea sector to attract the much required investment in this sector. The policy is based on IPP benchmark and has been finalized in consultation with the industry. The policy is expected to lead to savings to the Government in the form of availability of urea at a price below IPP and will also lead to indirect savings by bringing down the import price due to reduction in imports. The New Investment Policy aims at revamp, expansion, revival of existing urea units and setting up of Greenfield/Brownfield projects. The policy is likely to substantially bridge the gap in next five years between the consumption and domestic production subject to confirmed and adequate availability of gas at reasonable prices. The salient features of the new investment policy are as under:—

1. The policy is based on Import Parity Price (IPP) benchmarked with suitable floor and ceiling prices of USD 250/MT and USD 425/MT respectively.

2. **Revamp project:** Any improvement in capacity of existing plants through investment upto Rs. 1000 crore, in the existing train of ammonia-urea production will be treated as revamp of existing units. The additional urea from the revamp of existing units will be recognized at 85% of IPP with the floor and ceiling price as indicated above.

3. **Expansion projects:** Setting up of a new ammonia-urea plant (a separate new ammonia-urea train) in the premises of the existing fertilizer plants, utilizing some of the common utilities will qualify for being treated as expansion project. The investment should exceed a minimum limit of Rs. 3000 crore. The urea from the expansion of existing units will be recognized at 90% of IPP, with the floor and ceiling price as indicated above.

4. **Revival/Brownfield projects:** The urea from the revived units of Hindustan Fertilizer Corporation Limited (HFCL) and Fertilizer Corporation of India Limited (FCIL) will be recognized at 95% of IPP with prescribed floor and ceiling price, if the revival of closed units takes placed in public sector.

5. **Greenfield projects:** The pricing of Greenfield projects will be decided based on a bidding process which will be for a discount over IPP, after firming up of the location (States) of the proposed new plants.

6. **Gas transportation charges:** An additional gas transportation cost will be paid to units undertaking expansion and revival on the basis of actuals (upto 5.2 Gcal per MT of urea) as decided by the Regulator (Gas) subject to a maximum ceiling of USD 25 per MT of urea.

7. **Allocation of Gas:** Only non-APM gas will be considered for the new investment in urea sector.

8. **Coal gasification based Urea Projects:** The Coal gasification based urea projects will also be treated on par with a revival or a Greenfield project as the case may be. In addition, any other incentives or tax benefits as provided by Government for encouraging coal gasification technology will also be extended to these projects.

9. **Joint Ventures abroad:** The Joint Venture projects abroad in gas rich countries are also proposed to be encouraged through firm offtake contracts with pricing decided on the basis of prevailing market conditions and in mutual consultation with the joint venture company. However, the principle for deciding upon the maximum price will be the price achieved under Greenfield projects or 95% of IPP as proposed for revival projects (in absence of any Greenfield projects) with a cap of USD 405 CIF India per MT and a floor of USD 225 CIF India per MT (inclusive of handling and bagging costs).

10. **Time period for proposed investment policy:** Only those revamp projects which start production of additional capacities within four years of notification of the new policy would qualify for the dispensation recommended above. Similarly production from expansion and revival (brownfield) units that come about within five years of notification of the new policy would qualify for dispensation provided in the policy. If the production does not come through within the stipulated time period, such brownfield projects will be treated similar to a Greenfield projects wherein price will be decided through limited bidding options. The time period for setting up of new Joint Ventures would also be five years under the new investment policy.

As regards revival of closed units, an Empowered Committee of Secretaries (ECoS) constituted under the Chairmanship of Secretary (Fertilizers) to look into the various options for revival, has recommended Revenue sharing model which is under consideration of the Department.

Recommendation No. 1
(Recommendation No. 11 contained in Report No. 26)

The Committee note that the import of urea on Government account is made to bridge the gap between assessed demand and supply. The State Trading Enterprises arrange imports of urea on behalf of the Government. The Committee find that the imports of urea and DAP has been increased in the year 2005-06 and 2006-07 as compared to 2004-05. The Committee in their earlier Reports have been emphasizing the need for increasing production capacity of fertilizers. Due to delay in declaration of the fertilizers policy, there has been very few investors to come forward to invest in fertilizer sector. This has been resulted into increase of imports year after year. The Committee, therefore, expect from the Government to help the industry in capacity building of fertilizer units so that dependence on imports is minimized.

Reply of the Government

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

Reply of the Government (latest)

The Government has taken various steps to increase the domestic production of fertilizers in the country. The Government has announced a policy for new investments in urea sector on 4th September 2008 which is aimed at revamp, expansion, revival of existing urea units and setting up of Greenfield projects. The policy is expected to completely bridge the gap in next five years between the consumption and domestic production subject to confirmed and adequate availability of gas at reasonable prices. In terms of New Investment Policy, the units *viz.* IFFCO—Aonla-I and II, IFFCO-Phulpur-I and II, Chambal Fertilizers and Chemicals Limited (CFCL)—Gadepan-I and II, Nagarjuna Fertilizers and Chemicals Limited (NFCL)—Kakinada-I and II and the unit of Tata Chemicals Limited—Babrala have informed regarding additional production of urea after revamp. Further, RCF, Thal; KRIBHCO—Hazira and NFL, Vijaipur have undertaken revamp of their units. To encourage the conversion of existing Fuel Oil/Low Sulphur Heavy Stock (FO/LSHS) based urea units to gas, the Department of Fertilizers has notified on 6th March 2009, the policy for conversion and restart of existing urea units to increase indigenous production and also efficiency in production of fertilizers. The conversion of these units will lead to increase in efficiency of urea production in the country and also add to usage of natural gas, which is the most efficient and cleaner fuel/feedstock for production of urea in the country. The Empowered Group of Ministers (EGoM) has considered the demand of natural gas for expansion and revamp of fertilizer plants and revival of closed fertilizers plants and decided that they would be supplied natural gas as and when they are ready to utilize the gas. It was further decided that trunk natural gas pipelines, which are needed to connect Naphtha and FO/LSHS and closed fertilizer plants to source of gas, would be constructed expeditiously.

The Fertilizer companies which are expanding their units and revival of closed units in the country is getting delayed due to lack of pipe linkage of natural gas. Keeping in view the decision of the Government to linkage gas project in these areas as and when they are received, the Department has also considered to review the existing policy for new investment in urea sector for the requisite amendment which can facilitate early decision on expansion of existing urea units and revival of closed fertilizer units in the country.

Recommendation (Sl. No. 2, Para No. 11)

The major fertilizers consumed in India have nitrogenous, phosphatic and potassic based nutrients. Presently, India is the third largest fertilizer producer in the world with the installed capacity as on 31 March 2009 reaching a level of 120.61 lakh MT of nitrogenous and 56.59 lakh MT of phosphatic nutrients. However, the growth of the fertilizer industry has not kept pace with the growing requirement of the fertilizer in the country due to the absence of potassic resources, paucity of raw materials and intermediates in the phosphatic sector and energy deficiency in the nitrogenous sector. This is a matter of serious concern. According to the Department of Fertilizers, with the current finding of natural gas in the country and the projected increase in its availability, the production of nitrogenous fertilizers in India is expected to increase significantly to achieve self sufficiency in the nitrogenous sector by the country. However, keeping in view the vital role played by chemical fertilizers as one of the key inputs for the success of agriculture in the country, the Committee feel that there is an urgent need for suitable steps to be taken by the Department to ensure a sustained growth of the fertilizer industry as a whole. The Committee, in this regard, desire that the Department should vigorously pursue the issues regarding suitable and uninterrupted allocation of natural gas and laying of gas pipeline with the Ministry of Petroleum and Natural Gas. The Committee are of the view that with the increased allocations of gas to the fertilizer sector, the manufacturing cost of the fertilizer will also go down and the amount thus saved can be better utilized for the growth of the fertilizer industry. At the same time a balanced use of fertilizers is also essential for increasing foodgrain production in the country. Therefore, considering the feedstock/raw materials constraints and also the need to have a balanced fertilizer availability in the country, the Committee recommend that the Government should further explore the possibilities for establishing joint venture production facilities with buy back arrangement, in other countries, which have rich resources of feedstock/raw materials like natural gas, rock phosphate, etc.

Reply of the Government

The issue of suitable and uninterrupted allocation of Natural Gas from KG-D6 Basin to fertilizer sector and laying of gas pipelines has been taken up with the Ministry of Petroleum and Natural Gas. These issues were also discussed in the meetings of Empowered Group of Ministers (EGoM) constituted under the Chairmanship of Finance Minister to consider and decide issues of commercial utilization of gas under NELP and other related matters. The Government has already accorded the "highest priority" to fertilizer sector in allocation of natural gas in the country. Further, the Government has decided that natural gas to revamp, expansion and revival project, in fertilizer sector will be allocated as and when they are ready to receive. The Department has been regularly taking up the issue raised by the industry in this regard with Ministry of Petroleum and Natural Gas for early resolution. With regard to setting up of joint venture production facilities with buy back arrangement in countries having rich resources of feedstock/raw materials, efforts are being made through Ministry of External Affairs and Indian Embassies/High Commissions. Further, the New Investment policy in urea sector also provides for setting up joint venture abroad and entering into long term buy back arrangements of urea from such joint ventures. The recommendation of the Committee has been noted by the Department.

Recommendation (Sl. No. 3, Para No. 18)

The Committee are deeply concerned to note that there has been negligible major investment in the fertilizer sector for over a decade. The last major investment in nitrogenous sector was in the year 1999 and that in the phosphatic sector was in the year 2002. Fresh investments have eluded this sector mainly due to raw materials/inputs constraints which, in turn, have made the country more dependent on imports to meet its growing requirements. Adding to the woes, the capacity utilization, both in nitrogenous as well as phosphate segments, has reached an all time low in the last two years. Undoubtedly, there is an urgent need not only to ensure maximum capacity utilization, but also to augment the existing capacity build-up. In this connection, the Committee note that the Government have announced a new investment policy for the fertilizer sector (urea) on 4 September 2008. The Department of Fertilizers have stated that the fertilizer industry has responded positively towards the new investment policy. According to them, the existing fertilizer companies have initiated revamp of their present units and some of them have expressed their interest towards expansion of their existing plants subject to assured availability of gas. The Committee recommend that the Department of Fertilizers should make all out efforts to extend possible assistance in co-ordination with other Ministeries/Departments with a view to ensuring not only higher indigenous production of fertilizers but also to reduce our dependence on imports.

Reply of the Government

The Government has taken various steps to increase indigenous production of fertilizers in the country. The Government has announced a policy for new investments in urea sector on 4th September 2008 which is aimed at revamp, expansion, revival of existing urea units and setting up of Greenfield projects. The policy is expected to completely bridge the gap in next five years between the consumption and domestic production subject to confirmed and adequate availability of gas at reasonable prices. In terms of New Investment Policy, the units *viz.* IFFCO—Aonla-I and II, IFFCO—Phulpur-I and II, Chambal Fertilizers and Chemicals Limited (CFCL) - Gadepan-I and II, Nagarjuna Fertilizers and Chemicals Limited (NFCL) - Kakinada-I and II and the unit of Tata Chemicals Limited-Babrala have informed regarding additional production of urea after revamp. Further, RCF, Thal; KRIBHCO—Hazira and NFL, Vijaipur have undertaken revamp of their units. To encourage the conversion of existing Fuel Oil/Low Sulphur Heavy Stock (FO/LSHS) based urea units to gas, the Department of Fertilizers has notified on 6th March 2009, the policy for conversion and restart of existing urea units to increase indigenous production and also efficiency in production of fertilizers. The conversion of these units will lead to increase in efficiency of urea production in the country and also add to usage of natural gas, which is the most efficient and cleaner fuel/feedstock for production of urea in the country. The Empowered Group of Ministers (EGoM) has considered the demand of natural gas for expansion and revamp of fertilizer plants and revival of closed fertilizers plants and decided that they would be supplied natural gas as and when they are ready to utilize the gas. It was further decided that trunk natural gas pipelines, which are needed to connect Naphtha and FO/LSHS and closed fertilizer plants to source of gas, would be constructed expeditiously.

The Fertilizer companies which are expanding their units and revival of closed units in the country is getting delayed due to lack of pipe linkage of natural gas. Keeping in view the decision of the Government to linkage gas project in these areas as and when they are received, the Department has also considered to review the existing policy for new investment in urea sector for the requisite amendment which can facilitate early decision on expansion of existing urea units and revival of closed fertilizer units in the country.

Recommendation (Sl. No. 4, Para No. 29)

The Committee note that for the Eleventh Five Year Plan (2007-12), Planning Commission has approved an outlay of Rs. 20,627.87 crore consisting of Rs. 1,492.00 crore as Domestic Budgetary support and Rs. 19,135.87 as Internal and Extra Budgetary Resources (IEBR). The present allocation of funds by the Planning Commission will be utilized for taking up the approved schemes of underperforming fertilizer PSUs and research activities by renowned technical/research institutes. The Committee have been informed that three major projects, *viz.* revival of sick and closed fertilizer units, capital subsidy for conversion of feedstock changeover projects and S&T schemes have been taken up by the Department during the Eleventh plan period. The Committee's examination, however, revealed that out of the total outlay of Rs. 20,627.87 crore during the 11th Plan, the allocation during the BE stage of the first three years, *viz.* 2007-2008, 2008-2009 and 2009-10 amounted to Rs. 1,037.96 crore, Rs. 1,924.93 crore and Rs. 2,269.56 crore, respectively making a total of Rs. 5,232.45 crore. The allocations at RE stage during 2007-08 and 2008-09 were further brought down to Rs. 436.71 crore and Rs. 728.67 crore respectively. In other words, more than 80% of the plan outlay is yet to be allocated and will have to be sanctioned and utilized in the remaining two years of the plan. The Committee are dismayed over such an unrealistic approach which would jeopardize the whole planning process in a vital sector of the economy. They desire that necessary steps should be taken at least in future with a view to ensuring appropriate and methodical allocation of approved outlays so that the Department can and implement the targeted programme/activities in a scientific manner.

What has further caused concern to the Committee is that the actual utilization of funds by the Department of Fertilizers had also been equally unsatisfactory. The Committee find that as against Rs. 1,037.96 crore (BE) sanctioned in 2007-08 and Rs. 1,924.93 crore (BE) sanctioned in 2008-09, the utilization was only Rs. 263.34 crore and 587.76 crore, respectively. The Committee also observe that the major allocation of funds in the year 2009-10, *i.e.* Rs. 988.05 crore (approximately 43%) has been made for Rashtriya Chemicals and Fertilizers Limited (RCF) against which the actual expenditure till August 2009 is Rs. 54.58 crore only. Similarly, against the allocation of Rs. 550.15 crore for National Fertilizers Limited (NFL), the actual expenditure till August 2009 is Rs. 13.91 crore only. Pertinently, the utilization of funds allocated to these two organizations in the first two years of the 11th plan had been around 50% only. This clearly speaks about the poor performance of Department in the utilization of plan allocation which is unfortunate, to say the least. The Committee feel that there is an imperative need for planned and progressive utilization of the sanctioned outlays so that the set objectives are fully achieved. To ensure this, the Committee recommend that the Department should review the progress of all plan projects on a regular basis for their timely completion in a more effective manner and submit a status report to the Committee.

Reply of the Government

Eleventh Plan projections of Department of Fertilizers consist of two category of expenditure; (i) Gross Budgetary Support (GBS), which is provided by Government out of allocation made to Department of Fertilizers by the Planning Commission under various Annual Plans; and (ii) Fertilizer PSUs/cooperative plan their own capital expenditure and mobilize resources to meet their own expenditure through Internal and Extra Budgetary Resources (IEBR).

The Gross Budgetary Support provided by the Government is basically allocated to three loss making PSUs; namely Madras Fertilizers Ltd. (MFL), Fertilizers and Chemicals Travancore Ltd. (FACT) and Brahamputra Valley Fertilizer Corporation Ltd. (BVFCL). Five profit making companies; namely FCI Aravali Gypsum and Minerals India Ltd. (FAGMIL), National Fertilizers Ltd. (NFL), Projects and Development India Ltd. (PDIL), Rashtriya Chemicals and Fertilizers Ltd. (RCF), and Krishak Bharti Cooperative Ltd. (KRIBHCO), generate their own resources through IEBR for their capital expenditure planned for revamp, expansion, debottlenecking and any other capital related expenses.

As mentioned, Eleventh Plan outlay, as approved, consist of Rs. 1492 crores as Gross Budgetary Support (GBS) and Rs. 19135.87 crores as Internal and Extra Budgetary Resources (IEBR). It may, therefore, be seen that bulk of outlay projections during Eleventh Plan are supposed to be met by profit making companies through their own resources for various activities during the Five Year Plan period.

Eleventh Plan projections were made at the beginning of the Eleventh Plan keeping in view the investment environment, policy framework expected during medium term and likely international environment. Annual Plans are then framed according to investment priorities, immediate requirement and future projections of market behavior, availability of raw material as well as investment climate.

As desired by Standing Committee, the Annual Plan projections as well as expenditure during 2007-08, 2008-09 and likely expenditure in 2009-10 have been reviewed, company-wise and scheme-wise, for each of first three years of Eleventh Five Year Plan.

In case of GBS, expenditure was realized as per allocation made by Planning Commission out of Government budgetary support, except in 2008-09 when Rs. 150 crores earmarked for conversion of FO/LSHS plants could not be utilized since investment policy for conversion of these plants was not finalized by the government. The earlier proposed policy for capital grant to these plants has now been changed and as per latest policy, government has approved a Non-Plan scheme for meeting the investment requirements for conversion of these plants. It is expected that Rs. 200 crores allocated for 2009-10 as GBS will be spent.

Regarding IEBR, a detailed review of company-wise/scheme-wise Annual Plans for the years 2007-08, 2008-09 and 2009-10 revealed that various schemes of profit making companies could not be taken up due to variety of reasons, some of which are given below.

RCF projected Plan expenditure of Rs. 253.24 crores during Annual Plan of 2007-08, against which only Rs. 118.57 crores was actually spent. The shortfall was observed in case of DAP project, carbon recovery, ammonia revamp, additional ammonia/urea at Thal, upgradation of methanol plant, Gypcrete project and ANP modifications. These projections were delayed because of technical, financial and operational reasons. DAP project, ammonia revamping, additional ammonia and urea at Thal and ANP modifications were again planned during Annual 2008-09. During 2008-09, as against an outlay of Rs. 469.06 crores, only Rs. 241.83 crores were actually spent. The DAP project could not be taken up due to volatility in input prices like rock phosphate and sulphur in the international market which made the whole project unviable. Ammonia revamping scheme was modified due to new urea policy announced by the Government for revamp and expansion in September 2008. Similarly, additional ammonia and urea at Thal could not be fructified due to further study of financial viability. ANP modification expenditure was not realized as planned due to delay in engineering and procurement work-order. Similarly, no expenditure was incurred on scheme of joint ventures since no viable proposal could be tied-up. The budgeted outlay for the year 2009-10 (BE) was Rs. 988.05 crores. This was subsequently revised to (RE) Rs. 250.68 crores. This revision was necessitated on account of deferment of major projects like Additional Ammonia-Urea at Thal, DAP project in Rajasthan, Real Estate Development etc. and rescheduling of certain expenditure like Thal Ammonia Revamp Project. The revised outlay for 2009-10 is Rs. 250.66 crores against which only Rs. 90.72 crores up to November 2009 has been actually spent. The actual expenditure report is up to November 2009 and the shortfall is likely to be made up. For the project already under implementation like Ammonia revamping, Methanol Upgradation etc. the outlay provided will be sufficient. However, developmental project like Joint Venture abroad, Feasibility studies etc. the expenditure may be lower than the provision made.

In case of NFL, their major scheme of change-over of feedstock at Bhatinda, Nangal and Panipat could not be taken up during 2007-08 since policy for financing of the project was not finalized. Another major scheme of revamp of Vijaipur-I could not take off and was postponed to 2008-09 after policy for new investment in urea sector was announced. During 2008-09, the planned investment was Rs. 154.25 crores. However, NFL realized only Rs. 48.05 crores during this Plan mainly because Rs. 105 crores envisaged for investment on conversion of FO/LSHS plants to gas could not take off again because of non-finalization of policy. Government has now finalized the policy and it is hoped that bulk of the investment will be incurred in next couple of years. During 2009-10, the Plan expenditure was initially projected at Rs. 550.15 (BE) which has since been reduced to Rs. 139.25 crores (RE) because of revised projections of investment on Major Schemes such as conversion of FO/LSHS plants to gas based, revamp of Vijaipur-I and capacity enhancement at Vijaipur-II. Also, installation of CDR, which was earlier planned for 2009-10, will now be taken up along with the capacity enhancement projects which will take couple of years more.

In case of KRIBHCO, outlays for projects such as Hazira expansion/joint ventures planned during 2007-08 could not be started due to financial non-viability of project in absence of any clear government policy. Plan expenditure on Hazira expansion during 2008-09 again could not be spent due to late announcement of new investment policy for urea. However, during 2008-09, KRIBHCO invested around Rs. 240 crores as additional equity participation in GSEG and KSFL. During 2009-10, KRIBHCO initially projected a Plan outlay of Rs. 497 crores (BE) which is now revised to Rs. 421.50 crores (RE). Company has assured that they will be able to meet Annual Plan expenditure target during 2009-10.

PDIL has more or less achieved its Annual Plan targets, rather they will exceed the Plan expenditure of Rs. 5.35 crores projected at the beginning of 2009-10 (BE) and will now spent Rs. 8.38 crores (RE) during 2009-10.

FAGMIL under-spent their annual Plan expenditure projection during 2007-08 and 2008-09 because Plan expenditure on wind energy project was deferred due to risk involved and postponement of expenditure on construction of office building due to delay in handing-over of land. Plan expenditure during 2009-10 has now been revised to Rs. 4.35 crores since schemes such as wind energy, potash mining and office building were not taken up.

During the review, it was impressed upon the companies that they should realistically project their Annual Plan expenditure and all steps should be taken to meet the Plan capital expenditure targets. Companies have assured that they will try to achieve the projected Plan expenditure during 2009-10 and realistic projections would be made in future. Department of Fertilizers will further review Plan expenditure during Quarterly Review Meetings of each PSU under the Chairmanship of Secretary (Fertilizers) on a regular basis.

Recommendation (Sl. No. 5, Para No. 32)

The Committee note that Parliament has since voted an amount of Rs. 53,800.50 crore (gross) to defray the expenditure for the Department of Fertilizers for the year 2009-10. Out of this, Rs. 200 crore are meant for the plan and Rs. 53,600.50 crore for the non-plan expenditure. During the preceding financial year, *i.e.* 2008-09, the provision of Rs. 34,381.55 crore during BE stage had to be revised to Rs. 1,00,541.17 crore at RE stage. This was because of the unprecedented rise in the international prices of fertilizers which the Department could not foresee. Explaining the reasons for reduced allocation during the year 2009-10, the Department of Fertilizers stated that this situation has since changed. However, the Department have maintained that the allocation in the current year would be about Rs. 24,000 crore less than what they had asked for on account of the requirement of subsidy. The Committee hope that Government will take a realistic view in the matter particularly keeping into account the need for ensuring that the carry over liability on account of subsidy does not go on increasing year after year. On their part, the Department of Fertilizers should also keep a strict watch and control over factors impacting budgetary allocations and expenditure thereon.

Reply of the Government

Budgetary allocations for fertilizer subsidy budget depend on the requirement of various fertilizers under the subsidy/concession regime as assessed by Department of Agriculture and Cooperation as also prices of raw-material/inputs for these fertilizers in the domestic and international market. The D/o Fertilizers keeps a continuous vigil on the requirements of fertilizer subsidy by regular monitoring so as to optimize sourcing of fertilizers with a view to keep the subsidy level to the minimum. Expenditure on subsidy budget is also monitored by the Department on continuing basis. In the past years, there has been a gap between the requirement of funds for fertilizer subsidy and the allocations made, due to constraints of the available budgetary resources. However, all efforts are made to bridge the gap between requirement of subsidy and budgetary allocations.

Recommendation (Sl. No. 6, Para No. 35)

The Committee note that the provision for the Secretarial Services have almost been double that of the actual expenditure for the year 2007-08. The Department of Fertilizers have attributed the rise on this score *inter-alia* to the implementation of the recommendations of the Sixth Pay Commission, foreign tour expenses, increase in charges of inspection of Single Super Phosphate (SSP) units, etc. The Committee hope that the Department would be strictly observing the Government's austerity measures and desire that a continuous watch be kept over the expenditure on this account so that such non-plan expenditures are subjected to proper control and also ensuring at the same time that the production programmes of the fertilizer sector are not hampered.

Reply of the Government

The increase in expenditure under Secretariat Economic Services during the Year 2008-09 and 2009-10 have mainly occurred in the Minor Head Salaries due to payment of arrears on account of implementation of Sixth Central Pay Commission, in Minor Head Professional Services due to increase in charges of inspection of SSP Units and undertaking a study in Uniform Price Mechanism for Urea and other Minor Heads such as Office Expenses, Advertising and Publicity and Medical Treatment etc. this is clear from following table:—

(Rs. in lacs)

Year	Total	Salaries	Professional Services	Office Expenses	Others
2007-08*	890.21	545.59	78.40	127.97	138.25
2009-10**	1722.00	1188.30	170.00	185.00	178.70

*Actual Exp.
**RE of 2009-10

The Department of Fertilizers would be strictly observing the Government's austerity measures and would keep a continuous watch over the expenditure on this account with a view to ensuring that such non-plan expenditures are subjected to proper control and would also ensure at the same time that the production programmes of the fertilizer sector are not hampered.

Recommendation (Sl. No. 8, Para No. 49)

The Committee have time and again emphasized the need for direct payment of subsidy to the farmers. They have now been informed that an Inter Ministerial Group with Secretary (Fertilizers) as Chairman and Secretaries of Department of Expenditure, Agriculture and Planning Commission as members, was constituted in November 2008 to look into all aspects of fertilizer subsidy regime. The Committee note that the IMG recommended to implement a nutrient based subsidy regime wherein the farmgate prices of fertilizers are decontrolled and subsidy is fixed for each fertilizer based on nutrient content therein. According to the IMG, the new regime can be carried on till such time when authenticity of land records allows them to move towards disbursement of fertilizer subsidy as direct cash transfer to the farmers bank account based on land record details. The Committee have also been informed that a Group of Ministers (GoM) has been constituted on 31 July 2009 to look into the nutrient based subsidy policy and measures for rationalization of fertilizer subsidy disbursement with the objective to promote balanced fertilization. According to the Department of Fertilizers, the GoM is expected to look into all options of release of subsidy including direct subsidy to farmers. The Committee hope that the whole exercise will be expeditiously completed and would like to be informed of the progress made in the matter.

Reply of the Government

The Group of Ministers (GoM) constituted on 31st July 2009 to examine the Nutrient based subsidy policy and measures for rationalization of fertilizer subsidy disbursement in its meeting held on 20th January 2010 considered the matter relating to NBS including the issue of direct subsidy to farmers. The GoM *inter-alia,* recommended that the first phase of NBS policy for decontrolled P&K fertilizers can be implemented *w.e.f.* 1st April, 2010.

The Government has decided to implement the Nutrient Based Subsidy (NBS) Policy on decontrolled Phosphatic and Potassic fertilizer with effect from 1st April, 2010. It has been decided to fix the subsidy on the nutrients 'N'-Nitrogen, 'P'-Phosphorus, 'K'-Potash and 'S'-Sulphur contents for the year 2010-11. In addition to the fixed subsidy on above mentioned nutrients, there will be an additional per tonne subsidy for subsidized fertilizer carrying other secondary nutrients and micro nutrients in formulations approved under FCO 1985.

The subsidy will continue to be disbursed through the industry during the first phase.

Recommendation (Sl. No. 9, Para No. 53)

The Committee note that fertilizer bonds are issued by the Ministry of Finance *in lieu* of cash release of fertilizer subsidy. However, the fertilizer industry has been unwilling to take fertilizer bonds *in lieu* of cash as it has additional financial implications for the companies. The Department of Fertilizers have maintained that issue of bonds which has led to losses to the companies does not seem to be appropriate. According to them, the subsidy/concession does not account for any loss incurred on discount of bonds. The Committee have been informed that to insulate the companies from losses on fertilizer bonds the Department have proposed five different alternatives for consideration by the Ministry of Finance. The Committee have been given to understand that the proposal has not been concurred to by the Ministry of Finance and the issue is now proposed to be placed before the GoM. The Committee desire that the proposals made by the Department of Fertilizers should be examined in all their implications so as to provide adequate support to fertilizer companies and minimize losses to them due to fertilizer bonds.

Reply of the Government

The issue of losses to fertilizer companies due to release of fertilizer bonds during 2007-08 and 2008-09 is being followed up with the Ministry of Finance for early resolution.

Recommendation (Sl. No. 10, Para No. 57)

The Committee have been informed that the primary objective of the Concession Scheme for decontrolled Phosphatic and Potassic (P&K) fertilizers is to make fertilizers available to the farmers at affordable prices. The concession scheme also provides the methodology for computing the admissible concession/subsidy over the MRP which is payable to the producer/importer. While appreciating the steps taken by the Government in this regard, the Committee desire that the Government should ensure timely and sufficient availability of the decontrolled fertilizers in the remote and the inaccessible areas particularly where the fertilizer consumption level is presently very low. In order to keep a check on the availability of decontrolled fertilizers, the Committee recommend that the Department should keep a watch and monitor the movement of these fertilizers. Considering the essentiality of P&K fertilizers for continuous augmented foodgrain production and to achieve self sufficiency, the Committee recommend the continuance of this scheme so that the costly fertilizer remain within the reach of the small and marginal farmers.

Reply of the Government

Department of Fertilizers is administering Concession Scheme for decontrolled P and K fertilizers with the objective to provide fertilizers to the farmers at the affordable prices. Accordingly, the fertilizers (DAP, MOP, NPK Complexes, MAP, TSP, Ammonium Sulphate (AS) and SSP) are provided to the farmers at the subsidized prices. The MRP of the fertilizers is invariably below the delivered cost and the difference between the MRP and the delivered cost is provided to the manufacturers/importers in the form of concession.

During 2008-09, *w.e.f.* 1.4.2008, Government has implemented Concession Scheme for decontrolled P&K fertilizers. Import parity price has been provided to indigenous DAP and concession for imported and indigenous DAP is the same. The price of phosphorus 'P' applicable for complex fertilizers is based on the derived price of 'P' from the delivered cost of DAP, as above. As such, the price of 'P' is also based on import parity price. To broad base the basket of Phosphatic fertilizers, Triple Super Phosphate (TSP) has been included under the Concession Scheme *w.e.f.* 1.4.2008 and indigenous Ammonium Sulphate produced by FACT and GSFC have been included under the Concession Scheme *w.e.f.* 1.7.2008.

During 2009-10, *w.e.f.* 1.4.2009, the Government of India has continued the existing Concession Scheme for decontrolled P&K fertilizers (except SSP for which a separate scheme of concession is administered) with the following modifications in certain elements in the Concession Scheme on decontrolled P&K fertilizers:—

W.e.f. 1.4.2009, monthly rates of concession for DAP/MAP/TSP and MOP is worked out taking into account the average international price of the month preceding the last month or the actual weighted average C&F landed price at the Indian Ports for the current month, whichever is lower. In case of prices of raw materials/inputs for complex fertilizers, the one month lag as existing would continue.

W.e.f. 1.12.2008, the payment of concession is made to the manufacturers/importers of decontrolled P and K fertilizers (except SSP) on the basis of arrival/receipt of fertilizers and certificate of receipt by the State Government and sale of fertilizers by the company duly certified by Statutory Auditors.

Instead of product-wise, group-wise 'N' for computation of concession for complex fertilizers would be adopted w.e.f. 1.4.2009.

The Government has approved the continuation of the Buffer Stocking Scheme *w.e.f.* 1.4.2008 onwards and has also allowed to continue in 2009-10 for DAP and MOP. A total of 3.5 lakh MT of DAP and 1 lakh MT of MOP is to be imported on Government account and kept under buffer stock during the year 2009-10 by M/s. Indian Potash Ltd. This aims at fulfilling the requirement of the fertilizers wherever required. The availability of fertilizers is being monitored by Department of Fertilizers. The cumulative requirement, availability and sales of Urea, DAP, MOP and complex fertilizers during the year 2009-10 (April, 2009 - January, 2010) is as annexed.

Recommendation (Sl. No. 11, Para No. 63)

The Committee have been informed that the Government announced a scheme for concession for Single Super Phosphate (SSP) based on input (rock and sulphur) cost *w.e.f.* 1 May 2008. A fresh policy for subsidy for SSP has been announced *w.e.f.* 1 October 2009 under which an *ad hoc* subsidy of Rs. 2,000 per MT will be provided for SSP sold to the farmers. According to the Department of Fertilizers, the new policy seeks to enable wider reach of SSP in the country based on movement and distance and its selling price has been left open. The Committee hope that this open ended policy will not adversely affect the interests of the farmers in terms of availability and price. This is all the more important in the case of SSP, which is considered to be the fertilizer of the poor farmers. The Committee, therefore, recommend that the Department should keep a close watch over the impact of the new policy and take such action as deemed necessary to safeguard the interests of the poor and the marginal farmers. The Committee should also be kept informed.

Reply of the Government

Department of Fertilizers announced revised policy on 13.8.2009 for *ad hoc* concession for Single Super Phosphate (SSP) *w.e.f.* 1.10.2009. The salient features of this policy are as follows:—

In place of the existing all India MRP of 3400 PMT for powdered SSP, the MRP of SSP has been left open *w.e.f.* 1.10.2009 for powdered, granulated and boronated SSP.

The Government will provide an *ad hoc* concession for an amount of Rs. 2000 PMT for powdered, granulated and boronated SSP *w.e.f.* 1.10.2009. 'On Account' payment of concession of 85% for sales for SSP *w.e.f.* 1.10.2009 will be made on the basis of the claim submitted by the eligible manufacturer/marketer of SSP in prescribed Proforma 'A' and 'C' certified by the statutory auditor on the sales of SSP. The balance 15% payment would be made to the manufacturer/marketer after certification of sales in prescribed proforma by the State Governments wherein SSP has been sold. The State Governments are also required to certify that the bags of SSP sold in the State contained the stamp 'Quality Certified'.

The State in which the SSP units are located are required to inspect and certify the quality of SSP at the point of production in their States for enabling the manufacturer/marketer of SSP to claim on account subsidy.

Department of Fertilizers would continue to monitor the quality and other details as at present through the six monthly inspections conducted by M/s. Project Development India Ltd. (PDIL), a Public Sector Undertaking.

Ad hoc concession for SSP *w.e.f.* 1.10.2009 will be provided to those SSP units only, which have either annual capacity utilization of at least 50% or annual production of 40,000 MTS of SSP reckoned from 13.8.2009. The period of three months from the date of notification *i.e.* 13.8.2009 on *pro-rata* basis will be taken into account for capacity utilization/ production benchmark for *ad hoc* subsidy on SSP *w.e.f.* 1.10.2009. This date benchmark could be reconsidered by the Department on case to case basis. For the purpose of recognizing capacity utilization/ production, installed capacity of the units as on 31.3.2009, will be taken into account.

Based on the information collected from the units, it is observed that the SSP has been sold by the manufacturers at the MRP, which ranged from Rs. 4000 to Rs. 5500 per MT. The policy is being stabilized and the exact results of the SSP policy shall come up in due course of time. The production of SSP during October, November, December, 2009 was 2.76 lakh MTs., 2.16 lakh MTs and 1.63 lakh MTs respectively.

Recommendation (Sl. No. 12, Para No. 68)

The Committee have been informed that Stage-III of the New Pricing Scheme (NPS) is under implementation with effect from 1 October 2006 which will end on 31 March 2010. The Committee are happy to note that under the NPS, results of individual units have been updated leading to better results in production of urea. As regards the future strategy, the Committee have been informed that apart from the proposed Nutrient Based Subsidy Regime (NBSR), the Department of Fertilizers are also contemplating the possibility of a new pricing scheme for indigenous urea units as an alternative measure. A report on a study conducted by Projects and Development India Ltd. along with Pricewaterhouse Cooper in this regard is under examination in the Department. Since the third phase of NPS ends on 31 March, 2010 the Committee recommend that all the available options should be worked out and an appropriate decision taken expeditiously so as to facilitate the energy efficient units to produce urea at reduced conversion cost, thus resulting in augmented production. The Committee would like to be intimated about the progress made in this regard.

Reply of the Government

Department of Fertilizers has constituted an Inter-Ministerial Working Group to review the effectiveness of Stage-III of New Pricing Scheme for urea units and to formulate a policy for urea units beyond 31-03-2010. The first meeting of the Inter-Ministerial Working Group was held on 6th January 2010. In brief, it was decided that the Fertilizers Association of India will nominate the industry representative on the Inter-Ministerial Working Group and the industry should firm up their view on the actual recommendations made in the study conducted by the PDIL with M/s. Price Water Coopers (PWC) towards normative pricing regime in urea sector. Next meeting of the IMG is scheduled to be held shortly.

Recommendation (Sl. No. 13, Para No. 77)

Natural gas is considered to be more cost effective in the production of urea. However, about 34% of urea production in the country is still based on other feedstocks like naphtha, Fuel Oil (FO), Low Sulphur Heavy

Stock (LSHS), etc. Under the New Pricing Scheme—Stage-III, all non-gas based units are required to convert to gas by March 2010. The Committee observe that the policy for enabling conversion of FO/LSHS based units to gas has already been notified on 6 March 2009. The policy envisages reimbursement of cost of conversion of FO/LSHS units through subsidy. Some of the naphtha based units where the gas pipeline connectivity is available have already converted to gas. The remaining naphtha based units have not been able to convert to gas due to lack of gas pipeline connectivity and gas availability. However, according to the Department of Fertilizers, the Ministry of Petroleum and Natural Gas have indicated the targeted dates of completion for the pipeline connectivity. The Committee desire that the Department of Fertilizers should vigorously pursue the matter with the Ministry of Petroleum and Natural Gas and ensure that the connectivity schedule is properly honoured.

The Department of Fertilizers should also impress upon the Ministry of Petroleum and Natural Gas for a firm commitment towards allocation of gas for the new fertilizer projects in the country to enable capacity additions.

The Committee regret to observe that their earlier recommendation for nominating a nodal authority in the Ministry of Petroleum and Natural Gas for allocation of gas to the fertilizer industry is yet to be acted upon. The Committee desire that the decision in the matter be expedited and would like to be informed of the outcome.

Reply of the Government

The demand of natural gas for expansion and revamp of fertilizer plants, revival of closed fertilizer plants has been projected to Ministry of Petroleum and Natural Gas. The Empowered Group of Ministers (EGoM) has considered the demand of fertilizer sector and decided that they would be supplied natural gas as and when they are ready to utilize the gas. It was further decided that trunk natural gas pipelines, which are needed to connect Naphtha and FO/LSHS and closed fertilizer plants to source of gas, would be constructed expeditiously.

So far as nominating a nodal authority in the Ministry of Petroleum and Natural Gas for allocation of gas to the fertilizer industry is concerned, decision in the matter from the Ministry of Petroleum and Natural Gas is awaited.

Recommendation (Sl. No. 14, Para No. 82)

Equitable and need based distribution of fertilizers in all parts of the country is the *sine qua non* for facilitating increased production and productivity in the agriculture sector. At present, the Department of Fertilizers are required to ensure availability of urea, which is the only fertilizer under price control, as per the requirement assessed by the Department of Agriculture and Co-operation. The availability of the decontrolled fertilizer is decided by the market forces of demand and supply. However, the monthly supply plan of the decontrolled fertilizers are also required to be reviewed by the Department of Fertilizers with the suppliers. The Committee are surprised that the Department of Fertilizers have maintained that the State Agriculture Departments give District-wise supply plan to the suppliers of the fertilizers to the State and that the States are responsible for distribution within the areas of their respective jurisdiction. The Committee feel that the Department cannot altogether exonerate themselves from their responsibility in the matter. The Committee desire that with the technological assistance now available, the Department should make their Fertilizer Monitoring System more effective and should ensure proper coordination with State Agriculture Departments with a view to ensure proper and equitable distribution of fertilizers in all parts of the country.

Reply of the Government

Fertilizer Monitoring System (FMS) is being used very effectively to monitor the availability of the fertilizers namely Urea, DAP, MOP and NPK fertilizers in all the districts in the country. The payment of subsidy/ concession is made only on receipt of the fertilizers, duly captured in the FMS. The State Governments are also monitoring the availability of fertilizers through FMS only. Besides, the Department of Fertilizers is monitoring the availability of fertilizers on daily basis by contacting all the major fertilizer consuming states.

Recommendation (Sl. No. 16, Para No. 88)

The Committee have been informed that India is by and large import dependent for meeting its requirement of P&K fertilizers either by import of fertilizers or the fertilizer inputs. The Committee are happy to note that the Government have been encouraging Indian companies to establish joint venture projects in other countries which have rich resources of natural gas and rock phosphate as this would definitely help in augmenting the supply of fertilizers ultimately leading to increase in food production. The Committee, however, observe that only a token amount of Rs. 1 lakh has been provided in the BE 2009-10 as there is no firm proposal in the hands of the Department right now. The

Committee, desire that Government should continue and encourage this practice and explore the possibilities of new JVs which could help in making available assured sources of supply of fertilizers. The Committee feel that certain incentives could also be offered to Indian companies to set up joint ventures abroad.

Reply of the Government

The Department of Fertilizers is providing all cooperation to assist both the Public as well as Private sector entities to set up long term Joint Ventures abroad for securing the availability of cheaper raw materials for P&K Fertilizers for the country with the objective of security of quantity and price advantage. The Department of Fertilizers with the cooperation of other Ministries/Departments of the Government and the High Commissions/Embassies of India abroad, creates platform by gathering relevant information about availability of fertilizers resources available in different countries in the World so as to enable the public as well as the private sector companies to work on possibilities of fertilizer Joint Ventures abroad. In pursuance of the above objective recently the Ministry of External Affairs, on request of the Department of Fertilizers, have agreed to bear the financial cost of the Consultancy being undertaken by the Indian consortium led by M/s. MECON with M/s. RITES and PDIL for Technical, Economical and Environmental Study for production of Phosphate for General Company for Fertilizers and General Company for Phosphate (GECOPHAM) in Syria. The studies are proposed to be completed during the current year 2010.

Recommendation (Sl. No. 17, Para No. 92)

The Committee note that the annual consumption of fertilizers in nutrient terms (N, P&K) has increased from 0.7 lakh MT in 1951-52 to 225.70 MT in 2007-08. Similarly, the per hectare consumption of fertilizers has increased from 0.49 kg per hectare in 1951-52 to 117.07 kg per hectare in 2007-08. While this increase has indeed been steady over the years, it is somewhat surprising that the average consumption of fertilizers in our country at 117.07 kg per hectare is much below than the agriculturally developed countries (China 289.10 kg per hectare, Egypt 555.10 kg per hectare) and even that of Bangladesh (197.6 kg per hectare). The Committee, therefore, recommend that the issue of low average consumption of fertilizers should be thoroughly looked into including the factors arising out of soil conditions, nutrient content, cropping pattern, etc. and appropriate measure be taken to enhance the consumption level and thereby agricultural production and productivity.

Reply of the Government

Requirement of Fertilizers

The Department of Agriculture and Cooperation makes assessment of requirement of major fertilizers namely Urea, DAP, MOP and complex fertilizers before each cropping season, namely Kharif (1st April to 30th September) and Rabi (1st October to 31st March). The assessment is done in Zonal Conferences on Agricultural Inputs organized by Department of Agriculture and Cooperation with participation of State Governments, Department of Fertilizers, the Fertilizer Association of India, Lead Fertilizers Suppliers and the other fertilizer industry representatives. The assessment is made based on the requirement projected by the State Governments/UTs, past consumption, weather conditions, targeted area, cropping pattern, area under irrigation etc.

Consumption of Fertilizers

The consumption of chemical fertilizers (in terms of nutrients) during 2008-09 was 249.09 lakh metric tonnes (LMT), which is higher by 10.63% over 2007-08 consumption. The consumption of major fertilizers with corresponding NPK nutrients since 2004-05 is indicated as under:—

(in lakh tonnes)

Year	Urea	DAP	MOP	Complex	N	P	K	Total
2004-05	206.65	62.56	24.06	56.80	117.13	46.24	20.61	183.98
2005-06	222.97	67.64	27.31	66.94	127.23	52.04	24.13	203.40
2006-07	243.37	73.81	25.86	67.99	137.73	55.43	23.35	216.51
2007-08	259.63	74.97	28.81	65.71	144.19	55.15	26.36	225.70
2008-09	266.49	92.31	40.77	68.05	150.90	65.06	33.13	249.09

It may be appreciated that the consumption of fertilizers has registered significant increase over the years.

Government of India has introduced, a new scheme, namely, National Project on Management of Soil Health and Fertility during 2008-09 with an outlay of Rs. 429.85 crore for 11th Five Year Plan. Government is promoting integrated and balanced use of fertilizers by advocating soil test based balanced and judicious use of chemical fertilizers including secondary nutrients and micro nutrients in conjunction with bio-fertilizers and organic manures like Farm Yard Manure, Compost, Vermi Compost, Green manures etc. to maintain soil health and its productivity. The Government is also educating farmers through training and field demonstrations on balanced use of fertilizers for improving soil fertility and its productivity.

In order to promote the concept of balanced use of fertilizer and to encourage the use of micro nutrients, several fertilizers fortified with Boron and Zinc have incorporated in the Fertilizer Control Order, 1985.

Recommendation (Sl. No. 19, Para No. 100)

The Committee note that presently the Department of Fertilizers do not undertake Fertilizer Education Projects. The Committee feel that balanced use of fertilizers is essential for improving the foodgrain production and in order to encourage the balanced use of fertilizers as well as use of new developing source of nutrients, awareness among farmers is required to be created. The Committee, therefore, recommend that the Department should encourage the PSUs/Cooperatives under the administrative control of Department of Fertilizers to launch and implement Fertilizer Education Programmes for the benefit of the farmers community. The Committee further desire that there should be a systemic coordination between the Department of Fertilizers and the Department of Agriculture and Cooperation in regard to the Fertilizer Education Projects. The Committee may be apprised of the action taken in this regard.

Reply of the Government

A sitting of the Standing Committee on Chemicals and Fertilizers (2009-10) was held on 14.10.2009 in order to discuss the Fertilizer Education Projects being carried out by Department of Fertilizers. Based on the information collected from the PSUs/Cooperatives, information was provided to the Standing Committee. It was submitted before the Standing Committee that some of the companies including PSUs under the administrative control of Department of Fertilizers undertake Fertilizer Education Projects. However, as such, these projects are implemented by Department of Agriculture and Cooperation under the head "Extension Services". The Committee desired Department of Fertilizers and Department of Agriculture and Cooperation to chalk out some strategic programme in this direction. Accordingly, a joint meeting of Department of Agriculture and Cooperation and Department of Fertilizers was held. DAC intimated that the following subsidy policy is being implemented by the Department with regard to setting up of Soil Testing Laboratories and Fertilizer field demonstrations:—

Sl. No.	Particulars	Policy
1.	For Setting up of additional Soil Testing Laboratories by Agri clinics/NGOs/ Cooperative, entrepreneurs, etc. under Private partnership mode.	@ 50% of project cost limited to maximum of Rs. 30 lakh as one time subsidy.
2.	For Adoption of village by Soil Testing Laboratories through Frontline Field Demonstration.	@ Rs. 20000 per Frontline Field Demonstration.
3.	For Setting up of Mobile Soil Testing Laboratories by Agri Laboratories by Agri clinics/ NGOs/Cooperative, Private entrepreneurs, etc. under Pvt. partnership mode.	@ 75% of project cost limited to maximum of Rs. 30 lakh as one time subsidy.

2. In regard to the above, Department of Agriculture and Cooperation sought comprehensive proposals from Department of Fertilizers for setting up static and mobile soil testing laboratories and capacity building through front line field demonstrations etc. for consideration of the Project Sanctioning and Monitoring Committee under Department of Agriculture and Cooperation.

3. The above matter was examined in Department of Fertilizers and accordingly, 24 fertilizer companies were requested on 28.10.2009 to submit proposals as sought by Department of Agriculture and Cooperation. Department of Fertilizers also took a meeting with the representatives of the fertilizer companies on 16.11.2009. After continuous follow up, the following nine companies have submitted their proposals for setting up soil testing laboratories:—

1. FCI Arawali Gypsum and Minerals India Ltd.
2. Krishak Bharati Cooperative Ltd.
3. Mangalore Chemicals and Fertilizers Ltd. (MCF)
4. Zuari Industries Ltd. (ZIL)
5. Southern Petrochemical Industries Corporation Ltd. (SPIC)
6. Gujarat Narmada Valley Fertilizers Company Ltd.
7. Indian Potash Ltd.
8. Rashtriya Chemicals and Fertilizers Ltd.
9. GSFC

Department of Agriculture and Cooperation is taking further necessary action in the matter. The above information was also provided to the Hon'ble Standing Committee in its meeting held on 27.1.2010.

Recommendation (Sl. No. 20, Para No. 106)

There are nine public sector undertakings (PSUs), one multi-State co-operative society and one joint sector company under the administrative control of the Department of Fertilizers. Out of this, Krishak Bharati Cooperative Limited (KRIBHCO), the multi-State cooperative society and three PSUs, *viz.* National Fertilizer Limited (NFL), Rashtriya Chemicals and Fertilizers Limited (RCF) and Projects and Development (India) Limited (PDIL) are profit making units. Three PSUs, *viz.* Fertilizers and Chemicals Travancore Limited (FACT), Madras Fertilizers Limited (MFL) and Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) are loss making units. Besides, two PSUs, *viz.* Fertilizer Corporation of India Ltd. (FCI) and Hindustan Fertilizers Corporation Ltd. (HFCL) are lying closed after incurring losses continuously over a period of time. Non-availability of surplus funds, outdated machinery causing increased cost of production, poor energy efficiency, non-recruitment of experienced and qualified technical manpower are the other factors on account of which some PSUs have been facing losses year after year. Non-availability of natural gas has also been the main impediment. The Committee, however, have been informed that some initiatives have been taken by the Government to examine the technical and economic feasibility for revival of the sick PSUs. The Committee would, therefore, recommend that the Department should expeditiously complete all the revival formalities at the earliest. This is all the more necessary since there has been negligible growth of the fertilizer sector during the last decade. Besides, the Department should also make earnest efforts to overcome all the constraints of losses suffered by PSUs. Needless to emphasize, each PSU should make its own efforts towards improving capacity utilization, energy conservation methods and also to bring down manpower and administrative expenditure.

Reply of the Government

FCIL and HFCL are fertilizer PSUs which are closed and sick. MFL and BVFCL are operational and sick.

FCIL and HFCL

Pursuant to the decision dated 30.10.2008, an Empowered Committee Secretaries (ECOS) was constituted on 7.11.2008 under the Chairmanship of Secretary (Fertilizers) and Secretaries of Department of

Expenditure, Department of Disinvestment, Planning Commission, Deptt. of Public Enterprises and Ministry of Petroleum and Natural Gas as Members to look into all the financial models for revival of each of the closed units.

The Committee in its first meeting on 05.12.2008 had approved the terms of reference (TOR) for consultants and that FCIL and HFCL should finalize appointment of consultants as per the TOR already approved.

The second meeting of the ECOS was held on 24.08.2009 in which various financial models for revival were considered and it was decided to recommend the Revenue Sharing Model, for approval of the CCEA. M/s. Deloitte India Pvt. Ltd. have been selected as Project Advisers for implementation of the selected options for revival of the closed units of Sindri, Ramagundam, Talcher and Gorakhpur in respect of FCIL and Durgapur Unit of HFCL. M/s. PDIL has been appointed by HFCL as Consultant for evaluation of existing assets of the closed units and certification through Registered Valuer. ECOS has advised to obtain the approval of CCEA for the recommended Revenue Sharing Model for revival before implementation of the same. At present, DoF is in process of finalising the note on the subject for Inter-ministerial circulation.

MFL

MFL had entrusted a study to M/s. Deloitte to suggest financial restructuring/dispensation package to ensure long term viability of MFL, who submitted its report in July, 08. After due consideration of the Recommendations in the study report, the view in Department of Fertilizers (DOF) was to consider the option-II suggested in the report of M/s. Deloitte envisaging amendments in New Pricing Scheme-III (NPS) policy for urea, resulting in increased subsidy for MFL and financial restructuring of MFL by converting outstanding GOI loan into equity, waiver of interest etc.

The Government has approved the amendment to NPS-III Policy for restricting reduction in fixed costs to 10% on 25.06.2009 with effect from 1.04.2009. Based on the amended NPS III policy, additional compensation due to MFL is about Rs. 3,073/MT of Urea. Therefore the urea operations of MFL have become viable after the said amendment to NPS-III and the projected loss of MFL is expected to come down significantly. The company is also exploring production of Complex Fertilizer (20-20-0-13), which is a viable proposition under the current Concession Scheme for Complex Fertilizers.

However, financial restructuring is required to wipe out the accumulated losses and to keep the operations of MFL commercially viable till availability of gas around 2011-12, with minor modifications to Plants. The issue of financial restructuring is under discussion with the foreign promoters NIOC who are holding 25.77% equity stake. To support the revival from technical point of view, M/s. Projects and Development India Ltd. (PDIL) had been entrusted with the job of providing the methodology for reviving MFL. The study report by M/s. PDIL has been received recently and based upon that, a proposal for financial restructuring will be moved before the Board for Reconstruction of Public Section Enterprises (BRPSE.).

BVFCL

The revival and turnaround of BVFCL requires financial restructuring, removing of technical problems and availability of funds to carry out the identified jobs.

The Government had considered the financial restructuring proposals and support measures in February 2009 and decided that appropriate support may continue to be provided to the Project till such time a comprehensive proposal is brought up before the Committee after requisite appraisals and consultations.

In order to comply with the directives of the Government for comprehensive appraisal of BVFCL, the Company has floated an Notice Inviting Tender (NIT) to reputed process licensors for carrying out an in depth study of the plants and suggest measures for sustained operations of the Plants. The study will also include the Health Status and adequacy check of the equipments. Rs. 8.00 Crores has been earmarked for the study. The response of NIT however, was not encouraging as only one technically suitable offer from M/s. Cassale has been received. Since, the price quoted by the Party was 1.5 times higher than estimated cost, some clarification on the price bid has been sought and a final decision will be taken thereafter.

In order to address the problem of acute shortage of qualified and experienced persons in BVFCL, an MOU has been entered with National Fertilizers Ltd. (NFL) for Management Contract for 3 years in August 2009 with objective providing technical support for efficient operation of the plants, maintenance, planning and execution of jobs, on-site training of BVFCL personnel by NFL specialists and assistance for carrying out health study of the plant.

Further, in view of the increasing technical problems affecting the performance of both the operating plants, an assessment has been made by a team of engineers from M/s. NFL and it was proposed that an investment of Rs. 272 crores would be required against identified schemes for smooth running of the Plants. Rs. 65 crores has been provided against Plan Fund under Renewal and Replacement for 2009-10 and rest of the fund is under consideration for 2010-11. Procurement actions against the schemes included in Plan fund for 2009-10 have already been taken and all items are expected to be available by the end of 2010 or beginning of 2011.

Recommendation (Sl. No. 21, Para No. 107)

The Committee's examination also revealed that the performance of certain PSUs in relation to the implementation of schemes/programmes during the first two years of the 11th Plan has not been satisfactory. The shortfalls have *inter alia* been attributed to delay in finalization of feasibility/project report, non-finalisation of proposals, impact of global meltdown, etc. The Committee desire that the reasons for the poor performance should be analysed thoroughly and necessary corrective action taken to achieve the plan targets in the remaining years of the 11th Plan.

Reply of the Government

Reply is same as given in answer to Recommendation Sl. No. 4.

Recommendation (Sl. No. 23, Para No. 123)

The Committee are deeply concerned over the general condition of Madras Fertilizers Ltd. (MFL) resulting in losses continuously over a period of time. The Committee note that the Government have approved the proposal regarding amendment to the New Pricing Scheme (NPS)-III policy on 25 June 2009 which provides for restricting the reduction in fixed cost to 10% w.e.f 1 April 2009. The Committee have been given to understand that Project and Development (India) Ltd. (PDIL) has been entrusted with the task of preparing a comprehensive financial restructuring proposal for revival of MFL. The Committee have also been informed that the amendments made to the New Pricing Scheme-III from 1 April 2009 will also be to the advantage of the operations of MFL. In the circumstances, the Committee feel that there is an urgent need to finalize the financial restructuring of MFL at the earliest and desire that it should be expedited. The Committee would like to be apprised of the action taken in the matter.

Reply of the Government

MFL had entrusted a study to M/s. Deloitte to suggest financial restructuring/dispensation package to ensure long term viability of MFL, who submitted its report in July, 08. The view in Department of Fertilizers (DOF) was to consider the option-II suggested in the report of M/s. Deloitte envisaging amendments in New Pricing Scheme-III (NPS) policy for urea, resulting in increased subsidy for MFL and financial restructuring of MFL by converting outstanding GOI loan into equity, waiver of interest etc.

The Government has approved the amendment to NPS-III Policy for restricting reduction in fixed costs to 10% on 25.06.2009 with effect from 1-04-2009. Based on the amended NPS-III policy, additional compensation due to MFL is about Rs. 3,073/MT of Urea. Therefore the urea operations of MFL have become viable after the said amendment to NPS-III and the projected loss of MFL is expected to come down significantly. The company is also exploring production of Complex Fertilizer (20-20-0-13), which is a viable proposition under the current Concession Scheme for Complex Fertilizers.

However, financial restructuring is required to wipe out the accumulated losses and to keep the operations of MFL commercially viable till availability of gas around 2011-12, with minor modifications to Plants. The issue of financial restructuring is under discussion with the foreign promoters NIOC who are holding 25.77% equity stake. To support the revival from technical point of view, M/s. Projects and Development India Ltd. (PDIL) had been entrusted with the job of providing the methodology for reviving MFL. The study report by M/s. PDIL has been received recently and based upon that, a proposal for financial restructuring will be moved before the Board for Reconstruction of Public Section Enterprises (BRPSE.).

Recommendation (Sl. No. 24, Para No. 127)

The Committee note the that Government have decided to continue to provide appropriate support to BVFCL till a comprehensive proposal for its revival is framed. According to the Department of Fertilizers, necessary consultations/processing are under way. The Committee desire that the matter be expeditiously completed for the revival of the sick public sector company. The Committee would like to be informed of the status.

Reply of the Government

The revival and turnaround of BVFCL requires financial restructuring, removing of technical problems and availability of funds to carry out the identified jobs.

The Government had considered the financial restructuring proposals and support measures in February 2009 and decided that appropriate support may continue to be provided to the Project till such time a comprehensive proposal is brought up before the Committee after requisite appraisals and consultations.

In order to comply with the directives of the Government for comprehensive appraisal of BVFCL, the Company has floated a Notice Inviting Tender (NIT) to reputed process licensors for carrying out an in depth study of the plants and suggest measures for sustained operations of the Plants. The study will also include the Health Status and adequacy check of the equipments. Rs. 8.00 crores has been earmarked for the study. The response of NIT however, was not encouraging as only one technically suitable offer from M/s. Cassale has been received. Since, the price quoted by the Party was 1.5 times higher than estimated cost, some clarification on the price bid has been sought and a final decision will be taken thereafter.

In order to address the problem of acute shortage of qualified and experienced persons in BVFCL, an MOU has been entered with National Fertilizers Ltd. (NFL) for Management Contract for 3 years in August 2009 with objective providing technical support for efficient operation of the plants, maintenance, planning and execution of jobs, on-site training of BVFCL personnel by NFL specialists and assistance for carrying out health study of the plant.

Further, in view of the increasing technical problems affecting the performance of both the operating plants, an assessment has been made by a team of engineers from M/s. NFL and it was proposed that an investment of Rs. 272 crores would be required against identified schemes for smooth running of the Plants. Rs. 65 crores has been provided against Plan Fund under Renewal and Replacement for 2009-10 and rest of the fund is under consideration for 2010-11. Procurement actions against the schemes included in Plan fund for 2009-10 have already been taken and all items are expected to be available by the end of 2010 or beginning of 2011.

Recommendation (Sl. No. 27, Para No. 146)

The Committee note that though the overall performance of Rashtriya Chemicals and Fertilizers Ltd. (RCF) has been satisfactory, the fact that the Company could utilize only Rs. 241.83 crore out of the allocated funds of Rs. 812.43 crore (BE), Rs. 469.06 crore (RE) for the year 2008-09 for the 11th plan scheme is disappointing. The Committee have been informed that a number of schemes could not be taken up in

2008-09 due to reasons such as global price scenario, revision of cost of raw materials, revision of scope, etc. resulting in lesser utilization of resources. The Committee hope that all out efforts will be made for implementation of all plan schemes so that the Company is able to achieve the desired objectives of 11th Five Year Plan. The Committee would like to be apprised of the updated status in this regard.

Reply of the Government

Reply is same as given in answer to Recommendation Sl. No. 4.

CHAPTER III

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

Recommendation (Sl. No. 18, Para No. 98)

The Committee note with concern that as per certain recent trends in agricultural productivity in the country, the marginal productivity of soil in relation to the application of fertilizers is declining and in some cases it has also become negative. The productivity response to fertilizer usage has reduced from 13.45 in the year 1960-61 to 1970-71 to 3.92 in the years 2001-02 to 2007-08. Some of the factors which have contributed to the decline in marginal productivity *inter alia* were; the aggregated application of NP&K nutrients in Indian agriculture is currently 5.3:2.2:1 as against the preferred ratio of 4:2:1; the comparatively high usage of straight fertilizers (Urea, DAP and MOP) as against the complex fertilizers (NPKs); the lack of application of proper nutrients based on soil analysis; the declining fertilizers use efficiency; low average consumption of fertilizers in the country, etc. The Department of Fertilizers recounted some of the steps being taken by the Government in this regard include moving towards nutrient based pricing regime *w.e.f.* 18 June 2008, introduction of a scheme entitled "National Project on Soil Health and Fertility" during the 11th Plan, encouraging use of Complex fertilizers, etc. The Committee cannot remain satisfied with this. They are of the view that there is an imperative need to study the factors which have contributed to the declining marginal productivity in a greater length and take concrete measures towards efficient fertilizers management at farm levels with a view to improving higher agricultural productivity and production for better food security.

Reply of the Government

The all India average consumption of fertilizers has registered an increase in 2008-09 over 2007-08 from 116.5 kg/ha. to 128.6 kg/ha. The NPK consumption ratio in India was 4.6:2:1 during 2008-09 as compared to 5.5:2.1:1 during 2007-08. The preferred NPK ratio is considered to be 4:2:1.

National Project on Management of Soil Health and Fertility

Government of India has introduced, a new scheme, namely, National Project on Management of Soil Health and Fertility during 2008-09 with an outlay of Rs. 429.85 crore for 11th Five Year Plan. Government is promoting integrated and balanced use of fertilizers by advocating soil test based balanced and judicious use of chemical fertilizers including secondary nutrients and micro nutrients in conjunction with bio fertilizers and organic manures like Farm Yard Manure, Compost, Vermi-compost, Green manures etc. to maintain soil health and its productivity. The Government is also educating farmers through training and field demonstrations on balanced use of fertilizers for improving soil fertility and its productivity. Upto 2008-09, 2.63 crore soil health cards have been issued by the State Governments for balanced and judicious use of fertilizers.

CHAPTER IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLY OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation (Sl. No. 15, Para No. 86)

The Committee have been informed that there has been no scarcity of fertilizer at the State level, however, there is some tightness in availability in some States because of low production. In this connection, the Committee note that the web-based Fertilizer Monitoring System available with the Department of Fertilizers now is capable of monitoring the supply of fertilizers by manufacturers/suppliers in accordance with the agreed supply plan. The Committee are of the view that the system should be modified/upgraded to take care of the scarcity of fertilizers occurring at State levels also so that necessary corrective action could be initiated well in time by the authorities concerned. The Committee would like to be informed of the action taken in the matter.

The Committee further desire that strict action should be taken by the authorities against the offenders/hoarders/dealers and others involved in creating artificial scarcity/black-marketing, etc. The Committee would like a list of offenders/hoarders etc., should be furnished to them and the action taken against each of them.

Reply of the Government

Reply given by the Department of Fertilizers in compliance to Para 83 and 84 – Shortage/Scarcity of Fertilizers is reproduced:—

> "Adequate quantity of fertilizers have been supplied to the States to match with the assessed requirement/sales. As such there has been no scarcity of fertilizer at State level. There is some tightness in availability of NPK because of low production and also that these can not be imported as these are not covered under Concession Scheme. The distribution of fertilizers within the State rests with the State Government. Under the Fertilizer (Control) Order, the

State Governments have been empowered to take action against the offenders/hoarders/dealers involved in black marketing etc." However, the observations of the Standing Committee have been communicated to the State Governments for immediate compliance.

CHAPTER V

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLY OF THE GOVERNMENT ARE OF INTERIM NATURE

Recommendation (Sl. No. 7, Para No. 44)

The Committee note that the total subsidy disbursed on fertilizers has increased from Rs. 12,808 crore in 2001-02 to Rs. 99,456 crore in 2008-09. The total subsidy released on urea has increased from Rs. 8,304 crore in the year 2001-02 to Rs. 33,901 crore in the year 2008-09. Similarly, on P&K fertilizers, the fertilizer subsidy has increased from Rs. 4,504 crore in the year 2001-02 to Rs. 65,555 crore in the year 2008-09. The Committee's examination revealed that only 6% of the increase in subsidy bill is due to higher consumption of fertilizers while the rest, 94% rise was due to the increase in international prices. It was also revealed that between 2001 and 2008, while foodgrain production increased by 8.37%, and productivity by 6.92%, the subsidy bill went up by 214%. All these facts point towards the grave situation arising out of the galloping subsidy bill which now warrants some concrete solution. The Committee are of the view that to cut the subsidy bill, there is an imperative need for technological innovation, optimum energy consumption, manpower and capacity utilization so as to increase the indigenous production as well to cut down the production cost of fertilizers.

Reply of the Government

An Inter-Ministerial Group (IMG) with Secretary (Fertilizers) as Chairman and Secretaries of Department of Expenditure, Agriculture and Planning Commission as members, was constituted in November 2008 to look into all aspects of fertilizer subsidy regime, to examine the feasibility of nutrient based subsidy regime and alternative methods of delivering subsidy. The IMG after detailed examination of various issues looked at the entire gamut of options available for rationalising the existing subsidy regime with the objective to encourage growth of indigenous industry and promote sustained increase in agriculture productivity through balanced fertilization while ensuring that the fertilizers are available to farmers at affordable prices. It looked at various alternatives and drew upon the international experiences in this sector to review the existing subsidy regime. It was found that though, internationally, agriculture production and in some cases agriculture inputs are subsidized no other country follows the open-ended fertilizer subsidy regime as being implemented currently in India.

After considering all issues relating to agriculture productivity, balanced fertilization and growth of indigenous fertilizer industry and examining all options for rationalisation of existing fertilizer subsidy regime, the IMG recommended to implement a nutrient based subsidy regime wherein the farmgate prices of fertilizers are decontrolled and subsidy is fixed for each fertilizer based on nutrient content therein.

The report of IMG was discussed in the meeting of the Committee of Secretaries (CoS) held on 31st July 2009. There was a general consensus on the need for rationalisation of existing subsidy regime and transition towards a nutrient based subsidy regime. The Department of Agriculture Research and Education was strongly of the view that the current subsidy regime has adversely affected agricultural productivity.

A nutrient based subsidy regime implies that the subsidy will be fixed for each nutrient which is decided to be subsidized. The subsidy on subsidized fertilizers will be determined on the basis of nutrient subsidy fixed by the Government and the nutrients contained in the fertilizer. Since the subsidy will remain fixed, the selling prices of fertilizers at farmgate level will be decontrolled and will be determined by the market forces. The farmgate prices would be dependent upon international prices and subsidy levels. However, it is expected that the competition at farmgate level will not only control the farmgate prices but also encourage fertilizer industry to focus more on farmers through development of new innovative fertilizer products customised to their requirements, farm extension services, brand building, product differentiation etc. Further, the basket of subsidized fertilizers will also get widened to cover new fertilizers containing secondary and micro-nutrients. This will help to achieve twin objectives of balanced fertilisation through better fertilizer products and growth of indigenous industry based on buoyant demand of fertilizers in the country.

Broad contours of proposed Nutrient Based Subsidy Policy were discussed in the meeting of Group of Ministers (GoM) held on 20.01.2010. Further action on the recommendations of GoM is under consideration of Department of Fertilizers.

Recommendation (Sl. No. 22, Para No. 115)

The Committee have been informed that revival of closed fertilizer units in the public sector based on gas have been found to be economically feasible, under the New Investment Policy, as per the Techno-Economical feasibility reports for revival of closed units. In pursuance of a decision taken by the Government on 30th October 2009, Urvarak Videsh Limited (UVL), a joint venture formed by RCF, NFL and KRIBHCO has been entrusted with the responsibility of revival of Barauni Unit of HFCL and an Empowered Committee of Secretaries (ECoS) has been constituted with the mandate to evaluate all options for revival of closed units and to make suitable recommendations for consideration of Cabinet Committee on Economic Affairs (CCEA). The Committee observe that the ECoS has recommended the Revenue Sharing Model for revival of Hindustan Fertilizer Corporation Limited (HFCL) and Fertilizer Corporation of India Limited (FCIL) for approval of CCEA. The Committee recommend that the revival process should be expedited and a time frame should be fixed for its completion. The Committee would like to be informed of the latest status of the revival process.

Reply of the Government

Pursuant to the decision dated 30.10.2008, an Empowered Committee of Secretaries (ECoS) was constituted on 7.11.2008 under the Chairmanship of Secretary (Fertilizers) and Secretaries of Department of Expenditure, Department of Disinvestment, Planning Commission, Deptt. of Public Enterprises and Ministry of Petroleum and Natural Gas as Members to look into all the financial models for revival of each of the closed units.

The Committee in its first meeting on 05.12.2008 had approved the terms of reference (TOR) for consultants and that FCIL and HFCL should finalize appointment of consultants as per the TOR already approved.

The second meeting of the ECoS was held on 24.08.2009 in which various financial models for revival were considered and it was decided to recommend the Revenue Sharing Model, for approval of the CCEA. M/s. Deloitte India Pvt. Ltd. have been selected as Project Advisers for implementation of the selected options for revival of the closed units of Sindri, Ramagundam, Talcher and Gorakhpur in respect of FCIL and Durgapur Unit of HFCL. M/s. PDIL has been appointed by HFCL as Consultant for evaluation of existing assets of the closed units and certification through Registered Valuer. ECoS has advised to obtain the approval of CCEA for the recommended Revenue Sharing Model for revival before implementation of the same. At present, DoF is in process of finalising the note on the subject for Inter-ministerial circulation.

Revival of Barauni Unit of HFCL

Government, on 30th October, 2008, considered the proposal of the Department of Fertilizers for revival of Barauni Unit of Hindustan

Fertilizer Corporation through a Special Purpose Vehicle (SPV), promoted by fertilizer PSUs/Cooperatives. The SPV would submit a fully tied-up revival scheme for the closed fertilizer unit at Barauni.

Accordingly, "Urvarak Videsh Limited", a Joint Venture Company promoted by NFL, RCF and KRIBHCO has initiated necessary steps for the Revival of Barauni Unit of HFCL by setting up a Brown Field Ammonia/Urea Project. Various pre-project activities have been initiated by UVL to explore the possibilities to set up a new state-of-the-art Ammonia-Urea Plant at Barauni as under:—

(i) Contract for Environment Impact Assessment (EIA) study has been issued to M/s. KLGESS, Gurgaon. EIA study is under progress.

(ii) M/s. PDIL has been engaged as Consultant for selection of LSTK Contractor.

(iii) Term sheet has been signed with GAIL for supply of gas on long-term basis.

(iv) Draft assets evaluation report has been received which is under examination by the UVL. For hiving off of Barauni Unit from HFCL and its amalgamation with UVL, necessary action is being taken for engagement of consultant.

Recommendation (Sl. No. 25, Para No. 133)

The Committee note that the Fertilizers and Chemicals Travancore Ltd. (FACT) has been able to generate profits to the tune of Rs. 9.18 crore and Rs. 46.19 crore (provisional) in the years 2007-08 and 2008-09 respectively in comparison to the loss of Rs. 122.65 crore in the year 2006-07. The Committee are surprised that the FACT has actually utilized only Rs. 4.17 crore against the allocation of Rs. 13 crore (BE& RE) in 2008-09 and the BE (2009-10) for the company is Rs. 34 crore. The Committee recommend that all the pending proposals of the Company should be expedited so as to ensure the methodical utilization of funds and thus improving the performance of FACT.

Reply of the Government

Total Plan Funds allocated for Fertilizers and Chemicals Travancore Limited (FACT) under the 11th Five Year Plan till date are Rs. 61.515 crore During 2007-08 Rs. 15.0 crore was allotted which has been fully utilized. In 2008-09 out of Rs. 13 crore allotted, Rs. 10.86 crore have been utilized. The remaining amount is on account of replacement of control systems in captive power plant in Petro-Chemical Division. Being a system upgradation project, finalization of technical specification involved a lot of data collection and verification. Presently, orders have been placed and erection has been planned during annual turn around of the plant scheduled in April, 2010.

Recommendation (Sl. No. 26, Para No. 138)

The Committee are happy to note that the overall performance of National Fertilizers Limited (NFL) has been satisfactory. However, they are constrained to point out that their performance in relation to the planned schemes during the years 2007-2008 and 2008-2009 left much to be desired. The Committee hope that necessary steps will be taken to make improvements in this regard so that the performance shown by the company over the years may convert into bigger results for the benefit of public at large.

Reply of the Government

NFL had taken up the Planned scheme of Feed-Stock change-over Project at Panipat, Bhatinda and Nangal in the year 2007-08, and submitted the Techno Economic Feasibility Report (TEFR) for pre-PIB Clearance in April, 2007 after notification of stage III parameter of New Pricing Scheme of Urea on 8th March, 2007. Pre-PIB clearance was received on 30th January, 2008. During the year, Notice Inviting Tender for lining up of Lump Sum Turn Key(LSTK) Contract was issued and two bids were received. However, in the absence of Financing Policy for Conversion of Feed Stock from FO to Gas, the Contracts could not be finalized. The said Policy was notified on 6th March, 2009 and thereafter the Contracts were finalized. Thereafter Projects Proposals for Panipat, Bathinda and Nangal were approved by the Government in January, 2010. Letter of Intents have been issued by NFL to the LSTK Contractors on 29th January, 2010. In view of the above developments, the Plan allocations in the year 2007-08, 2008-2009 and 2009-2010 remaining unutilized, shall be utilized from 2010-11 onwards.

As regards Energy Saving Project at Vijaipur-I, this was put on hold in 2006-2007, in view of sudden spurt in the prices of equipment globally, adversely impacting the Project viability in terms of extant Investment Policy. This was restarted in 2009-2010 and also capacity enhancement of VP-II plant was taken up in the year 2009-2010. These Projects are scheduled for completion in the year of 2011-2012.

NEW DELHI;
5 *August*, 2010
14 *Shravana*, 1932 (*Saka*)

GOPINATH MUNDE,
Chairman,
Standing Committee on
Chemicals and Fertilizers.

APPENDIX I

MINUTES OF STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2009-10)

TWENTY-SECOND SITTING (05.08.2010)

The Committee sat from 1500 hours to 1600 hours.

PRESENT

Shri Gopinath Munde — *Chairman*

MEMBERS

Lok Sabha

2. Shri K.D. Deshmukh
3. Shri Ganeshrao Nagorao Dudhgaonkar
4. Shri Madhu Koda
5. Shri N. Peethambara Kurup
6. Shri Ponnam Prabhakar
7. Shri N. Cheluvaraya Swamy
8. Shri Tapas Paul
9. Shri Jagdambika Pal

Rajya Sabha

10. Shri Raghunandan Sharma
11. Shri A.A. Jinnah

SECRETARIAT

1. Shri N. K. Sapra — *Additional Secretary*
2. Shri C. S. Joon — *Director*
3. Shri A.K. Srivastava — *Deputy Secretary*

2. At the outset, Hon'ble Chairman welcomed Shri Jagdambika Pal, newly nominated member of this Committee and other members to the sitting of the Committee.

3. The Committee thereafter took up for consideration the following:—

(i) Draft Report on action taken by the Government on the recommendations contained in the 2nd Report (15th Lok Sabha) of the Committee on 'Demands for Grants (2009-10)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

(ii) *** *** *** *** ***

4. The Committee adopted the draft Report with minor amendments and authorized the Chairman to present the same to both the Houses of Parliament.

The Committee then adjourned.

*** Matters not related to this Report.

APPENDIX II

(*Vide* Para 3 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SECOND REPORT (FIFTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2009-10) ON 'DEMANDS FOR GRANTS (2009-10)' OF THE MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)

I.	Total No. of Recommendations		27
II.	Observations/Recommendations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 1, 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 16, 17, 19, 20, 21, 23, 24 and 27)		21
		Percentage of Total	77.78%
III.	Observations/Recommendations which the Committee do not desire to pursue in view of Government's Replies (*Vide* Recommendation at Sl. No. 18)		01
		Percentage of Total	3.7%
IV.	Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendation at Sl. No. 15)		01
		Percentage of Total	3.7%
V.	Observations/Recommendations in respect of which final replies of the Government are still awaited (*Vide* Recommendations at Sl. Nos. 7, 22, 25 and 26)		04
		Percentage of Total	14.82%