30

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2012-13)

FIFTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS (2012-2013)

[Action Taken by the Government on the Observations/Recommendations contained in the Twenty Fifth Report of the Standing Committee on Chemicals and Fertilizers (Fifteenth Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)]

REPORT

LOK SABHA SECRETARIAT

NEW DELHI

December, 2012/Agrahayana, 1934 (Saka)

CC&F No. -30

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[Action Taken by the Government on the Observations/Recommendations contained in the Twenty Fifth Report of the Standing Committee on Chemicals and Fertilizers (Fifteenth Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)]

Presented to Lok Sabha on 17.12.2012

Laid in Rajya Sabha on 17.12.2012

LOK SABHA SECRETARIAT
NEW DELHI

December, 2012/Agrahayana, 1934 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2012-13)

Shri Gopinath Munde - Chairman MEMBERS LOK SABHA	
2.	Shri S. Alagiri
3.	Shri Gajanan D. Babar
4.	Shri P.P. Chauhan
5.	Shri K.D. Deshmukh
6.	Shri Sher Singh Ghubaya
7.	Shri Radadiya Vitthalbhai Hansrajbhai
8.	Shri Sk. Nurul Islam
9.	Shri Sakti Mohan Malik
10.	Shri Paswan Kamlesh
11.	Shri Amarnath Pradhan
12.	Shri Ashok Kumar Rawat
13.	Shri Tufani Saroj
14.	Shri Suresh Kumar Shetkar
15.	Shri Raju Shetti
16.	Shri G.M. Siddeshwara
17.	Shri D. Venugopal
18.	Vacant
19.	Vacant
20.	Vacant
21.	Vacant
RAJYA SABHA	
22.	Shri Biswajit Daimary
23.	Shrimati Naznin Faruque
24.	Shri A.A. Jinnah
25.	Shri Brijlal Khabri
26.	Dr. Vijay Mallya
27.	Shri Pyarimohan Mohapatra
28.	Shri Dilipbhai Pandya
29.	Shri Raghunandan Sharma
30.	Vacant
31.	Vacant

SECRETARIAT

1. Smt Rashmi Jain - Joint Secretary
2. Shri Anil Kumar Srivastava - Additional Director
3. Smt. Emma C. Barwa - Under Secretary

Shri P. Balaram Naik appointed as a minister of state

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2012-13) having been authorised by the Committee to present the Report on their behalf, present this Thirtieth Report (Fifteenth Lok Sabha) on Action Taken by the Government on the observations / recommendations contained in the Twenty-Fifth Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2011-12) on 'Demands for Grants (2012-13)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Twenty-Fifth Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on 2 May, 2012. The Action Taken replies of Government to all observations / recommendations contained in the Report were received on 28 August, 2012. The Standing Committee on Chemicals and Fertilizers (2012-13) considered and adopted this Report at their sitting held on 10 December, 2012.

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

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

NEW DELHI;
17 DECEMBER, 2012
26 Agrahayna, 1934 (SAKA)

GOPINATH MUNDE,
Chairman,
Standing Committee on
Chemicals and Fertilizers

REPORT

CHAPTER – I

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 Twenty Fifth Report (Fifteenth Lok Sabha) of the Committee on Demands for Grants (2012-13) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 02 May, 2012. The Report contained 11 Observations / Recommendations.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the Observations / Recommendations contained in the Twenty Fifth Report within three months from the date of presentation of the Report, i.e. by 2nd August, 2012. The Action Taken Replies of the Government in respect of all the 11 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(1)/2011-Fin-II dated 28th August, 2012.

The categorization of the Action Taken Replies of the Government is as follows:-

(i) Observations / Recommendations which have been accepted by the Government
Sl.Nos. 1, 2, 3,4,5,6,8, 9 and 11

(Total =09)
Chapter-II

(ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's replies
Sl.No. NIL.

(Total =NIL)
Chapter-III

(iii) Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration
Sl.No. NIL

(Total =NIL)
Chapter-IV

(iv) Observations / Recommendations in respect of which replies of the Government are of interim nature
Sl.Nos. 7 and 10

(Total = 02)
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 reply in respect of the Observation/Recommendation for which only interim reply has 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 which still require reiteration or merit comments.

A. DEMANDS FOR GRANTS

Recommendation Sl. No./Para No. 3

Stressing the need to keep non-plan expenditure under control, the Committee had recommended as under:-

> **"**The Committee observe from the figures provided by the Department that the non-plan expenditure has increased considerably from the years 2009-10 to 2011-12. The allocation under the figures for the financial years 2009-10, 2010-11 and 2011-112 are Rs.56,600.50, Rs.57860.00 and Rs.71592.00 crore (RE) respectively. The department was unable to provide any satisfactory response to a specific query as to how to keep the Non-Plan expenditure under control. While the Committee agree that farmers need to be protected from price volatility in the international market and other negative factors, the need to rein in the ever increasing expenditure under the Non-Plan allocation cannot be over-emphasized. The Committee, therefore, recommend that the Department should take steps on a priority basis to address this issue and intimate the measures taken in this regard by them. The Committee, further, desire that Department of Fertilizers should also keep strict watch and control over factors impacting budgetary allocations and expenditure thereon."

REPLY OF THE GOVERNMENT

In reply of the aforesaid para, the Department of Fertilizers has stated as under :-

> "In order to contain the expenditure under the non-plan allocation i.e. subsidy bills, the Government is implementing NBS policy w.e.f. 1.4.2010. Under the policy, a fixed subsidy on each nutrient of P & K fertilizers is announced each year. Normally, the subsidy rate remains fixed for the whole financial year. Hence, expenditure under non-plan for P&K fertilizers will not exceed the budgeted figures if the consumption remains at the expected level. Department of Fertilizers has announced NBS rates for the year 2012-13 in such a manner that total subsidy outgo for the P & K Fertilizers for the financial year 2012-13 would be reduced by more than 20% over the previous year. However, the total subsidy outgo for P & K fertilizers for 2012-13 will depend on the overall consumption of fertilizers in the year 2012-13.
>
> Growing non-plan expenditure on account of subsidy for indigenous urea is mostly on account of escalation in input cost as there was no proportionate increase in MRP of urea. Indigenous Urea Subsidy is basically the difference between the sale price and actual cost of production of urea. Fixed cost and variable cost being the two main components of cost of production, the former has been frozen at 2002-03 level, and therefore, it has no impact on increase in subsidy. The increase in variable cost, (almost 97% of which is constituted by energy cost), is the major cause of increase in non-plan expenditure in the form of subsidy for indigenous urea. The major sources of energy for urea units are Natural Gas, Naphtha, FO, HSD and LSHS etc., the pricing of which is beyond the control of DOF. The urea units are at the receiving end. They are obliged to pay the prices charged by the suppliers of such energy resources, namely, ONGC, GAIL, IOCL, BPCL, OIL, RIL etc. and prefer claim of escalation of cost before the DOF. The DOF is under obligation to reimburse such increase in cost of energy / production to the urea manufacturing units.
>
> The suppliers of the energy resources are under the administrative control of the MOP & NG. As per the existing policy, these companies are pricing these resources with Rupee-Dollar linkage. Moreover, the prices are mostly linked with their import parity prices. Falling rupee value has,

therefore, impacted the urea cost adversely. In order to achieve a control in subsidy on indigenous urea, the MOP & NG may be requested to reign upon the oil companies and direct them to charge the urea units for supply of indigenous energy resources at rupee terms. Moreover, the prices of such indigenous energy resources should be based on their cost with reasonable profit and not at import parity prices which include a number of notional cost elements that they do not incur. If gas is quickly made available to high cost Non-gas units using Naphtha, FO, LSHS, etc., the impact on subsidy burden will come down. Further if the MRP is regularly increased to keep pace with increase in input cost, subsidy burden will be reduced substantially."

COMMENTS OF THE COMMITTEE

The Committee in its earlier recommendation observed that the non-plan expenditure had increased considerably from the years 2009-10 to 2011-12. The non-plan allocation under the figures for the financial years 2009-10, 2010-11 and 2011-12 were at Rs.56,600.50, Rs.57,860.00 and Rs.71,592.00 crore (RE) respectively. The Department of Fertilizers in their earlier reply had stated the non-plan expenditure on subsidy of P&K fertilizers for last three years 2009-10, 2010-11 and 2011-12 was at Rs.39452.06 crore, Rs.41500.00 crore and Rs.36107.94 crore respectively and for urea the non-plan expenditure on subsidy was at Rs.24580.23 crore, Rs.24336.68 crore and Rs.37683.00 crore respectively. Thus the total subsidy on fertilizer during the last three years is Rs.64032.29, Rs.65836.68 , and Rs.74569.87 crore (including Rs.778.93 crore on loss of bonds for the year 2011-12). Thus there is an increase of Rs.9733.19 crore for the year 2010-11 in the subsidy after launching of NBS Regime. The Department of Fertilizers in this regard in its action taken reply has stated that NBS policy has been implemented w.e.f. 1.4.2010 in order to contain the expenditure under the non-plan allocation i.e. subsidy bills. Under this policy, a fixed subsidy on each nutrient of P&K fertilizers is announced each year and the same is fixed for whole year. Hence, the expenditure under non-plan for P&K fertilizers should not exceed the budgeted figures if the consumption remains at the expected level. The Department in their Action Taken Reply has also stated that increase in the subsidy of urea is mainly due to increasing energy cost. The Committee therefore, recommend that Department of Fertilizers should take concrete measures so as to contain subsidy expenditure on account of energy cost. While doing so, the MRP of the fertilizers should not allowed to be increased exponentially, as it increases the burden on the farmers. The Committee, therefore, recommend that Department of Fertilizers should make all out efforts to strike a balance between containing the subsidy expenditure and increase in the prices of fertilizers.

The Committee were also informed that oil companies are pricing the energy resources with the rupee-dollar linkage and if there is depreciation in rupee value then it adversely impacts the urea cost. Therefore, Department of Fertilizers in their action taken reply has stated that Ministry of Petroleum and Natural Gas may be requested to charge the urea units for supply of indigenous energy sources only in rupee terms and also that prices of indigenous energy source should be based on their cost with reasonable profit and not at import parity prices which include a number of notional costs elements. The Committee, therefore, agreeing with the Department recommend that

the Ministry of Petroleum and Natural Gas should be requested to charge the prices of the indigenous energy sources in rupee terms rather than dollars, as this will bring down the subsidy expenditure.

The Committee, further, recommends that to restrain the non-plan expenditure, the Department of Fertilizers should on priority basis take up the issue of quick availability and fixed allocation of gas and firm pricing of gas/ feed stock with Ministry of Petroleum and Natural Gas and the oil companies which would in turn reduce the non-plan expenditure owing to reduce energy cost and reduce the subsidy. The Committee also recommends that Department of Fertilizers should pursue the matter vigorously with Ministry of Petroleum and Natural Gas and also take steps to insulate the fertilizer industry and farmers from the external factors such as price volatility in the international market and other negative factors. The Committee would like to be apprised about the progress in this regard within three months of presentation of report.

B. SUBSIDY/CONCESSION ON FERTILIZERS

Recommendation Sl. No./Para No. 4

Emphasizing the need to cut the galloping subsidy bill, the Committee had recommended as under:-

"The Committee had noted that the total subsidy disbursed on fertilizers has increased from Rs.12908.02 crore in 2001-02 to Rs.65836.68 crore in 2010-11 and Rs.53589.87 crore in 2011-12 (BE). The total subsidy released on urea has increased from Rs.17721.43 crore in the year 2006-07 to Rs.36883.00 crore in the year 2011-12 (RE). The subsidy on P&K fertilizers has increased from Rs.10,298.12 crore in the year 2006-07 to Rs.34786.87 crore in the year 2011-12(RE). The Committee's examination has revealed that the increase in subsidy bill is due to higher consumption of fertilizers and also the rise was due to the increase in international prices of imported fertilizers and increase in the cost of inputs of indigenous fertilizers during the year 2006-07 to 2011-12. Considering all these facts, the Committee desire that concerted efforts are needed to cut the subsidy bill. However, as there has to be reduction in the subsidy bill, the reduction in subsidy should not fall as a burden on the farmers. The Committee, therefore, desire that the reduction in the subsidy of fertilizers should not be compensated by charging higher prices (MRP) of fertilizers from the farmers instead the Department of Fertilizers should chalk out such a plan that there is reduction of subsidy bill and at the same time it does not burden the farmers with the increased prices of fertilizers. Further, the Committee feel that in view of increased consumption of fertilizers and international prices of fertilizer, inputs and finished fertilizers, there is an urgent need for technological innovation, state of the art machinery, reducing the cost of production, energy efficiency measures, experienced and qualified technical manpower and optimum capacity utilization so as to reduce our dependence on imports and increase the indigenous production of fertilizers."

REPLY OF THE GOVERNMENT

In reply of the aforesaid para, the Department of Fertilizers has stated as under :-

"Since India is 90% dependent on imports in Phosphatic Sector in the form of finished fertilizers or in the form of Raw materials and 100% dependent on import dependent on Potash sector, the delivered price shall always be same as international prices which is paid either in the form of subsidy or the MRP.

To overcome the impediments in the growth of fertilizer industry for sustainable growth, the Government is encouraging and facilitating the fertilizer industries to enter into long term contracts with the countries having rich resource of raw materials for production of P&K fertilizers. The Government is also allowing companies to use various blends of rock phosphate to manufacture SSP, one of complex fertilizers used as substitute of DAP. Government is also providing grants under plan fund to companies to renovate their old plants to maximize production. The Government is also helping by giving advance 85% 'On Account' subsidy on sale, which help the companies to overcome their working capital difficulties.

To attain self sufficiency in fertilizer production, the Government has decided to revive the eight closed units of HFCL and FCIL, each unit having capacity of 11.5 LMT per annum. In Urea sector the raw materials are indigenously available. We are providing nearly 75% of our requirements."

COMMENTS OF THE COMMITTEE

The Committee in its earlier recommendation had observed that the rise in the subsidy bill is due to higher consumption of fertilizers and also due to increase in international prices of imported fertilizers from 2006-07 to 2011-12. The Committee had desired that concrete efforts should be made to cut the subsidy bill but the reduction in subsidy should not fall as a burden on the farmers. Further, the Committee had recommended that the self-sufficiency in the fertilizer sector should be achieved so that there is reduction in the dependence on imports and also increase in the production of fertilizers. In this regard, the Department of Fertilizers in their written reply have stated that India is 90% dependent on imports in the phosphatic sector in the form of finished fertilizers or in the form of raw materials and 100% dependent on import dependent on potash sector and therefore, the delivered price shall always be the same as international prices which is paid either in the form of subsidy or the MRP. Also, to overcome the impediments in the growth of fertilizer sector for sustainable growth the Government is encouraging and facilitating the fertilizer industries to enter into long term contracts with the countries having rich resource of raw materials for production of P&K fertilizers. Also, the Government have decided to revive the eight closed units of HFCL and FCIL to attain self-sufficiency in fertilizers. The Committee while agreeing with the imports needs of the fertilizer industry, feel that there is a need to cut the subsidy bill, but at the same time the reduction of subsidy Bill should not result in additional price burden on the farmers. The Committee are of the view that the reduction in the subsidy bill should not lead to increase in the MRP of fertilizers, as the rise in the MRP results in hardships to the farmers specially for small and marginal farmers. The Committee, therefore, strongly reiterates its earlier recommendation that Department of Fertilizers should make an all out efforts for technological innovation especially the development of potash and phosphatic minerals by R&D, state of the art machinery, reducing in the cost of production, energy efficiency measures etc. so as to reduce our dependence on imports thus reducing the subsidy bill and at the same time increasing the indigenous production of fertilizers so as to reduce the evergrowing prices of fertilizers.

C. DIRECT SUBSIDY TO FARMERS

Recommendation Sl. No./Para No.5

Emphasizing the need for early implementation of direct subsidy to farmers, the Committee had recommended as under:-

"The Committee are perturbed to note that despite their repeated recommendations in earlier Reports, Government have not achieved the long cherished goal of payment of subsidy directly to farmers. The Committee not that the Government has constituted in February 2011, a Task Force under Chairmanship of Shri Nandan Nilekani, Chairman, Unique Identification Authority of India (UIDAI) to recommend and implement a solution for direct transfer of subsidies on fertilizers among other things to the intended beneficiaries. The Committee understand that the Task Force has since submitted its Report to the Government. The Committee also understand that the Task Force has recommended three phases approach for implementation of the transfer of direct subsidies. Currently the Department of Fertilizers is dedicated to stabilize phase I by tackling on ground implementation issues such as gaps in mobile coverage over certain geographical regions, regional supply chain issues, user trainings and application upgradation. Thereafter, Phase II and III will be implemented. The Committee, therefore, strongly recommend that all three phases of the direct subsidy to farmers should implemented in strict time-bound manner, so that the farmers are able to benefit from the direct subsidy at the earliest. The Committee hope that further follow up action in this regard would be taken at the earliest so as to find ways and means for providing subsidy direct to farmers. The precise action taken in this regard may be communicated to the Committee."

REPLY OF THE GOVERNMENT

In reply of the aforesaid para, the Department of Fertilizers has stated as under :-

"While work on Phase I started immediately, a project strategy was being formed for the implementation of phase II. During the process, a feasibility assessment of Phase II was conducted and it was felt that while Phase II has its own value additions in terms of Business process re-engineering and establishing a system based payment mechanism, there was no significant value addition to the stakeholders by enabling subsidy transfer to retailers. The desirability of Phase II was then discussed with the fertilizer industry, Fertilizer Association of India (FAI) and the Taskforce and it was then collectively decided to not proceed with Phase II implementation but instead move ahead directly with Phase III implementation after Phase I stabilization. Phase III was further detailed out into three sub-stages as follows :-

- **Phase III (Stage A)** – Subsidy to manufacturers on the basis of retail sales of fertilizer at last retail point.
- **Phase III (Stage B)** – Subsidy to retail customer on the basis of fertilizer sales made to him / her.
- **Phase III (Stage C)** – Subsidy to ELIGIBLE retail customer on the basis of details of sales made to him / her. This will include defining the entitlement for various user categories.

Phase **III** (Stage **A**) focus on release of subsidy to the manufactures based on the retailer sales to farmers. The benefits envisaged from this stage are following:

a. Shift from production and dispatch based subsidy model to sales based subsidy distribution.
b. The post sales subsidy policy is in line with the fiscal prudence
c. Last point sales based data shall facilitate DoF in better budgeting, forecasting and supply plan
d. Data on last point fertilizer availability and sales will further improve information availability and transparency

e. Relatively less implementation challenges as the manufacturer will continue to be the subsidy recipient.

In the meantime, a review meeting has been held under the Chairmanship of Secy. (F) on 28.06.2012. The meeting of Task Force are being held to discuss the following :

(i) Phase I:

a. Progress of mobile application deployment post master trainers training
b. No. of end to end transactions post training
c. Establishment of multi-lingual call centre
d. m-FMS-FMS integration (2 way)
e. Reports on Transparency Portal : status of customized reports for all categories of users-manufacturers, dealers, state governments etc.

(ii) Phase II A :

a. Progress of DPR"

COMMENTS OF THE COMMITTEE

The Committee are happy to note that the work on Phase-I of the Direct subsidy to the farmers has already started. The Committee are further informed that during the feasibility assessment of the implementation of phase-II it was found that phase-II did not add significant value to the stakeholders by enabling subsidy to retailers. Therefore, it was collectively decided to not proceed with phase II but instead move ahead directly with phase-III implementation after phase-I stabilization. The Committee in this regard, are hopeful that phase-I stabilization will take place soon and initiation of phase-III will be done at the earliest. The Department of Fertilizers further, in their action taken reply have informed that the phase-III includes 3 stages which includes (stage-A) – subsidy to manufacturers on the basis of retail sales of fertilizers at last point (stage-B) – subsidy to retail customers on the basis of fertilizer sales made to them. (Stage-C) – subsidy to eligible retail customers on the basis of details of sales made to them. This will also include defining the entitlement for various categories. The Committee, therefore, recommends that all phases of the direct subsidy to farmers should be implemented in strict time-bound manner, so that the farmers are able to benefit from the direct subsidy and the poor farmers/ peasants get the maximum benefit of subsidy amount as compared to farmers belonging to APL category. The Committee would like to the apprised about the progress in this regard within three months of presentation of report.

D. FEEDSTOCK POLICY / ALLOCATION OF GAS TO FERTILIZERS INDUSTRY

Recommendation Sl. No./Para No.7

Stressing the need for firm availability and pricing of natural gas to fertilizer industry, the Committee had recommended as under:-

"The Committee observe that out of 20 units all based on gas with 4 units based on gas with 4 units based on naptha and 4 on FO/LHS as feeds stock. The total requirement of natural gas for existing 20 units is largely met from supplies under APM gas, PMT gas, JV gas, RIL gas and RLNG gas. The Committee have been informed that eight unit proposing to set up expansion area units of 11.5 to 12.7 lakh tone capacities require approx.2.2-2.4 mmscmd of gas by each unit. The total amount of gas required during next five years will be 48.73 mmscmd. The Committee would like to be apprised about the status report about the progress in allocation of gas to the fertilizer units. At the same time the Committee expect the Department of Fertilizers to vigorously pursue the matter with the Ministry of Petroleum and Natural Gas so that effective and expeditious steps are taken by them to achieve these targets.

The Committee need hardly emphasis that pricing and firm availability of natural gas for existing and new units of fertilizer companies are the pre-requisites to increase their indigenous production and would, therefore, desire the Department to play a proactive role in association with the Ministry of Petroleum and Natural Gas towards allocation of gas for the existing and new fertilizer plants in the country.

The Committee are constrained to point out that the Ministry of Petroleum and Natural Gas (MOPNG) has been non-committal on supplying gas on long term basis at an agreed price to the proposed new investments in the fertilizer sector as has been repeatedly requested by the Department of Fertilizers. Also, no decision on nomination of a single nodal agency has been taken by the Government to supply gas to fertilizer industries and to address various issues such as gas contracts, take or pay liabilities, variable gas pricing, gas shortfalls etc. The Committee also regret to observe that no specific decision has been taken regarding the issue of nominating GAIL (India) Limited as the nodal authority for supply of gas to fertilizer industry. The Committee are of the view that the Department of Fertilizers should continue to pursue the matter vigorously with the Ministry of Petroleum and Natural Gas (MOPNG) on the both aspects i.e. supply of natural gas to fertilizer industry as per fixed schedule and nomination of a nodal agency for supply of gas to the fertilizer industry. The Committee would like to be informed of the precise action taken in this regard within three months of the presentation of the Report".

REPLY OF THE GOVERNMENT

In reply of the aforesaid para, the Department of Fertilizers has stated as under :-

"The Department of Fertilizers is regularly taking up the issue of adequate allocation of Natural Gas to fertilizer sector on first priority. So far as nomination of nodal agency for supply of gas to fertilizers sector is concerned, the issue was taken up with the Ministry of Petroleum & Natural Gas. The Ministry of Petroleum & Natural Gas vide their OM No. L-15016/2/2010-GP-II, dated 7th May 2012, intimated that the Department of Fertilizers may take a view in the matter based on commercial consideration. The Department of Fertilizers has received a communication from CMD, GAIL that GAIL is procuring LNG for the fertilizer as an aggregator. The GAIL has constituted an Empowered Committee consists of Directors including representatives from the Government of India i.e. MoP&NG. On the request of GAIL(India) Limited, Joint Secretary(P&A) from DoF has been nominated as a member of Empowered Committee of GAIL, to decide the issues relating to fertilizer sector."

COMMENTS OF THE COMMITTEE

The Committee are unhappy to note that Department of Fertilizers in their action taken reply have given a very casual reply to the recommendation of the Committee with regard to the pricing and firm allocation of natural gas for the existing and new units of fertilizers. The Department of Fertilizers in their action taken reply have merely stated that it is regularly taking the issue of adequate allocation of natural gas to fertilizer sector with the Ministry of Petroleum and Natural Gas. The Committee are also unhappy to note that no decision has been reached yet with regard to the pricing and firm allocation of natural gas as these are very important pre-requisites to increase the indigenous production of fertilizers by the fertilizer companies. The Committee, therefore, strongly reiterate its recommendation that Department of Fertilizers should play more pro-active role in pursuance of the

issue with Ministry of Petroleum and Natural Gas towards firm allocation of gas for existing and new fertilizers plants in the country. The Committee were satisfied to note that GAIL has been made an aggregator for procuring LNG. Also, GAIL has constituted an Empowered Committee consisting of Directors including representatives from Ministry of Petroleum and Natural Gas and Joint Secretary (P&A), Department of Fertilizers. The Committee, therefore, hope that GAIL and the Empowered Committee would be active in giving solutions to the issues relating to fertilizer sector such as gas contracts, take or pay liabilities, variable gas pricing , gas shortfalls etc. at the earliest. The Committee would like to be informed of the action in this regard within three months of the presentation of the Report.

E. ASSESSED REQUIREMENT AND AVAILABILITY OF FERTILIZERS

Recommendation Sl. No./Para No.8

Emphasizing the need for proper assessment and availability of fertilizers in all parts of the country, the Committee had recommended as under:-

> "The Committee noted that equitable distribution of fertilizers in all parts of the country is an important criteria for facilitating increased productivity in agriculture sector. At present, the Department of Fertilizers is required to ensure availability of urea, as per the requirement assessed by the Department of Agriculture and Cooperation. The Committee note that the movement of fertilizes is monitored throughout the country by an on-line web based monitoring system (FMS), still the farmers are facing great difficulty in getting the fertilizers on time and also they are facing the problem of artificial scarcity shortage in some parts of the country. The Committee are not satisfied with the real working of the system in tracking the demands and availability of fertilizers in different parts of the country. The Committee, therefore, strongly recommend that the Department of Fertilizers should devise a foolproof mechanism for proper and equitable distribution of fertilizers in all parts of the country especially in remote, hilly and inaccessible areas. Also, the Department of Fertilizers should make serious efforts to collaborate with the State Governments to tackle the problem of artificial shortage and punish hoarders and black marketers."

REPLY OF THE GOVERNMENT

In reply of the aforesaid para, the Department of Fertilizers has stated as under :-

> "Department of Fertilizers monitors availability of fertilizers state wise. Further monitoring / distribution of fertilizers district / block wise is the responsibility of the respective states. The state wise availability during Kharif 2012 (April to July) along with pre-positioning of fertilizers is Annex A. As can be seen, the availability of all the fertilizers is adequate.
>
> There may be some stress in fertilizer availability in case of few states because of non-availability of adequate warehouse capacity in these states. As a result of this, the States lift fertilizer as and when required. Department of Fertilizers (DOF) has notified for P & K fertilizers (except SSP) Special Freight Scheme w.e.f. 01.04.2012 for giving special freight for difficult, hilly and in-accessible States like Jammu & Kashmir, Himachal Pradesh, Uttarakhand, all North Eastern States and Andaman & Nicobar Islands in order to have equitable distribution of fertilizers. As a result of which, it is expected that the fertilizer availability in these States would improve.
>
> Besides, the steps taken by Government of India in making availability of fertilizers :
>
> i) The gap between requirement and indigenous production is met throught imports.

ii) Department of Fertilizers is having constant interaction with ministry of Petroleum and Natural Gas, GAIL and other suppliers of Natural Gas / Liquid Natural Gas (NG / LNG) so that gas requirement of the fertilizer industry is met ; and

iii) Government is always encouraging production of urea in the country to achieve self-sufficiency. The Government is considering a new policy for encouraging investments in Urea Sector.

As per Clause 4 (a) of the Fertilizer (Control) Order-Display of stock position of fertilizers – Every dealer, who makes or offers to make a retail sale of any fertilizer, shall prominently display in his place of business - the quantities of opening stock of different fertilizers held by him on each day. Any person violating this mandatory provision of FCO is held liable to be proceeded under the provisions of FCO and Essential Commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices viz., hoarding etc.

Under Clause 21 of the Fertilizer Control Order (FCO), 1985, it is mandatory to print the maximum retail price (MRP) on each bag of fertilizer whether under statutory price control of out of the purview of the statutory price control. No person shall charge higher than the price printed on the bag. Any person violating this mandatory provision of FCO is held liable under the provisions of FCO and Essential commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices."

COMMENTS OF THE COMMITTEE

The Committee in its earlier recommendation had observed that inspite of the fact that the movement of fertilizers is provided throughout the country by an on-line web based monitoring system (FMS), the farmers are facing great difficulty in getting fertilizers on time and also they are facing artificial scarcity/shortage in some parts of the country. In this regard, the Department of Fertilizers in their written reply have stated that though the availability of fertilizers during kharif 2012 (April to July) was adequate but there has been some stress in fertilizer availability in case of few states because of non-availability of adequate warehouse capacity in these states. As a result of this, the states lift fertilizers as and when required. The Committee therefore, recommended that the Department of Fertilizers should take measures in coordination with the State Governments to construct more warehouses for storage of fertilizers. Further, with regard to taking appropriate action against the offenders who indulge in any kind of malpractices viz; hoarding etc, the Department of Fertilizers in their action taken reply have stated that the State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices. However, the Committee are not satisfied with the working of the system of tracking demands and availability in different parts of the country. The Committee are of the view that the ground reality with regard to availability of fertilizers is very different. The Committee during their various study tours have found that the farmers are facing acute shortage of fertilizers. The Committee, therefore, once again strongly reiterates that Department of Fertilizers should ensure that timely and adequate quantity of fertilizers are made available upto block level so that the farmers do not suffer due to scarcity of fertilizers. For this purpose a foolproof mechanism need to be developed in consultation with various farmers' organisations/ cooperatives.

F. PERFORMANCE OF PUBLIC SECTOR UNDERTAKING

Recommendation Sl. No./Para No.9

Emphasizing the need for improvement in the performance of PSUs, the Committee had recommended as under:-

"The Committee observe that there are nine Public Sector Undertakings (PSUs), one multi-state cooperative society and one joint sector company under the administrative control of the Department of Fertilizers. Out of this, Krishak Bharati Cooperative Limited (KRIBHICO), the multi-State cooperative society and three PSUs, viz. National Fertilizers 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 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 of revival of the sick PSUs . The Committee also note that there has been negligible growth of the fertilizer sector during the last decade. The Committee, therefore, recommend that Department and all PSUs should make efforts for taking suitable measures to overcome the constraints and for improving capacity utilization, energy conservation methods and also to bring down manpower and administrative expenditure."

REPLY OF THE GOVERNMENT

In reply of the aforesaid para, the Department of Fertilizers has stated as under :-

“The following steps have been taken by the Fertilizer PSUs to overcome constraints and for improving capacity utilization, energy conservation methods and to bring down manpower and administrative expenditure;

National Fertilizers Limited (NFL)

To cut down energy consumption, NFL has undertaken Ammonia Feedstock Changeover Projects at its three FO based units at Nangal & Bhatinda in Punjab and Panipat in Haryana. These projects shall result in reduction in energy consumption, substitute high cost FO with low cost natural gas and substantial reduction in Govt. subsidy outgo. The company has undertaken energy saving and urea capacity enhancement project at Vijaipur-I & II units in Madhya Pradesh. These projects shall result in increase in urea capacity by 16% at Vijaipur-I & by 23% at Vijaipur-II unit i.e. urea capacity shall increase by 3.37 lakh MT. The company over a period of ten years has brought down its Manpower from 6602 as on 31.03.2001 to 4515 as on 31.03.2012.

Rashtriya Chemicals and Fertilizes Limited (RCF)

RCF is a leading profit making Mini-Ratna fertilizer and Chemical manufacturing company engaged in manufacturing of variety of products such as Ujwala urea and complex fertilizer Suphala. Since inception, RCF has economically and safely operated 2 dozen chemical and fertilizer plants for the past four and half decade at Trombay.

RCF always strives for upkeep of the plants through modernization and upgradation of technology. Company has recently modernized its Ammonia-V, Nitric Acid, Methanol and ANP plants. This has facilitated plants to sustain operations and meet technological challenges of improved efficiency, lower energy consumption and maintain/excel environmental norms. It has resulted in achieving highest standards of safety and product quality.

RCF is continuously reviewing the workforce of its various plants and departments in its endeavour to rationalize and optimize the same. Company's productivity in terms of manpower has always been exceptionally high. Govt. has allocated gas on priority basis to RCF.

Brahmaputra Valley Fertilizers Chemicals Limited (BVFCL)

The company is operating its Namrup-II unit and Namrup –III plants which are based on old and vintage technology. These urea units consume high energy as compared to present day plants. Both the plants have outlived their life resulting repeated machine breakdowns. There are also constraints in availability of original spares and surplus funds preventing the company to take up regular maintenance replacement of critical machine parts. All the problems led to lower capacity utilisation and higher energy consumption.

The company has taken various steps to overcome the constraints and improve capacity.

(i) An in-depth internal study of critical areas of plants causing production limitations has been carried out. Based on the study a short/medium term action plan has been drawn up. Funds have been made available in phases from GOI as Plan/Non Plan loan under Renewal & Replacement Schemes for carrying renovation jobs.

(ii) Various renovation/replacement of equipments have already been carried out which have led to savings in energy. With this , the performance of the company is expected to improve significantly.

(iii) BVFCL has already initiated steps for financial restructuring of the company. M/s Haldor Topsoe has been appointed as Process Licensor for comprehensive study of Ammonia plants and M/s PDIL for Urea plant and off-sites/utilities, situated at Namrup-II and namrup III plant. Based on the study reports of Namrup-II & Namrup-III Plants carried out by M/S HTAS and PDIL and viability proposal prepared by PDIL the BVFCL has submitted a comprehensive proposal for Long Term Viability of the Company for submission to BRPSE. The proposal is under consideration in the Department of Fertilizers. The following dispensation has been sought from BRPSE for long term viability of the Company in this proposal:

- Waiver of total cumulative interests of Rs. 373.43 crore accrued on GOI loans till 31.03.2011
- Waiver of loan of Rs. 21.96 crore taken for revamp of Namrup-I, since this plants has been permanently stopped.
- For Namrup-III, the capital expenditure of Rs 79.62 crores incurred beyond 31.03.2003 for revamp of the project to be recognised by Govt. of India for calculating the concession rate of urea.
- Since the company is facing technological/financial constraints, it is proposed to convert GOI loans provided to the company as interest free loan. However the company on earning cash profit, will service the GOI loans.
- Relaxation in profitability clause for pay revision and enhancement of age of superannuation from 58 to 60 years as a special dispensation to meet the immediate crisis of manpower.
- To setup New Brown Field Ammonia-Urea Plant at Namrup (Namrup-IV).

Madras Fertilizers Limited(MFL)

Even though the Company was declared sick by BIFR in its hearing held on 02.04.2009, the company's operations for the year 22011-12, 2010-11 & 2009-10, ended with a profit of Rs.111.99 cr., Rs.169.86 Cr., & Rs.6.88 Cr. respectively against continuous losses incurred during 2003-09. The profits were mainly due to implementation of NPS –III amendment restricting the reduction in fixed cost to 10% from 1.4.2009 and improved production performance. The profit during 2010-11 was higher due to account of benefits amounting to Rs.124.69 Cr under One Time Settlement with Financial Institutions.

Improvement in reliability of plant operations, energy efficiency and extension of Plant life could be achieved due to implementation of various renewal/replacement schemes out of Plan funds received as budgetary support. The company was able to overcome the constraints and achieve 100% capacity utilization of its Urea plant by producing 4.78 LMT of Urea during 2011-12 which is the highest ever achieved since inception. The specific energy consumption of urea has also registered significant improvement compared to FICC norms. For instance, the annual specific energy consumption was 7.517 Gcal/MT during 2011-12 and 7.492 Gcal/MT during 2010-11 as against FICC norm of 8337 Gcal/MT. During the year 22011-112, the Company could also restart its own production of NPK Complex Fertilizers after a gap of more than 4 years and could produce 0.36 LMT. The Company has planned for production of 4.20 LMT of NPK Complex fertilizers during the year 2012-13.

MFL is implementing the projects of conversion of feedstock from Naphtha to Natural gas. Provision is being kept to process Naphtha or Natural gas or a combination of both depending upon the availability. Basic Engineering package has been received from M/s Haldor Topsoe AG. M/s Projects & Development India Ltd (PDIL) has been engaged as engineering consultant for execution on this project. In order to source Natural Gas, Company has requested M/s IOCL & M/s GAIL to indicate feasibility of supplying 1.54 MMSCMD of Natural Gas and is awaiting a firm proposal from them.

The total manpower strength of MFL as on 31.03.2012 was 733 as against the Board approved strength of 1032. However, the company is taking adequate steps to supplement the retiring technical manpower and impart training to the new recruits to maintain the technical competence to run the Plants.

Fertilizers and Chemicals Travancore Limited (FACT)

For the financial year 2011-112 estimated profit of FACT is Rs.6.20 crore. Turnover achieved in 2011-12 is Rs.2875 crore, which is 17% higher than 2010-11 level. Production has also been good with 6017 lakh MT of NP Complex Fertilizers and 1.63 LMT of Ammonium sulphates and 37854 MT of Caprolactam being produce. Company is generating additional revenue from sale of Phospho-Gypsum and achieved a new record in Annual sales of 7.3 lakh MT in the current year.

The company is gearing up to switch over to LNG which is expected to be available by the end of 2012 at Kochi. Following are the major project proposals requiring high capital investment :

- Capacity enhancement of NP plant at Cochin Division by 1000 Tons per day (TPD)
- 1500 TPD Urea plant at Udyogamandal
- 2800-3500 TPD sulphuric Acid Plant
- A gypsum park at Cochin Division.

Company has called for Expression of Interest from both Public and Private entities for JV participation in the above ventures.

The company has appointed M/s Deloitte to prepare a Financial restructuring report to be submitted to BRPSE. BRPSE has directed to submit the revised proposal.

FCI Aravali gypsum and Minerals India Limited (FAGMIL)

M/s. FCI Aravali Gypsum and Minerals India Limited (FAGMIL) is engaged in mining and marketing of Minerals Gypsum which is used for reclaiming Sodic Soil and as fertilizer in Agriculture as a sulphur Nutrient. The mineral Gypsum is also used in cement industries as retarder.

The Company has earned profit (PBT) of Rs. 29.44 Crore (approx) during the year 2011-12 as against Rs. 19.89 Crore in the previous year. The Company's sale turnover has been Rs. 66.53 Crore during the year 2011-12 as against Rs. 61.48 Crore in the previous year.

Projects and Development & India Limited (PDIL)

PDIL is mainly engaged in design, engineering and consultancy services and also producing catalyst for the fertilizers and refinery industries. During the year 2010-11 company has earned a profit (PBT) of Rs. 31.78 crore. However, the finalization of accounts for the year 2011-12 is under progress and the PBT (Provisional) for the year 2011-12 is likely to be Rs. 34.63 crore.

HFCL and FCIL

Pursuant to the decision dated 30th oct. 2008 of the Cabinet, an Empowered Committee of Secretaries (ECOS) under the Chairmanship of Secretary (F) was constituted to evaluate all options for revival of closed units of Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) and make suitable recommendations. Based on the recommendations of the ECOS, a proposal was sent to CCEA, which approved the same in its meeting held on 4.8.2011 with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited and thereafter, the matter including changes, if any, required in bid parameters, be placed before the Committee for a final decision. BIFR in their meeting held on 18.8.2011 considered the issue and directed State Bank of India, the Operating Agency (OA), to examine the DRS in consultation with Department of Fertilizers and submit their recommendations within 3 months. Subsequently, as directed by the BIFR, OA examined the DRS and submitted the same to BIFR on 17.2.2012. The DRS was examined by the Consultant of BIFR and as desired by him, OA again submitted the DRS to BIFR on 17.3.2012 in a modified format.

At present, the DRS submitted by OA is under examination of BIFR. BIFR orders on miscellaneous applications submitted by FCIL/HFCL for seeking first stage clearance are awaited."

COMMENTS OF THE COMMITTEE

The Committee in its earlier recommendation had noted that there has been negligible growth of the fertilizer sector during the last decade and this was due to various factors such as non-availability of surplus funds, outdated machinery, poor energy efficiency, non-recruitment of experienced and qualified technical manpower and non-availability of natural gas has also been the main impediment. The Committee, had therefore, recommended that the Department of Fertilizers and all PSUs should make efforts for taking suitable measures to overcome the constraints and for improving capacity utilization, energy conservation methods etc. The Department of Fertilizers in their action taken reply have given various steps being taken by fertilizer PSUs to overcome constraints and improving capacity utilization, energy conservation methods and to bring down manpower and administrative expenditure. The Committee therefore re.iterate that Department of Fertilizers should make sustainable efforts to improve the performance of the PSUs in the fertilizer sector and accelerate the growth of PSUs in this area so that it leads to increase in the indigenous production of fertilizer thereby reducing our country's dependence on imports.

G. CLOSED PUBLIC SECTOR UNDERTAKINGS (PSUs)

Recommendation Sl. No./Para No.10

Stressing the need to revive the closed PSUs at the earliest, the Committee had recommend as under:-

"The Committee note that out of the nine Public Sector Undertakings (PSUs), Hindustan Fertilizers Corporation Limited (HFCL), Madras Fertilizers Limited (MFL), BVFCL and FCIL are sick units. Out of these four, the units of FCIL and HFCL are presently lying closed since 2002. MFL and BVFCL are operational but are sick companies under the administrative control of the Department of Fertilizers. The Committee have been given to understand that an Empowered Committee of Secretaries (ECOS) was constituted in October 2008 under the Chairmanship of Secretary (Fertilizers) and Secretaries of Department of Expenditure, Department of Disinvestment, Planning Commission, Department of Public Enterprise and Ministry of Petroleum & Natural Gas as Members to look into all the financial models for revival of each of the closed units. Further, the Committee have been informed that for FCIL and HFCL, based on the recommendations of ECOS a note have been prepared and forwarded to Cabinet Committee for their consideration. The CCEA has approved the proposal in its meeting with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited. For MFL, BIFR has directed Operating Agency (State Bank of India) to workout financial restructuring of MFL considering the conversion of GOI loan into equity. The operating agency i.e. SBI has submitted its report to BIFR. Now, MFL is being requested to examine viability of the Draft Rehabilitation Scheme (DRS). For BVFCL, it has been suggested / directed to get a detailed financial restructuring proposal made by consultant for submission to Board for Reconstruction of Public Sector Enterprises (BRPSE). Similarly, initiatives have also stated to have been taken by the Government to wipe out the accumulated losses of MFL and BVFCL and to make these PSUs commercially viable till the availability of gas. The Committee would like the Department of Fertilizers to take effective and expeditious steps to canalize and implement the whole revival process for the closed and loss-making PSUs. The Committee also desire that the revival of closed and sick public sector undertakings should done in a time bound manner and a schedule should be chalked out for the revival of closed and sick fertilizer PSUs. The details of such a revival package may be intimated to the Committee within three months of presentation of the Report."

REPLY OF THE GOVERNMENT

In reply of the aforesaid para, the Department of Fertilizers has stated as under :-

“The status of revival of HFCL & FCIL and Financial Restructuring of MFL and BVFCL are as under;

Revival of HFCL and FCIL:

Pursuant to the decision dated 30th oct. 2008 of the Cabinet, an Empowered Committee of Secretaries (ECOS) under the Chairmanship of Secretary (F) was constituted to evaluate all options for revival of closed units of Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) and make suitable recommendations. Based on the recommendations of the ECOS, a proposal was sent to CCEA, which approved the same in its meeting held on 4.8.2011 with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited and thereafter, the matter including changes, if any, required in bid parameters, be placed before the Committee for a final decision. BIFR in their meeting held on 18.8.2011 considered the issue and directed State Bank of India, the Operating Agency (OA), to examine the DRS in consultation with Department of Fertilizers and submit their recommendations within 3 months. Subsequently, as directed by the BIFR, OA examined the DRS and submitted the same to BIFR on 17.2.2012. The DRS was examined by the Consultant of BIFR and as desired by him, OA again submitted the DRS to BIFR on 17.3.2012 in a modified format.

At present, the DRS submitted by OA is under examination of BIFR. BIFR orders on miscellaneous applications submitted by FCIL/HFCL, for seeking first stage clearance are awaited.

Restructuring of BVFCL

For financial restructuring of the BVFCL, company has appointed M/s Haldor Topsoe as Process Licensor for comprehensive study of Ammonia plants and M/s PDIL for Urea plant and off-sites/utilities, situated at Namrup-II and namrup III plant. A comprehensive proposal for revival of the company will be prepared based on the technical study report of by Process Licensor M/s Halder Topsoe and PDIL. A thorough study at the existing Namrup-II and Namrup-III plants has already been carried out by them and they have submitted a draft reports in August 2011. In the reports, energy saving schemes as well as required renovation to operate the plants at sustained Load have been suggested. Based on the study reports of Namrup-II & Namrup-III Plants carried out by M/S HTAS and PDIL and viability proposal prepared by PDIL the BVFCL has submitted a comprehensive proposal for Long Term Viability of the Company for submission to BRPSE. The proposal is under consideration in the Department of Fertilizers. The following dispensation has been sought from BRPSE for long term viability of the Company in this proposal:

- Waiver of total cumulative interests of Rs. 373.43 crore accrued on GOI loans till 31.03.2011
- Waiver of loan of Rs. 21.96 crore taken for revamp of Namrup-I, since this plants has been permanently stopped.
- For Namrup-III, the capital expenditure of Rs 79.62 crores incurred beyond 31.03.2003 for revamp of the project to be recognised by Govt. of India for calculating the concession rate of urea.
- Since the company is facing technological/financial constraints, it is proposed to convert GOI loans provided to the company as interest free loan. However the company on earning cash profit, will service the GOI loans.
- Relaxation in profitability clause for pay revision and enhancement of age of superannuation from 58 to 60 years as a special dispensation to meet the immediate crisis of manpower.
- To setup New Brown Field Ammonia-Urea Plant at Namrup (Namrup-IV).

Restructuring of MFL:

With regard to restructuring of MFL it may be mentioned that M/s PDIL has submitted its report and recommended the conversion of GOI loan into equity and waiver of outstanding interest liability towards GOI. The views of foreign promoter NICO (Holding 25.77% equity stake) has also been received, who have opposed for sale of assets and conversion of Govt. Loan into Equity.

Since MFL is a sick company and BIFR has appointed State Bank of India as a Operating Agency for submitting a Financial restructuring proposal for MFL, the report of PDIL and the views of Foreign promoter NICO was forwarded to SBI for consideration.

State Bank of India (SBI) had considered the viability of the proposal and views of foreign promoter NICO and submitted the report on the financial restructuring package of MFL. The Board of Director of the company considered to report of the OA and approved it.

After considering the views of the Board of MFL, NICO and Operating Agency, a BRPSE note for financial restructuring of MFL was circulated for inter-ministerial comment. The comments from the concerned Ministries/Departments have been received and considered in the DoF. Deptt. of Expenditure and Planning commission have been requested to submit the fresh comments on the proposal.

In the meantime the BIFR in its hearing held on 25th August 2011 has directed the Operating Agency (State Bank of India) to workout financial restructuring of MFL considering the conversion of GOI loan into equity. The operating Agency has submitted its report to BIFR. BIFR hearing was held on

07th May 2012 NICO one of the equity holders in MFL has objected to DRS proposal regarding conversion of GOI loan to equity. The matter is pending with BIFR."

COMMENTS OF THE COMMITTEE

The Committee had earlier recommended that the Department of Fertilizers should take effective and expeditious steps to canalize and implement the revival process for the closed and loss-making PSUs. The Committee had also desired that the revival of closed and sick public undertakings should be done in a time bound manner and a schedule should be chalked out for the revival of closed and sick fertilizers PSUs. The Department of Fertilizers in their action taken reply have given the status of revival of Hindustan Fertilizers Corporation Limited (HFCL) and FCIL and Financial Restructuring of MFL and BVFCL. Further, the Department of Fertilizers has stated that with regard to revival of HFCL and FCIL the Draft Rehabilitation Scheme (DRS) submitted by State Bank of India, the Operating Agency (OA) is under examination of BIFR and BIFR orders on miscellaneous application submitted by FCIL/ HFCL, seeking first stage clearance are awaited. With regards to restricting of BVFCL the Department of Fertilizers has stated that for restructuring of the BVFCL, the company has appointed M/s Haldor Topsoe as Process Licensor for comprehensive study of ammonia plants and M/s PDIL fur urea plant and off-sities/ utilities, situated at Namrup-II and Namrup-III plant. The study reports have already been submitted in August 2011. Now based on the study reports of Namrup-II & Namrup-III plants carried out by M/s HTAS and PDIL and viability proposal prepared by PDIL, the BVFCL has submitted a comprehensive proposal for Long Term Viability Plan of the company for submission to BRPSE. This proposal is under consideration in Department of Fertilizers. Further, with regard to MFL, the Department of Fertilizers have informed that since MFL is a sick company, BIFR has appointed State Bank of India an Operating Agency (OA) for submitting a financial restructuring proposal for MFL. BIFR in its hearing held on 25th August, 2011 has directed the OA (State Bank of India) to workout financial restructuring of MFL considering the conversion of GOI loan equity. The Operating Agency has submitted its report to BIFR. BIFR hearing was held on 7th May, 2012, NICO which is one of the foreign equity holders in MFL has objected to Draft Rehabilitation Scheme (DRS) proposal regarding conversion of GOI loan equity. Now the matter is pending with BIFR.

The Committee are not satisfied with the progress made in the revival of closed PSUs. The Committee feel that earliest revival of the closed PSUs is vital for the growth of fertilizer industries and country's self-sufficiency in the fertilizer production. The Committee, therefore, strongly recommend that the revival of closed PSUs should be done in a strict time-bound manner and expeditiously so that the sick and closed PSUs start production of fertilizers. The Committee also recommend that the formalities regarding the revival of closed/ sick PSUs pending at various levels should be expedited, so that it saves time and costs overruns, enabling early revival of closed/ sick fertilizer industries. For this purpose matter should be pursued and resolved with various stakeholders including NICO at the earliest.

CHAPTER – II

OBSERVATIONS / RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation Sl.No./Para No. 1

There are 30 large size fertilizer plants in the country manufacturing urea (as on date 29are functioning) out of which 21 units produce DAP and complex fertilizers, 5 units produce low analysis straight nitrogenous fertilizers and the 9 manufacture ammonium sulphate as by-product. The Committee note that production of fertilizers in the country has been more or less stagnant for the last one decade, whereas the imports are increasing to meet the growing demand of fertilizers in the country. The Committee further note that the installed capacity has been 120.61 lakh MT of nitrogenous and 56.59 lakh MT of phosphatic nutrients. The Committee observe that the growth of fertilizer industry has not kept pace with the growing requirement of the fertilizers as the country is by and large import dependent for meeting requirements of critical phosphatic inputs such as rock phosphate and phosphoric acid. Paucity of raw materials, lack of long term availability of natural gas, high cost of imported RLNG gas and volatility in prices have impeded growth of the fertilizer industry. Indigenous production of fertilizers has not grown due to lack of new investments in urea sector and there has been no significant investment in urea sector in the last decade. These impediments are matter of serious concern. However, keeping in view the vital role played by the chemical fertilizers in the successful agriculture production in the country, the Committee recommend that the Department of Fertilizers should urgently take suitable measures to further boost the growth of fertilizer industry so that there is self-sufficiency and sustained growth of fertilizer industry.

The Committee note that in order to increase the indigenous production of urea, an investment policy in urea sector was notified on 4th September'2008. The policy has resulted in increase of indigenous Urea production by approximately two million tones through revamp of existing plants. However, no new investments under Expansion, Revival & Greenfield plants have materialized. The fertilizer companies have also expressed concern regarding pricing and firm availability of gas before taking final investment decision to undertake expansion, Brownfield and new Greenfield projects. To address the concerns of the fertilizer industry, a proposal for New Investment Policy – 2012 in urea sector is under consideration of Department of Fertilizers.

The Committee desire that the finalization for new investment Policy-2012 be expedited to attract more investments in the indigenous production of urea by the fertilizer industry.

Further, lack of adequate availability of inputs including natural gas required for production of fertilizers and limited resources are major hindrances in achieving self-sufficiency in fertilizer sector. In the absence of ready availability of potash sources in the country, the entire demand of potassic fertilizer for direct application as well as for production of complex fertilizers is being met through imports. The Committee have been informed that the Department of fertilizers has continuously been following a policy for encouraging investments abroad by Indian entities in fertilizer sector in resource rich countries. The Committee hope that the Department of Fertilizer would continue with their efforts in exploration of indigenous raw materials for the fertilizer industry. Considering the vital role played by chemical fertilizers as one of the key inputs for the success of agriculture output in the country, the Committee feel that there is an urgent need for more suitable steps to be taken by the Department to ensure a sustained growth of industry as a whole.

The Committee also stress that the Department should vigorously pursue the issues regarding adequate allocation of natural gas and gas pipeline connectivity with Ministry of Petroleum and Natural Gas. The Committee are of the view that with the assured allocation of natural gas to the fertilizer sector, the expansion and revamping process of existing and new fertilizer projects could be completed at the earliest which in turn would avoid cost and tiem overruns. At the same time, a balanced use of fertilizers (NPK) is also essential for increasing agricultural productivity in the country. The Committee would also like to recommend that expeditious measures need to be taken by the Department for capacity addition programmes so as to achieve self-sufficiency in fertilizer sector.

Reply of the Government

The Department of Fertilizers is regularly taking up the issue of adequate allocation of Natural Gas to fertilizer sector and early completion of gas pipeline connectivity to various Fertilizer plants under categories of conversion, expansion and revival units. The GAIL(India) Limited has intimated Department of Fertilizers that GAIL is already laying pipeline infrastructure to connect the fertilizer plants through various upcoming pipelines.

As regards capacity addition programmes to achieve self-sufficiency in fertilizer sector, it is submitted that a proposal for amendments to the New Investment Policy notified by the Department of Fertilizers on 4th September 2008 was discussed in the meeting of Group of Ministers(GoM) held on 5th January 2011. GoM decided to constitute a Committee under chairmanship of Dr. Saumitra Chaudhuri, Member Planning Commission with Secretary(Fertilizers), Secretary(Expenditure), Secretary(DAC) and Secretary(Petroleum) as members. The committee examined the proposal for introduction of NBS in urea, including various options therefor, and made suitable recommendations. The Committee also examined the issues relating to the investment Policy and amendments proposed therein and made appropriate recommendations. In the next meeting of the Group of Ministers held on 5th August 2011 this proposal again came up for discussions and the Chairman of GoM directed the Committee to expeditiously submit its recommendations on issues relating to the investment policy including amendments proposed therein by the DOF.

The report of the Committee on Investment Policy in Urea sector has been finalised and signed on 7th January 2012. Proposal regarding new investment policy 2012 in urea sector was discussed in the meeting of the GoM held on 24th February 2012. GoM decided that the proposal for New Investment Policy – 2012 in urea sector suggested by the Committee under Dr. Saumitra Chaudhury, Member Planning Commission, as modified by the Department of Fertilizers, be placed before the CCEA. Accordingly, a draft CCEA Note on New Investment Policy 2012 has been prepared and circulated by the Department of Fertilizers on 26th June 2012 for inter-ministerial consultation and comments. The comments of all the Departments concerned are received except from the Department of Expenditure.

{Ministry of Chemicals and Fertilizers (Department of Fertilizers) OM No.5(1)/2011-Fin.II/(Vol.II) dated 28.08.2012}

Recommendation Sl.No./Para No. 2

Eleventh Five Year Plan

The Committee note from plan outlays and expenditure that an outlay of Rs.20627.87 crore for the Eleventh Five Year Plan (2007-2012) was allocated for Department of Fertilizers out of which the actual expenditure of the Department of Fertilizers for the years 2007-08, 2008-09, 2009-10 and 2010-11 (RE) was at Rs.264.26 crore, Rs.745.03 crore Rs.711.24 crore and Rs.1514.38 crore respectively and the RE for 2011-12 was Rs.3736.93 crore totaling Rs.6971.84 crore which is only 34% of the total plan allocation. The Committee are dismayed to note that the Department of

Fertilizers has not been able to utilize the full amount allocated to them. The Committee are, therefore, inclined to conclude that either requisite funds were not made available to the Department every year of the plan period or the Department failed to utilize fully the available funds.

The Committee, therefore, feel that there is a need for proper planning and projection of realistic estimates and timely and prudent use of approved outlays. The Department of Fertilizers should also endeavour to impress upon the Planning Commission and Ministry of Finance to allocate adequate funds for the various schemes/programmes that are asked for based on the proper estimates. The Committee are unhappy to note that for the preparation and projection of 12th Five Year Plan the Department of Fertilizers have not finalized the plan outlays for MFL and FACT for the last four years of the 12th Five Year Plan. The Committee, therefore, recommend that finalization of the 12th Five Year Plan should be carried out in all aspects. The Committee further also recommend that with the beginning of the 12th Five Year Plan the Department of Fertilizers should make all out efforts to made optimum utilization of the funds which have been allocated for various programmes and projects in each year of the 12th Five Year Plan and achieve the targeted goals.

Reply of the Government

The approved outlay of 11th Five Year Plan is Rs.20627.87 crore. This consists of Rs.1492 crores as Gross Budgetary Support (GBS) and Rs.19135.87 crore as Internal and Extra Budgetary Resources (IEBR) generated by the companies from their own resources. GBS of Rs.1492 crores were provided for two schemes namely, revival of sick PSUs (Rs.607 crores) and capital subsidy for conversion (Rs.885 crores). Later on the capital subsidy schemes for conversion of four urea plants based of FO/LSHS was not pursued and conversion of urea plants were financed through a non-plan scheme. Hence, allocation of Rs.885 crores became redundant.

DoF had suggested Planning Commission to re-allocate the amount under the Head 'conversion' for making corpus for acquiring resources abroad. Of the allocation of Rs.607 crores for the revival of sick PSUs the funds had been made available to three PSUs namely BVFCL, FACT and MFL. The total funds made available by the Planning Commission during 11th Five Year Plan are Rs.875.65 crores which is more than the original allocation under GBS. It may therefore be seen that while Planning Commission provided adequate funds for meeting the requirement of three PSUs, namely BVFCL, FACT and MFL, shortfall did occur in the realization of the Plan projections insofar as capital expenditure from IEBR is concerned by the respective profit making PSUs.

As mentioned above, bulk of outlay projections during 11th Five Year Plan were supposed to be met by profit making companies through their own resources for various projects during the Five Year Plan period. There is a shortfall in meeting these projections during 11th Five Year Plan. It may be mentioned that 11th Plan projections for IEBR were made at the beginning of the 11th Five Year Plan keeping in view the investment environment, policy framework expected during medium and likely international environment. These projections were indicative based on economic outlook prevailing at that time and expectations from PSUs. Every year, respective profit making companies re-casted their actual expenditure in each year depending upon international environment policy, economic viability and priority of requirements set for that year.

<u>The main reasons for shortfall in IEBR realization are as follows:</u>

In case of Rashtriya Chemicals & Fertilizers (RCF), an outlay of Rs.2699.74 crores was provided for additional Ammonia-Urea (Thal Expansion) Project but the expenditure could not be incurred by RCF due to uncertainty about sourcing of gas.

Further an outlay of Rs.2596.26 crores was provided for revival of Durgapur and Talcher units and expenditure on the scheme could not be incurred due to absence of favorable policy for new investment in Urea sector.

In case of National Fertilizers Limited (NFL), the projected capital expenditure of Rs.6050.75 crores was revised to Rs.3993.75 crore during Mid-term appraisal of the 11th Five Year Plan due to exclusion of revival of Barauni unit which was earlier to be executed by National Fertilizers Limited. It was taken form NFL and entrusted to Joint Venture Company (M/s UVL). The plan outlay was further revised due to revision in project cost for changeover of feedstock project at FO based units and capacity enhancement of urea project at Vijaypur.

In case of KRIBHCO, it intended to set up an additional stream of Ammonia-Urea plan at its existing fertilizer complex at Hazira. However, in absence of firm availability of gas on long term basis and impact of investment policy of the Government, the project was not undertaken. KRIBHCO initially wanted to invest Rs.3000 crores on revival of Gorakhpur plant at the time of formulation of 11th Five Year Plan. However, this project was also not undertaken since Government has now proposed a different financial model for revival of closed units of FCIL/HFCL.

In view of deviations from the projected outlay to the actual expenditure under IEBR during 11th Five Year Plan, PSUs are asked to make realistic assessment of requirement of expenditure and availability of finance through IEBR. Department will continue to monitor in an effective manner such schemes proposed by the companies and would initiate required follow up action.

Department of Fertilizers would make all out efforts to make optimum utilization of the funds which have been allocated for various programmes and projects in each year of the 12th Five Year Plan and achieve the targeted goals. For preparation and projection of 12th Five Year Plan, Department of Fertilizers have finalized the plan outlays for MFL and FACT for the last four years of the 12 Five Year Plan. Revised **s**tatement showing the scheme-wise Plan outlays for the 12th Five Year Plan is as under:-

(In Rs. crore)

Name of the scheme	**Particulars**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Total**
RCF	IEBR	673.75	2739.00	2198.00	925.00	300.00	6835.75
FAGMIL	IEBR	23.51	48.42	31.25	5.75	11.30	120.23
PDIL	IEBR	6.05	13.82	9.56	3.94	3.13	36.50
NFL	IEBR	1696.98	717.49	355.60	280.60	70.60	3121.27
BVFCL	GBS	153.31	766.58	1271.36	1119.84	0.00	3311.09
FACT	GBS	142.00	715.00	2405.00	3240.00	35.00	6537.00
MFL	GBS	87.62	124.47	124.22	30.29	17.31	383.91
Misc. Schemes (MIS/IT and R&D)	GBS	12.00	5.00	5.00	5.00	5.00	32.00
TOTAL		**2795.22**	**5129.78**	**6399.99**	**5610.42**	**442.34**	**20377.75**

{Ministry of Chemicals and Fertilizers (Department of Fertilizers) OM No.5(1)/2011-Fin.II/(Vol.II) dated 28.08.2012}

Recommendation Sl.No./Para No. 3

Demands for Grants Allocation

The Committee observe from the figures provided by the Department that the non-plan expenditure has increased considerably from the years 2009-10 to 2011-12. The allocation under the figures for the financial years 2009-10, 2010-11 and 2011-112 are Rs.56,600.50, Rs.57860.00 and Rs.71592.00 crore (RE) respectively. The department was unable to provide any satisfactory response to a specific query as to how to keep the Non-Plan expenditure under control. While the Committee agree that farmers need to be protected from price volatility in the international market and other negative factors, the need to rein in the ever increasing expenditure under the Non-Plan allocation cannot be over-emphasized. The Committee, therefore, recommend that the Department should take steps on a priority basis to address this issue and intimate the measures taken in this regard by them. The Committee, further, desire that Department of Fertilizers should also keep strict watch and control over factors impacting budgetary allocations and expenditure thereon.

Reply of the Government

In order to contain the expenditure under the non-plan allocation i.e. subsidy bills, the Government is implementing NBS policy w.e.f. 1.4.2010. Under the policy, a fixed subsidy on each nutrient of P & K fertilizers is announced each year. Normally, the subsidy rate remains fixed for the whole financial year. Hence, expenditure under non-plan for P&K fertilizers will not exceed the budgeted figures if the consumption remains at the expected level. Department of Fertilizers has announced NBS rates for the year 2012-13 in such a manner that total subsidy outgo for the P & K Fertilizers for the financial year 2012-13 would be reduced by more than 20% over the previous year. However, the total subsidy outgo for P & K fertilizers for 2012-13 will depend on the overall consumption of fertilizers in the year 2012-13.

Growing non-plan expenditure on account of subsidy for indigenous urea is mostly on account of escalation in input cost as there was no proportionate increase in MRP of urea. Indigenous Urea Subsidy is basically the difference between the sale price and actual cost of production of urea. Fixed cost and variable cost being the two main components of cost of production, the former has been frozen at 2002-03 level, and therefore, it has no impact on increase in subsidy. The increase in variable cost, (almost 97% of which is constituted by energy cost), is the major cause of increase in non-plan expenditure in the form of subsidy for indigenous urea. The major sources of energy for urea units are Natural Gas, Naphtha, FO, HSD and LSHS etc., the pricing of which is beyond the control of DOF. The urea units are at the receiving end. They are obliged to pay the prices charged by the suppliers of such energy resources, namely, ONGC, GAIL, IOCL, BPCL, OIL, RIL etc. and prefer claim of escalation of cost before the DOF. The DOF is under obligation to reimburse such increase in cost of energy / production to the urea manufacturing units.

The suppliers of the energy resources are under the administrative control of the MOP & NG. As per the existing policy, these companies are pricing these resources with Rupee-Dollar linkage. Moreover, the prices are mostly linked with their import parity prices. Falling rupee value has, therefore, impacted the urea cost adversely. In order to achieve a control in subsidy on indigenous urea, the MOP & NG may be requested to reign upon the oil companies and direct them to charge the urea units for supply of indigenous energy resources at rupee terms. Moreover, the prices of such indigenous energy resources should be based on their cost with reasonable profit and not at import parity prices which include a number of notional cost elements that they do not incur. If gas is quickly made available to high cost Non-gas units using Naphtha, FO, LSHS, etc., the impact on subsidy burden will come down. Further if the MRP is regularly increased to keep pace with increase in input cost, subsidy burden will be reduced substantially.

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Recommendation Sl.No./Para No. 4

Subsidy / Concession on Fertilizers

The Committee note that the total subsidy disbursed on fertilizers has increased from Rs.12908.02 crore in 2001-02 to Rs.65836.68 crore in 2010-11 and Rs.53589.87 crore in 2011-12 (BE). The total subsidy released on urea has increased from Rs.17721.43 crore in the year 2006-07 to Rs.36883.00 crore in the year 2011-12 (RE). The subsidy on P&K fertilizers has increased from Rs.10,298.12 crore in the year 2006-07 to Rs.34786.87 crore in the year 2011-12(RE). The Committee's examination has revealed that the increase in subsidy bill is due to higher consumption of fertilizers and also the rise was due to the increase in international prices of imported fertilizers and increase in the cost of inputs of indigenous fertilizers during the year 2006-07 to 2011-12. Considering all these facts, the committee desire that concerted efforts are needed to cut the subsidy bill. However, as there has to be reduction in the subsidy bill, the reduction in subsidy should not fall as a burden on the farmers. The Committee, therefore, desire that the reduction in the subsidy of fertilizers should not be compensated by charging higher prices (MRP) of fertilizers from the farmers instead the Department of Fertilizers should chalk out such a plan that there is reduction of subsidy bill and at the same time it does not burden the farmers with the increased prices of fertilizers. Further, the Committee feel that in view of increased consumption of fertilizers and international prices of fertilizer, inputs and finished fertilizers, there is an urgent need for technological innovation, state of the art machinery, reducing the cost of production, energy efficiency measures, experienced and qualified technical manpower and optimum capacity utilization so as to reduce our dependence on imports and increase the indigenous production of fertilizers.

Reply of the Government

Since India is 90% dependent on imports in Phosphatic Sector in the form of finished fertilizers or in the form of Raw materials and 100% dependent on import dependent on Potash sector, the delivered price shall always be same as international prices which is paid either in the form of subsidy or the MRP.

To overcome the impediments in the growth of fertilizer industry for sustainable growth, the Government is encouraging and facilitating the fertilizer industries to enter into long term contracts with the countries having rich resource of raw materials for production of P&K fertilizers. The Government is also allowing companies to use various blends of rock phosphate to manufacture SSP, one of complex fertilizers used as substitute of DAP. Government is also providing grants under plan fund to companies to renovate their old plants to maximize production. The Government is also helping by giving advance 85% 'On Account' subsidy on sale, which help the companies to overcome their working capital difficulties.

To attain self sufficiency in fertilizer production, the Government has decided to revive the eight closed units of HFCL and FCIL, each unit having capacity of 11.5 LMT per annum. In Urea sector the raw materials are indigenously available. We are providing nearly 75% of our requirements.

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Recommendation Sl.No./Para No. 5

Direct Subsidy to Farmers

The Committee are perturbed to note that despite their repeated recommendations in earlier Reports, Government have not achieved the long cherished goal of payment of subsidy directly to farmers. The Committee not that the Government has constituted in February 2011, a Task Force under Chairmanship of Shri Nandan Nilekani, Chairman, Unique Identification Authority of India (UIDAI) to recommend and implement a solution for direct transfer of subsidies on fertilizers among other things to the intended beneficiaries. The Committee understand that the Task Force has since submitted its Report to the Government. The Committee also understand that the Task Force has recommended three phases approach for implementation of the transfer of direct subsidies. Currently the Department of Fertilizers is dedicated to stabilize phase I by tackling on ground implementation issues such as gaps in mobile coverage over certain geographical regions, regional supply chain issues, user trainings and application upgradation. Thereafter, Phase II and III will be implemented. The Committee, therefore, strongly recommend that all three phases of the direct subsidy to farmers should implemented in strict time-bound manner, so that the farmers are able to benefit from the direct subsidy at the earliest. The Committee hope that further follow up action in this regard would be taken at the earliest so as to find ways and means for providing subsidy direct to farmers. The precise action taken in this regard may be communicated to the Committee.

Reply of the Government

While work on Phase I started immediately, a project strategy was being formed for the implementation of phase II. During the process, a feasibility assessment of Phase II was conducted and it was felt that while Phase II has its own value additions in terms of Business process re-engineering and establishing a system based payment mechanism, there was no significant value addition to the stakeholders by enabling subsidy transfer to retailers. The desirability of Phase II was then discussed with the fertilizer industry, Fertilizer Association of India (FAI) and the Taskforce and it was then collectively decided to not proceed with Phase II implementation but instead move ahead directly with Phase III implementation after Phase I stabilization. Phase III was further detailed out into three sub-stages as follows :

- **Phase III (Stage A)** – Subsidy to manufacturers on the basis of retail sales of fertilizer at last retail point.

- **Phase III (Stage B)** – Subsidy to retail customer on the basis of fertilizer sales made to him / her.

- **Phase III (Stage C)** – Subsidy to ELIGIBLE retail customer on the basis of details of sales made to him / her. This will include defining the entitlement for various user categories.

Phase **III** (Stage **A**) focus on release of subsidy to the manufactures based on the retailer sales to farmers. The benefits envisaged from this stage are following:

a. Shift from production and dispatch based subsidy model to sales based subsidy distribution.
b. The post sales subsidy policy is in line with the fiscal prudence
c. Last point sales based data shall facilitate DoF in better budgeting, forecasting and supply plan
d. Data on last point fertilizer availability and sales will further improve information availability and transparency
e. Relatively less implementation challenges as the manufacturer will continue to be the subsidy recipient.

In the meantime, a review meeting has been held under the Chairmanship of Secy. (F) on 28.06.2012. The meeting of Task Force are being held to discuss the following :

(i) Phase I:

a. Progress of mobile application deployment post master trainers training
b. No. of end to end transactions post training
c. Establishment of multi-lingual call centre

d. m-FMS-FMS integration (2 way)

e. Reports on Transparency Portal : status of customized reports for all categories of users-manufacturers, dealers, state governments etc.

(ii) Phase II A :

a. Progress of DPR

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Recommendation Sl.No./Para No. 6

Nutrient Based Subsidy

The Committee have been informed that the Government has introduced the first phase of Nutrient Based Subsidy (NBS) policy and potassic fertilizers in April 2010. The subsidy on fertilizers will be determined on the basis of nutrient subsidy fixed by the Government and the nutrient contained in the fertilizers. Under NBS, the NBS regime is expected to bring about a balanced use of fertilizers and also give a boost to indigenous production of fertilizers. The Committee however, expressed their concern over the increase in prices of P&K fertilizers and also over the fact that the Maximum Retail Price (MRP) of P&K fertilizer is open and is allowed to be fixed by manufacturers / importers based on demand – supply dynamics. This has made farmers vulnerable to the market forces determining the prices of fertilizers. The Committee, therefore, desire that while implementing the NBS policy the Department of Fertilizers should keep in mind the interest of the farmers and also farmers should be protected from the market forces. Further, the Committee are dismayed to note that though the NBS policy has completed two years of its working, it is yet to stabilize and also no formal study has yet been conducted about the effectiveness of the policy. The Committee, therefore, desire that the Department of Fertilizers. Should make sincere efforts for proper implementation of NBS and to see that the policy is stabilized to have fruitful results. The Committee recommend that the Department of Fertilizers should closely monitor the implementation of the policy for its success. The Committee also recommend that the Department should take steps for the effective implementation of this policy which is likely increase quality and fertility of the soil and agricultural productivity as well as attaining self-sufficiency of fertilizes in the country.

Reply of the Government

The Department of Fertilizers is administering the Nutrient Based Subsidy (NBS) policy and potassic fertilizers w.e.f. 1.4.2010. Under the NBS policy, an Inter-ministerial Committee (IMC) has been constituted with Secretary (Fertilizers) as Chairperson and Joint Secretary level representatives of Department of Agriculture & Cooperation (DAC), Department of Expenditure (DOE), Planning Commission and Department of Agricultural Research and Education (DARE) for effective implementation of NBS policy.

For effective implementation of NBS policy, DOF has given instructions to the fertilizer companies to print both the MRP fixed by them and the Central Government subsidy on each bag in addition to other statutory requirements. Selling of the fertilizers at prices higher than the MRP is a punishable offence under the Essential Commodities Act. The State Governments have been requested to gear up its machinery to ensure the sale of the fertilizers at the MRP printed on the bags and to prevent hoarding and profiteering. The State Governments have also been requested to ensure that that the sub subsidized fertilizers are used only for agricultural purposes. The State Governments are required to test the samples of the fertilizers in regard to quality of the fertilizers at the retail and wholesale points. The State Governments have been asked to strengthen the mobile/static soil testing laboratories and issuance of soil health cards so as to encourage use of soil specific fertilizers under the NBS. Further, the State Governments have been requested to activate appropriate District Vigilance Committee with the objective of ensuring easy availability of fertilizers at reasonable prices and prevent wastage of subsidy due to any illegal activity. The State Governments have also been asked to test the samples of SSP alongwith the team of the Projects & Development India Ltd (PDIL).

Based on the Inter Ministerial Committee Meeting, certain other fertilizers covered under the FCO are also proposed to be introduced in the Nutrient Based Subsidy. The distribution and movement of fertilizers along with import of furnished fertilizers, fertilizers inputs and production by indigenous units is monitored through the Fertilizer Monitoring System. The availability of the fertilizers is ensured in all the States based on the requirement thereof. The NPK complex fertilizers have also been allowed to be imported under the NBS. The manufacturers of customized fertilizers have also been allowed to source subsidized fertilizers for manufacturing customized fertilizer. The manufacturers and importers have also been allowed to transport their fertilizers from plants and ports by road. Specific guidelines have also been issued by the Department to the SSP manufacturers to claim Nutrient Based Subsidy.

The monitoring or implementation of NBS policy is done through on line web based 'Fertilizer Monitoring System (FMS)' in which movement, sale, availability, consumption of raw materials, production, imports, MRP of fertilizers and payment of subsidy is monitored. Inter Ministerial Committee (IMC) formed under the NBS takes a stock of MRP fixed by the companies.

Based on the recommendation of IMC to increase the basket of fertilizers and to improve the availability of P & K, new grades of fertilizers are included under NBS policy. After the implementation of NBS policy w.e.f. 1.4.2010, 7 new grades of fertilizers have been included under the subsidy scheme

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Recommendation Sl.No./Para No. 8

Assessed Requirement and Availability of Fertilizers

Equitable distribution of fertilizers in all parts of the country is an important criteria for facilitating increased productivity in agriculture sector. At present, the Department of Fertilizer is required to ensure availability of urea, as per the requirement assessed by the Department of Agriculture and Cooperation. The Committee note that the movement of fertilizes is monitored throughout the country by an on-line web based monitoring system (FMS), still the farmers are facing great difficulty in getting the fertilizers on time and also they are facing the problem of artificial scarcity shortage in some parts of the country. The Committee are not satisfied with the real working of the system in tracking the demands and availability of fertilizers in different parts of the country. The Committee, therefore, strongly recommend that the Department of Fertilizers should devise a foolproof mechanism for proper and equitable distribution of fertilizers in all parts of the country especially in remote, hilly and inaccessible areas. Also, the Department of Fertilizers should make serious efforts to collaborate with the State Governments to tackle the problem of artificial shortage and punish hoarders and black marketers.

Reply of the Government

Department of Fertilizers monitors availability of fertilizers state wise. Further monitoring / distribution of fertilizers district / block wise is the responsibility of the respective states. The state wise availability during Kharif 2012 (April to July) along with pre-positioning of fertilizers is Annex A. As can be seen, the availability of all the fertilizers is adequate.

There may be some stress in fertilizer availability in case of few states because of non-availability of adequate warehouse capacity in these states. As a result of this, the States lift fertilizer as and when required. Department of Fertilizers (DOF) has notified for P & K fertilizers (except SSP) Special Freight Scheme w.e.f. 01.04.2012 for giving special freight for difficult, hilly and in-accessible States like Jammu & Kashmir, Himachal Pradesh, Uttarakhand, all North Eastern States and Andaman & Nicobar Islands in order to have equitable distribution of fertilizers. As a result of which, it is expected that the fertilizer availability in these States would improve.

Besides, the steps taken by Government of India in making availability of fertilizers:

i) The gap between requirement and indigenous production is met through imports.

ii) Department of Fertilizers is having constant interaction with ministry of Petroleum and Natural Gas, GAIL and other suppliers of Natural Gas / Liquid Natural Gas (NG / LNG) so that gas requirement of the fertilizer industry is met ; and

iii) Government is always encouraging production of urea in the country to achieve self-sufficiency. The Government is considering a new policy for encouraging investments in Urea Sector.

As per Clause 4 (a) of the Fertilizer (Control) Order-Display of stock position of fertilizers – Every dealer, who makes or offers to make a retail sale of any fertilizer, shall prominently display in his place of business - the quantities of opening stock of different fertilizers held by him on each day. Any person violating this mandatory provision of FCO is held liable to be proceeded under the provisions of FCO and Essential Commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices viz., hoarding etc.

Under Clause 21 of the Fertilizer Control Order (FCO), 1985, it is mandatory to print the maximum retail price (MRP) on each bag of fertilizer whether under statutory price control of out of the purview of the statutory price control. No person shall charge higher than the price printed on the bag. Any person violating this mandatory provision of FCO is held liable under the provisions of FCO and Essential commodities Act. The State Governments as enforcement agencies are adequately empowered to take appropriate action against the offenders who indulge in any kind of malpractices.

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Availability of Fertilizers during Kharif '12 (Upto July 2012) alongwith Stock Pre-positioned

	UREA					DAP					NPK					Phosphatic Fertilizers					MOP				
States	**Requirement in (April12to July12)**	**Stock Pre-positioned**	**Opening Stock as on 01.04.12**	**Receipt (April 12to July12)**	**Availability (April12 to July12)**	**Requirement in (April12 to July12)**	**Stock Pre-positioned**	**Opening Stock as on 01.04.12**	**Receipt (April 12to July12)**	**Availability (April12 to July12)**	**Requirement in (April12 to July12)**	**Stock Pre-positioned**	**Opening Stock as on 01.04.12**	**Receipt (April 12to July12)**	**Availability (April12 to July12)**	**Requirement in (April12 to July12)**	**Stock Pre-positioned**	**Opening Stock as on 01.04.12**	**Receipt (April 12to July12)**	**Availability (April12 to July12)**	**Requirement in (April12to July12)**	**Stock Pre-positioned**	**Opening Stock as on 01.04.12**	**Receipt (April 12to July12)**	**Availability (April12 to July12)**
Andhra Pradesh	850.00		52.65	730.50	783.15	530.000	122.51	54.22	197.06	373.79	725.00	472.18	213.45	485.48	944.54	1255.000	845.97	213.45	682.54	1318.33	155.00	51.95	60.97	49.00	145.84
Karnataka	450.00	1.03	8.55	410.01	419.59	461.00	192.96	32.44	138.00	363.40	422.00	288.58	92.58	277.64	552.20	883.00	651.98	92.58	415.64	915.60	152.00	102.18	17.95	106.25	146.07
Kerala	72.00		0.98	52.33	53.31	17.00	3.16	3.66	13.21	20.03	95.00	64.17	20.81	54.21	84.02	112.00	84.20	20.81	67.42	104.06	65.00	54.46	8.39	35.98	55.70
Tamil Nadu	275.00		2.80	231.13	233.93	118.00	2.39	15.09	54.68	72.16	174.60	39.20	117.98	113.45	319.44	292.60	11.36	117.98	168.13	391.60	127.00	64.81	10.11	50.63	71.57
Gujarat	750.00		8.18	687.13	695.31	355.00	92.32	19.25	135.26	246.84	208.00	190.79	23.77	138.27	309.35	563.00	437.63	23.77	273.54	556.18	68.00	41.45	2.61	29.46	34.29
Madhya Pradesh	390.47	116.63	30.13	396.85	543.61	371.32	245.35	88.97	273.70	608.02	118.68	63.08	65.34	60.44	172.82	489.99	671.09	65.34	334.14	780.83	79.56	65.77	18.64	43.28	77.13
Chattisgarh	305.00	94.66	0.08	262.85	357.58	145.00	59.69	12.40	109.28	181.37	88.00	65.65	24.66	59.34	102.21	233.00	247.01	24.68	168.62	283.57	56.00	61.36	1.93	35.92	67.87
Maharashtra	1040.00	14.54	24.24	911.71	950.49	655.00	207.63	31.11	259.49	498.24	637.00	535.54	110.78	501.37	887.72	1292.00	1033.77	110.78	760.86	1385.96	210.00	128.16	26.24	129.44	178.85
Rajasthan	375.00	23.47	67.82	309.59	400.88	202.00	99.82	12.42	120.42	232.65	51.80	29.50	13.67	29.05	45.90	253.00	262.15	13.67	149.47	278.55	19.50		1.71	2.03	3.73
Haryana	620.00	78.01	30.90	522.07	630.99	200.00	203.76	11.64	48.48	263.88	35.00		7.52	4.04	11.56	235.00	263.88	7.52	52.52	275.44	25.00		1.71	7.57	9.29
Punjab	1125.00	219.46	24.31	884.17	1127.94	280.00	125.25	42.05	91.12	258.42	30.00	15.85	11.22	7.72	24.07	310.00	274.27	11.22	98.84	282.49	36.00	36.63	3.72	13.95	25.87
Himachal Pradesh	32.50	4.29	0.00	26.31	30.59	0.00	0.00	0.00	0.00	0.00	7.50	10.81	0.12	1.47	6.94	7.50	10.81	0.12	1.47	6.94	0.30	0.59	0.00	0.00	0.29
Jammu & Kashmir	54.50	35.26	0.23	49.97	85.46	35.00	10.60	2.31	7.25	20.17	0.00	0.00	0.00	0.00	0.00	35.00	20.17	0.00	7.25	20.17	9.00	7.10	0.03	3.72	4.80
Uttar Pradesh	1750.00	386.98	107.48	1518.51	2012.98	490.00	432.52	54.55	325.10	815.17	325.00	185.29	156.94	160.56	422.21	815.00	1000.46	156.94	485.66	1237.38	60.00	22.32	1.93	39.57	48.61
Uttarkhand	105.00	8.47	1.47	107.26	117.20	16.50	9.14	1.75	3.90	14.79	25.00	19.25	2.53	7.74	15.62	41.50	34.04	2.53	11.64	30.41	5.00	6.02	0.00	0.00	1.49
Bihar	565.00	15.64	5.38	464.13	485.15	185.00	54.10	30.49	50.90	135.49	135.000	113.13	46.11	24.57	123.81	320.00	248.62	46.11	75.47	259.31	50.00	51.44	2.55	20.86	59.30
Jharkhand	94.00	8.69	3.31	60.12	72.12	60.00	9.72	3.36	14.84	27.93	26.70		4.86	8.94	13.81	86.70	27.93	4.86	23.78	41.73	15.00	15.00	0.00	3.76	8.12
Orissa	201.70		17.75	146.11	163.86	105.79	2.03	16.70	53.21	71.94	137.63	98.37	34.26	69.59	134.29	243.42	170.31	34.26	122.79	206.23	62.81		7.39	41.34	48.74
West Bengal	308.80	131.55	1.88	308.36	441.79	172.80	72.01	27.75	58.76	158.52	263.65	134.37	82.33	115.35	271.48	436.45	292.90	82.33	174.11	430.00	97.05	85.45	2.65	59.95	129.64
Assam	95.70	1.91	0.00	89.39	91.30	16.50		8.12	4.21	12.33	4.96		1.98	1.05	3.03	21.46	12.33	1.98	5.26	15.36	39.60	21.90	3.58	6.19	19.27
All India	**9543.72**	**1140.58**	**388.27**	**8205.25**	**9734.10**	**4435.49**	**1947.97**	**468.61**	**1966.51**	**4383.09**	**3526.18**	**2325.75**	**1031.97**	**2129.63**	**4455.40**	**7961.66**	**6708.84**	**1031.97**	**4096.14**	**8838.49**	**1352.26**	**816.59**	**172.12**	**684.31**	**1141.87**

{Ministry of Chemicals and Fertilizers (Department of Fertilizers) OM No.5(1)/2011-Fin.II/(Vol.II) dated 28.08.2012}

Recommendation Sl.No./Para No. 9

Performance of Public Sector Undertakings

There are nine Public Sector Undertakings (PSUs), one multi-state cooperative society and one joint sector company under the administrative control of the Department of Fertilizers. Out of this, Krishak Bharati Cooperative Limited (KRIBHICO), the multi-State cooperative society and three PSUs, viz. National Fertilizers 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 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 of revival of the sick PSUs . The Committee also note that there has been negligible growth of the fertilizer sector during the last decade. The Committee, therefore, recommend that Department and all PSUs should make efforts for taking suitable measures to overcome the constraints and for improving capacity utilization, energy conservation methods and also to bring down manpower and administrative expenditure.

Reply of the Government

The following steps have been taken by the Fertilizer PSUs to overcome constraints and for improving capacity utilization, energy conservation methods and to bring down manpower and administrative expenditure;

National Fertilizers Limited (NFL)

To cut down energy consumption, NFL has undertaken Ammonia Feedstock Changeover Projects at its three FO based units at Nangal & Bhatinda in Punjab and Panipat in Haryana. These projects shall result in reduction in energy consumption, substitute high cost FO with low cost natural gas and substantial reduction in Govt. subsidy outgo. The company has undertaken energy saving and urea capacity enhancement project at Vijaipur-I & II units in Madhya Pradesh. These projects shall result in increase in urea capacity by 16% at Vijaipur-I & by 23% at Vijaipur-II unit i.e. urea capacity shall increase by 3.37 lakh MT. The company over a period of ten years has brought down its Manpower from 6602 as on 31.03.2001 to 4515 as on 31.03.2012.

Rashtriya Chemicals and Fertilizes Limited (RCF)

RCF is a leading profit making Mini-Ratna fertilizer and Chemical manufacturing company engaged in manufacturing of variety of products such as Ujwala urea and complex fertilizer Suphala. Since inception, RCF has economically and safely operated 2 dozen chemical and fertilizer plants for the past four and half decade at Trombay.

RCF always strives for upkeep of the plants through modernization and upgradation of technology. Company has recently modernized its Ammonia-V, Nitric Acid, Methanol and ANP plants. This has facilitated plants to sustain operations and meet technological challenges of improved efficiency, lower energy consumption and maintain/excel environmental norms. It has resulted in achieving highest standards of safety and product quality.

RCF is continuously reviewing the workforce of its various plants and departments in its endeavour to rationalize and optimize the same. Company's productivity in terms of manpower has always been exceptionally high. Govt. has allocated gas on priority basis to RCF.

Brahmaputra Valley Fertilizers Chemicals Limited (BVFCL)

The company is operating its Namrup-II unit and Namrup –III plants which are based on old and vintage technology. These urea units consume high energy as compared to present day plants. Both the plants have outlived their life resulting repeated machine breakdowns. There are also constraints in availability of original spares and surplus funds preventing the company to take up regular maintenance replacement of critical machine parts. All the problems led to lower capacity utilisation and higher energy consumption.

The company has taken various steps to overcome the constraints and improve capacity.

(i) An in-depth internal study of critical areas of plants causing production limitations has been carried out. Based on the study a short/medium term action plan has been drawn up. Funds have been made available in phases from GOI as Plan/Non Plan loan under Renewal & Replacement Schemes for carrying renovation jobs.

(ii) Various renovation/replacement of equipments have already been carried out which have led to savings in energy. With this , the performance of the company is expected to improve significantly.

(iii) BVFCL has already initiated steps for financial restructuring of the company. M/s Haldor Topsoe has been appointed as Process Licensor for comprehensive study of Ammonia plants and M/s PDIL for Urea plant and off-sites/utilities, situated at Namrup-II and namrup III plant. Based on the study reports of Namrup-II & Namrup-III Plants carried out by M/S HTAS and PDIL and viability proposal prepared by PDIL the BVFCL has submitted a comprehensive proposal for Long Term Viability of the Company for submission to BRPSE. The proposal is under consideration in the Department of Fertilizers. The following dispensation has been sought from BRPSE for long term viability of the Company in this proposal:

- Waiver of total cumulative interests of Rs. 373.43 crore accrued on GOI loans till 31.03.2011
- Waiver of loan of Rs. 21.96 crore taken for revamp of Namrup-I, since this plants has been permanently stopped.
- For Namrup-III, the capital expenditure of Rs 79.62 crores incurred beyond 31.03.2003 for revamp of the project to be recognised by Govt. of India for calculating the concession rate of urea.
- Since the company is facing technological/financial constraints, it is proposed to convert GOI loans provided to the company as interest free loan. However the company on earning cash profit, will service the GOI loans.
- Relaxation in profitability clause for pay revision and enhancement of age of superannuation from 58 to 60 years as a special dispensation to meet the immediate crisis of manpower.
- To setup New Brown Field Ammonia-Urea Plant at Namrup (Namrup-IV).

Madras Fertilizers Limited(MFL)

Even though the Company was declared sick by BIFR in its hearing held on 02.04.2009, the company's operations for the year 22011-12, 2010-11 & 2009-10, ended with a profit of Rs.111.99 cr., Rs.169.86 Cr., & Rs.6.88 Cr. respectively against continuous losses incurred during 2003-09. The profits were mainly due to implementation of NPS –III amendment restricting the reduction in fixed cost to 10% from 1.4.2009 and improved production performance. The profit during 2010-11 was higher due to account of benefits amounting to Rs.124.69 Cr under One Time Settlement with Financial Institutions.

Improvement in reliability of plant operations, energy efficiency and extension of Plant life could be achieved due to implementation of various renewal/replacement schemes out of Plan funds received as budgetary support. The company was able to overcome the constraints and achieve 100% capacity utilization of its Urea plant by producing 4.78 LMT of Urea during 2011-12 which is the highest ever achieved since inception. The specific energy consumption of urea has also registered significant improvement compared to FICC norms. For instance, the annual specific energy consumption was 7.517 Gcal/MT during 2011-12 and 7.492 Gcal/MT during 2010-11 as against FICC norm of 8337 Gcal/MT. During the year 22011-112, the Company could also restart its own production of NPK Complex Fertilizers after a gap of more than 4 years and could produce 0.36 LMT. The Company has planned for production of 4.20 LMT of NPK Complex fertilizers during the year 2012-13.

MFL is implementing the projects of conversion of feedstock from Naphtha to Natural gas. Provision is being kept to process Naphtha or Natural gas or a combination of both depending upon the availability. Basic Engineering package has been received from M/s Haldor Topsoe AG. M/s Projects & Development India Ltd (PDIL) has been engaged as engineering consultant for execution on this project. In order to source Natural Gas, Company has requested M/s IOCL & M/s GAIL to indicate feasibility of supplying 1.54 MMSCMD of Natural Gas and is awaiting a firm proposal from them.

The total manpower strength of MFL as on 31.03.2012 was 733 as against the Board approved strength of 1032. However, the company is taking adequate steps to supplement the retiring technical manpower and impart training to the new recruits to maintain the technical competence to run the Plants.

<u>Fertilizers and Chemicals Travancore Limited (FACT)</u>

For the financial year 2011-112 estimated profit of FACT is Rs.6.20 crore. Turnover achieved in 2011-12 is Rs.2875 crore, which is 17% higher than 2010-11 level. Production has also been good with 6017 lakh MT of NP Complex Fertilizers and 1.63 LMT of Ammonium sulphates and 37854 MT of Caprolactam being produce. Company is generating additional revenue from sale of Phospho-Gypsum and achieved a new record in Annual sales of 7.3 lakh MT in the current year.

The company is gearing up to switch over to LNG which is expected to be available by the end of 2012 at Kochi. Following are the major project proposals requiring high capital investment :

- Capacity enhancement of NP plant at Cochin Division by 1000 Tons per day (TPD)
- 1500 TPD Urea plant at Udyogamandal
- 2800-3500 TPD sulphuric Acid Plant
- A gypsum park at Cochin Division.

Company has called for Expression of Interest from both Public and Private entities for JV participation in the above ventures.

The company has appointed M/s Deloitte to prepare a Financial restructuring report to be submitted to BRPSE. BRPSE has directed to submit the revised proposal.

FCI Aravali gypsum and Minerals India Limited (FAGMIL)

M/s. FCI Aravali Gypsum and Minerals India Limited (FAGMIL) is engaged in mining and marketing of Minerals Gypsum which is used for reclaiming Sodic Soil and as fertilizer in Agriculture as a sulphur Nutrient. The mineral Gypsum is also used in cement industries as retarder.

The Company has earned profit (PBT) of Rs. 29.44 Crore (approx) during the year 2011-12 as against Rs. 19.89 Crore in the previous year. The Company's sale turnover has been Rs. 66.53 Crore during the year 2011-12 as against Rs. 61.48 Crore in the previous year.

Projects and Development & India Limited (PDIL)

PDIL is mainly engaged in design, engineering and consultancy services and also producing catalyst for the fertilizers and refinery industries. During the year 2010-11 company has earned a profit (PBT) of Rs. 31.78 crore. However, the finalization of accounts for the year 2011-12 is under progress and the PBT (Provisional) for the year 2011-12 is likely to be Rs. 34.63 crore.

HFCL and FCIL

Pursuant to the decision dated 30th oct. 2008 of the Cabinet, an Empowered Committee of Secretaries (ECOS) under the Chairmanship of Secretary (F) was constituted to evaluate all options for revival of closed units of Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) and make suitable recommendations. Based on the recommendations of the ECOS, a proposal was sent to CCEA, which approved the same in its meeting held on 4.8.2011 with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited and thereafter, the matter including changes, if any, required in bid parameters, be placed before the Committee for a final decision. BIFR in their meeting held on 18.8.2011 considered the issue and directed State Bank of India, the Operating Agency (OA), to examine the DRS in consultation with Department of Fertilizers and submit their recommendations within 3 months. Subsequently, as directed by the BIFR, OA examined the DRS and submitted the same to BIFR on 17.2.2012. The DRS was examined by the Consultant of BIFR and as desired by him, OA again submitted the DRS to BIFR on 17.3.2012 in a modified format.

At present, the DRS submitted by OA is under examination of BIFR. BIFR orders on miscellaneous applications submitted by FCIL/HFCL for seeking first stage clearance are awaited.

{Ministry of Chemicals and Fertilizers (Department of Fertilizers) OM No.5(1)/2011-Fin.II/(Vol.II) dated 28.08.2012}

Recommendation Sl.No./Para No. 11

Indian Fertilizer Joint Venture Abroad

Due to constraints in the availability of requisite raw materials including gas in the country, the Government is stated to have been encouraging Indian companies to establish joint venture production facilities with buy-back arrangement in other countries, which are rich in fertilizer resources. In this regard, the Committee note with satisfaction that the Government has been encouraging Indian companies to establish joint venture projects in other countries which have rich resources of natural gas and rock phosphate as it would help in augmenting the supply of fertilizers. The Committee, however, observe that only a token amount of Rs. 1 lakh has been allocated to joint ventures abroad in BE 2011-12 and in the BE of 2012-13. To encourage more joint ventures abroad, the Committee feel that more amount should be allocated in the budgetary provisions under the head. The Committee also feel that process of forming joint ventures with the foreign countries such as Syria, Mali, Belarus, etc., should be finalized and expedited as soon as possible so that the benefits of joint ventures are accrued by the country's farmers. The Committee recommend that the Government should encourage these initiatives and explore the possibilities of new joint ventures which would help in making available assured sources of supply of raw materials to the fertilizer industries. The Committee also desire that some incentives should be given to the Indian companies to explore and establish joint ventures abroad.

Reply of the Government

The possibilities of having access to the Natural Resources required for fertilizers and setting up of Joint Ventures fertilizer projects in the Countries rich in fertilizer resources, is being explored. The token provision of Rs. 1 lakh for joint ventures abroad was kept in the BE 2010-11 and BE 2011-12 with a view to keep the head alive with the consideration that in case of some concrete development in this regard, Department of Expenditure / Planning Commission would be requested for requisite funds. As regards providing incentives for the Indian Fertilizer entities for exploration and establishing joint ventures abroad, the same was addressed in the investment policy of 2008, which has now been reconsidered for revision and has been submitted for approval of the competent authority before it is sent for consideration and approval of CCEA. Further, the Department of Fertilizers forwarded a proposal for setting up of the Sovereign Fund on the fertilizer resources/assets abroad to DEA on 13.01.2012. It is learnt that a proposal for creation of dedicated Sovereign Fund for the purpose of acquiring natural resources/raw material resources abroad on energy sector, including fertilizer sector also, is under active consideration of the Department of Economic Affairs (DEA).

{Ministry of Chemicals and Fertilizers (Department of Fertilizers) OM No.5(1)/2011-Fin.II/(Vol.II) dated 28.08.2012}

CHAPTER – III

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

NIL

CHAPTER – IV

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

NIL

CHAPTER – IV

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

Recommendation Sl.No./Para No. 7

Feedstock Policy / Allocation of Gas to Fertilizers Industry

The Committee observe that out of 20 units all based on gas with 4 units based on gas with 4 units based on naptha and 4 on FO/LHS as feeds stock. The total requirement of natural gas for existing 20 units is largely met from supplies under APM gas, PMT gas, JV gas, RIL gas and RLNG gas. The Committee have been informed that eight unit proposing to set up expansion area units of 11.5 to 12.7 lakh tone capacities require approx.2.2-2.4 mmscmd of gas by each unit. The total amount of gas required during next five years will be 48.73 mmscmd. The Committee would like to be apprised about the status report about the progress in allocation of gas to the fertilizer units. At the same time the Committee expect the Department of Fertilizers to vigorously pursue the matter with the Ministry of Petroleum and Natural Gas so that effective and expeditious steps are taken by them to achieve these targets.

The Committee need hardly emphasis that pricing and firm availability of natural gas for existing and new units of fertilizer companies are the pre-requisites to increase their indigenous production and would, therefore, desire the Department to play a proactive role in association with the Ministry of Petroleum and Natural Gas towards allocation of gas for the existing and new fertilizer plants in the country.

The Committee are constrained to point out that the Ministry of Petroleum and Natural Gas (MOPNG) has been non-committal on supplying gas on long term basis at an agreed price to the proposed new investments in the fertilizer sector as has been repeatedly requested by the Department of Fertilizers. Also, no decision on nomination of a single nodal agency has been taken by the Government to supply gas to fertilizer industries and to address various issues such as gas contracts, take or pay liabilities, variable gas pricing, gas shortfalls etc. The Committee also regret to observe that no specific decision has been taken regarding the issue of nominating GAIL (India) Limited as the nodal authority for supply of gas to fertilizer industry. The Committee are of the view that the Department of Fertilizers should continue to pursue the matter vigorously with the Ministry of Petroleum and Natural Gas (MOPNG) on the both aspects i.e. supply of natural gas to fertilizer industry as per fixed schedule and nomination of a nodal agency for supply of gas to the fertilizer industry. The Committee would like to be informed of the precise action taken in this regard within three months of the presentation of the Report.

Reply of the Government

"The Department of Fertilizers is regularly taking up the issue of adequate allocation of Natural Gas to fertilizer sector on first priority. So far as nomination of nodal agency for supply of gas to fertilizers sector is concerned, the issue was taken up with the Ministry of Petroleum & Natural Gas. The Ministry of Petroleum & Natural Gas vide their OM No. L-15016/2/2010-GP-II, dated 7th May 2012, intimated that the Department of Fertilizers may take a view in the matter based on commercial consideration. The Department of Fertilizers has received a communication from CMD, GAIL that GAIL is procuring LNG for the fertilizer as an aggregator. The GAIL has constituted an Empowered Committee consists of Directors including representatives from the Government of India i.e. MoP&NG. On the request of GAIL(India) Limited, Joint Secretary(P&A) from DoF has been nominated as a member of Empowered Committee of GAIL, to decide the issues relating to fertilizer sector."

{Ministry of Chemicals and Fertilizers (Department of Fertilizers) OM No.5(1)/2011-Fin.II/(Vol.II) dated 28.08.2012}

Recommendation Sl.No./Para No. 10

Closed Public Sector Undertakings (PSUs)

Out of the nine Public Sector Undertakings (PSUs), Hindustan Fertilizers Corporation Limited (HFCL), Madras Fertilizers Limited (MFL), BVFCL and FCIL are sick units. Out of these four, the units of FCIL and HFCL are presently lying closed since 2002. MFL and BVFCL are operational but are sick companies under the administrative control of the Department of Fertilizers. The Committee have been given to understand that an Empowered Committee of Secretaries (ECOS) was constituted in October 2008 under the Chairmanship of Secretary (Fertilizers) and Secretaries of Department of Expenditure, Department of Disinvestment, Planning Commission, Department of Public Enterprise and Ministry of Petroleum & Natural Gas as Members to look into all the financial models for revival of each of the closed units. Further, the Committee have been informed that for FCIL and HFCL, based on the recommendations of ECOS a note have been prepared and forwarded to Cabinet Committee for their consideration. The CCEA has approved the proposal in its meeting with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited. For MFL, BIFR has directed Operating Agency (State Bank of India) to workout financial restructuring of MFL considering the conversion of GOI loan into equity. The operating agency i.e. SBI has submitted its report to BIFR. Now, MFL is being requested to examine viability of the Draft Rehabilitation Scheme (DRS). For BVFCL, it has been suggested / directed to get a detailed financial restructuring proposal made by consultant for submission to Board for Reconstruction of Public Sector Enterprises (BRPSE). Similarly, initiatives have also stated to have been taken by the Government to wipe out the accumulated losses of MFL and BVFCL and to make these PSUs commercially viable till the availability of gas. The Committee would like the Department of Fertilizers to take effective and expeditious steps to canalize and implement the whole revival process for the closed and loss-making PSUs. The Committee also desire that the revival of closed and sick public sector undertakings should done in a time bound manner and a schedule should be chalked out for the revival of closed and sick fertilizer PSUs. The details of such a revival package may be intimated to the Committee within three months of presentation of the Report.

Reply of the Government

The status of revival of HFCL & FCIL and Financial Restructuring of MFL and BVFCL are as under;

Revival of HFCL and FCIL:

Pursuant to the decision dated 30th oct. 2008 of the Cabinet, an Empowered Committee of Secretaries (ECOS) under the Chairmanship of Secretary (F) was constituted to evaluate all options for revival of closed units of Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) and make suitable recommendations. Based on the recommendations of the ECOS, a proposal was sent to CCEA, which approved the same in its meeting held on 4.8.2011 with the stipulation that Board for Industrial and Financial Restructuring (BIFR) proceedings be expedited and thereafter, the matter including changes, if any, required in bid parameters, be placed before the Committee for a final decision. BIFR in their meeting held on 18.8.2011 considered the issue and directed State Bank of India, the Operating Agency (OA), to examine the DRS in consultation with Department of Fertilizers and submit their recommendations within 3 months. Subsequently, as directed by the BIFR, OA examined the DRS and submitted the same to BIFR on 17.2.2012. The DRS was examined by the Consultant of BIFR and as desired by him, OA again submitted the DRS to BIFR on 17.3.2012 in a modified format.

At present, the DRS submitted by OA is under examination of BIFR. BIFR orders on miscellaneous applications submitted by FCIL/HFCL, for seeking first stage clearance are awaited.

Restructuring of BVFCL.

For financial restructuring of the BVFCL, company has appointed M/s Haldor Topsoe as Process Licensor for comprehensive study of Ammonia plants and M/s PDIL for Urea plant and off-sites/utilities, situated at Namrup-II and namrup III plant. A comprehensive proposal for revival of the company will be prepared based on the technical study report of by Process Licensor M/s Halder Topsoe and PDIL. A thorough study at the existing Namrup-II and Namrup-III plants has already been carried out by them and they have submitted a draft reports in August 2011. In the reports, energy saving schemes as well as required renovation to operate the plants at sustained Load have been suggested. Based on the study reports of Namrup-II & Namrup-III Plants carried out by M/S HTAS and PDIL and viability proposal prepared by PDIL the BVFCL has submitted a comprehensive proposal for Long Term Viability of the Company for submission to BRPSE. The proposal is under consideration in the Department of Fertilizers. The following dispensation has been sought from BRPSE for long term viability of the Company in this proposal:

- Waiver of total cumulative interests of Rs. 373.43 crore accrued on GOI loans till 31.03.2011
- Waiver of loan of Rs. 21.96 crore taken for revamp of Namrup-I, since this plants has been permanently stopped.
- For Namrup-III, the capital expenditure of Rs 79.62 crores incurred beyond 31.03.2003 for revamp of the project to be recognised by Govt. of India for calculating the concession rate of urea.
- Since the company is facing technological/financial constraints, it is proposed to convert GOI loans provided to the company as interest free loan. However the company on earning cash profit, will service the GOI loans.
- Relaxation in profitability clause for pay revision and enhancement of age of superannuation from 58 to 60 years as a special dispensation to meet the immediate crisis of manpower.
- To setup New Brown Field Ammonia-Urea Plant at Namrup (Namrup-IV).

Restructuring of MFL:

With regard to restructuring of MFL it may be mentioned that M/s PDIL has submitted its report and recommended the conversion of GOI loan into equity and waiver of outstanding interest liability towards GOI. The views of foreign promoter NICO (Holding 25.77% equity stake) has also been received, who have opposed for sale of assets and conversion of Govt. Loan into Equity.

Since MFL is a sick company and BIFR has appointed State Bank of India as a Operating Agency for submitting a Financial restructuring proposal for MFL, the report of PDIL and the views of Foreign promoter NICO was forwarded to SBI for consideration.

State Bank of India (SBI) had considered the viability of the proposal and views of foreign promoter NICO and submitted the report on the financial restructuring package of

MFL. The Board of Director of the company considered to report of the OA and approved it.

After considering the views of the Board of MFL, NICO and Operating Agency, a BRPSE note for financial restructuring of MFL was circulated for inter-ministerial comment. The comments from the concerned Ministries/Departments have been received and considered in the DoF. Deptt. of Expenditure and Planning commission have been requested to submit the fresh comments on the proposal.

In the meantime the BIFR in its hearing held on 25th August 2011 has directed the Operating Agency (State Bank of India) to workout financial restructuring of MFL considering the conversion of GOI loan into equity. The operating Agency has submitted its report to BIFR. BIFR hearing was held on 07th May 2012 NICO one of the equity holders in MFL has objected to DRS proposal regarding conversion of GOI loan to equity. The matter is pending with BIFR.

{Ministry of Chemicals and Fertilizers (Department of Fertilizers) OM No.5(1)/2011-Fin.II/(Vol.II) dated 28.08.2012}

NEW DELHI;
17 DECEMBER, 2012
26 Agrahayna, 1934 (SAKA)

GOPINATH MUNDE,
Chairman,
Standing Committee on
Chemicals and Fertilizers

APPENDIX – I

MINUTES

MINUTES OF THE FOURTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2012-13)

The Committee sat on Monday, the 10 December, 2012 from 1500 hrs. to 1615 hrs. in Room No.63, Parliament House, New Delhi.

PRESENT

Shri A.A. Jinnah - In the Chair

MEMBERS

LOK SABHA

2.	Shri Gajanan D. Babar
3.	Shri Sakti Mohan Malik
4.	Shri Ashok Kumar Rawat
5.	Shri Kamlesh Paswan
6.	Shri Amarnath Pradhan
7.	Shri Tufani Saroj
8.	Shri G.M. Siddeshwara
RAJYA SABHA	
9.	Shri Brijlal Khabri
10.	Shri Pyarimohan Mohapatra

SECRETARIAT

1. Smt. Rashmi Jain - Joint Secretary
2. Shri A.K. Srivastava - Additional Director

2. As the Chairman could not attend the sitting due to pre-occupation, the members chose Shri A.A Jinnah, MP and a member of the Committee, to act as the Chairman. The Acting Chairman welcomed the members to the sitting of the Committee.

3. The Committee thereafter took up for consideration and adoption the following draft Reports :

(i) Draft Report on Action Taken by the Government on the recommendations contained in the Twenty-fifth Report (15th Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers);

(ii) *******

(iii) *******

(iv) *******

4. After some discussion, the draft Reports were adopted by the Committee.

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 TWENTY FIFTH REPORT (FIFTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2011-12) ON 'DEMANDS FOR GRANTS (2012-13)' OF THE MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

I	Total No. of Recommendations	11
II	Observations / Recommendations which have been accepted by the Government:- (*Vide* Recommendation at Sl.Nos. 1, 2, 3,4,5,6,8, 9 and 11)	09
	Percentage of Total	81.82%
III	Observation / Recommendation which the Committee do not desire to pursue in view of the Government's reply:- (*Vide* Recommendation at Sl.No. Nil)	00
	Percentage of Total	0%
IV	Observation / Recommendation in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (*Vide* Recommendation at Sl.No. Nil)	00
	Percentage of Total	0%
V	Observations / Recommendations in respect of which replies of the Government are of interim nature:- (*Vide* Recommendations at Sl.No.7 and 10)	02
	Percentage of Total	18.18%