42

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2013-14)

MINISTRY OF CHEMICALS AND FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

[ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS CONTAINED IN THE THIRTY THIRD REPORT (FIFTEENTH LOK SABHA) OF THE COMMITTEE ON 'DEMANDS FOR GRANTS (2013-14)' OF THE MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)]

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FORTY-SECOND REPORT

LOK SABHA SECRETARIAT
NEW DELHI

18 December, 2013/ Agrahayan 1935, (Saka)

CC&F No. -42

REPORT

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2013-14)

FIFTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS

(DEPARTMENT OF FERTILIZERS)

[ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS CONTAINED IN THE THIRTY THIRD REPORT (FIFTEENTH LOK SABHA) OF THE COMMITTEE ON 'DEMANDS FOR GRANTS (2013-14)' OF THE MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)]

Presented to Lok Sabha on 18.12.2013

Laid in Rajya Sabha on 18.12.2013

LOK SABHA SECRETARIAT
NEW DELHI

18 December, 2013/ Agrahayan 1935, (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2013-14)

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 S.K. Nurul Islam
8.	Shri Sakti Mohan Malik
9.	Shri Paswan Kamlesh
10.	Shri Amarnath Pradhan
11.	Shri Ashok Kumar Rawat
12.	Shri Tufani Saroj
13.	Shri Suresh Kumar Shetkar
14.	Shri Raju Shetti
15.	Shri G.M. Siddeshwara
16.	Shri D. Venugopal
17.	Shri Sai Prathap Annayyagari
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.	Shri Dilipbhai Pandya
27.	Shri Raghunandan Sharma
28.	Shri Ishwar Singh
29.	Vacant
30.	Vacant
31.	Vacant

SECRETARIAT

1.	Smt Rashmi Jain	-	Joint Secretary
2.	Shri U.B.S. Negi	-	Director
3.	Shri Anil Kumar Srivastava	-	Additional Director
4.	Smt. Emma C. Barwa	-	Under Secretary
5.	Shri Nishant Mehra	-	Committee Officer

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2013-14) having been authorised by the Committee to present the Report on their behalf, the Forty-Second Report (Fifteenth Lok Sabha) on Action Taken by the Government on the observations/recommendations contained in the Thirty-Third Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2013-14) on 'Demands for Grants (2013-14)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Thirty-Third Report (Fifteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on 30 April, 2013. The Action Taken Replies of Government to all observations/recommendations contained in the Report were received on 04 July, 2013. The Standing Committee on Chemicals and Fertilizers (2013-14) considered the Action Taken Report and adopted the same at their sitting held on 11 December, 2013.

3. An analysis of the Action Taken by the Government on the observations/recommendations contained in the Thirty-Third 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;

11 December, 2013
20 Agrahayana, 1935 (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 Thirty-Third Report (Fifteenth Lok Sabha) of the Committee on Demands for Grants (2013-14) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 30.4.2013. In all, the Committee made 10 Observations / Recommendations in the Report.

1.2 The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the Observations / Recommendations contained in the Thirty-Third Report within three months from the date of presentation of the Report, i.e., by 30.07.2013. The Action Taken Replies of the Government in respect of all the 10 Observations / Recommendations contained in the Report have been received from the Ministry of Chemicals and Fertilizers (Department of Fertilizers) vide their O.M. No.F.No.5(1)/2013-Fin.II dated 04.07.2013. These have been categorized as follows:-

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

Sl.Nos. 2,3,6,8,9 and 10 (Total =6)
Chapter II

(ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply :

Sl.No. Nil (Total =Nil)
Chapter III

(iii) Observations / Recommendations in respect of which replies of the Government have not been accepted by the Committee :

Sl.Nos. 4 and 7 (Total =2)
Chapter IV

(iv) Observations / Recommendations in respect of which final replies of the Government are of still awaited:

Sl.Nos.1 and 5 (Total =2)
Chapter V

1.3. The Committee desire that the Action Taken Notes on the Observations / Recommendations contained in Chapter-I, Chapter IV in respect of which replies of the Government have not been accepted by the Committee and Chapter V for which final replies are still awaited, of this Report, should be furnished expeditiously.

1.4 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. NEW INVESTMENT POLICY (NIP)

Recommendation No. 1

1.5 Stressing the need to increase the production of indigenous production of fertilizers, the Committee had recommended as under:-

"The Committee note that presently India is 3rd largest fertilizer producer in the world and the substantive demand of urea is met through indigenous production which is 224.69 LMT during the year 2012-13 (up to February 2013). However, the 90% demand of phosphoric fertilizer is met through imports either in the form of finished fertilizers or raw material due to absence of viable phosphatic mines in the country but for potash, the country is fully dependent on imports. Over the years, there has been a sharp increase in consumption of fertilizers due to various factors like good monsoon combined with increase irrigation facilities, increased area under cultivation, better awareness of usage of fertilizers amongst farmers and better purchasing power in rural areas. However, the Committee are distressed to note that the indigenous production of fertilizers has not increased with the growing requirement of fertilizer in the country primarily due to non-availability or limited availability of raw material/inputs as well as lack of new investment in urea sector, which is again owing to constraints in the availability of domestic natural gas.

The Committee also note that the Government has recently notified New Investment Policy (NIP) -2012 on 02.01.2013 to facilitate fresh investment in urea sector to achieve self sufficiency in the sector. The Committee hope that as a result of investment in the sector under the NIP-2012, indigenous production of urea will increase. In fact under this policy, the Government has received 15 investment proposals from various fertilizer companies which are under consideration of the Department. The Committee expect and recommend that all these investment proposals may be examined actively and finalised by the Department expeditiously. The Committee would like to be apprised of the progress made in this regard.

The Committee also note that there is an urgent need for the development of suitable commercial process for extraction of potash domestically in order to reduce the dependence of fertiliser units on import of potash. The extensive deposits of Gluconite sand containing potash have been detected in various parts of the country and a study is being conducted by the Indian School of Mines regarding efficient process for optimum extraction of potash content from the Gluconite sand. In this regard, the Committee would like the Department to monitor the study and impress upon the Indian School of Mines to complete the study and give its findings with in a fixed time frame. The Committee desire that the progress made in this regard may also be apprised to them."

Reply of the Government

1.6 In reply to the aforesaid recommendation of the Committee, the Department of Fertilizers has stated as under :-

"Consequent upon the approval of the announcement of New Investment Policy 2012 which was notified by the Ministry in January, 2013 Department of Fertilizers (DoF) had received 15 investment proposals from various fertilizer companies. The policy stipulates that all those units, which come into production within 5 years from the date of notification would be covered under the policy. The policy provides for guaranteed buy-back of Urea for a period of 8 years from the start of production for which subsidies/incentives will be given by the Government.

Presently there is annual demand and supply gap of around 60 to 70 LMT (likely to reach around 80 to 90 LMT by the end of 2016-17) in indigenous production after taking into account 20 LMT of Urea from OMIFCO, which is being met through imports. If all the proposals materialize at one go within the stipulated period of 5 years it would create a capacity far more excess than the requirement and with no option for the Government but to buy the product. It would unnecessarily put heavy burden on the subsidy outflows.

As per para 13 of the New Investment Policy 2012, all the urea units who plan to set up urea unit in the country are required to mandatorily provide information at beginning and completion of each stage of the project as given at Annexure-2 of the said policy. Accordingly, the Department of Fertilizers has requested aforementioned companies to submit the broad stages for setting up urea project. This is also required to assess the demand and production gap in the country as well as the cost of gas expected to be used in production of urea from new investments.

The matter regarding new capacity creation was discussed in the Department of Fertilizers and a need was felt to move cautiously in giving approvals to the fresh proposals and in order to meet the immediate/projected demand of 2016-17, the DoF can at the most consider four new proposals adding upto 50 LMT after taking into account the capacity addition in PSUs (both revival and Brownfield expansion) as well as projects in the private sector which are already in progress and will be commissioned in 2013-14. However, for transparency and equity, a need was felt to lay an objective criterion for selection of these proposals and a Group of Officers has been constituted to deliberate and decide on an objective criteria to select four projects and import planning of urea in future. The first meeting of the Group of Officer has taken place on 14th May, 2013.

In respect of extraction of Potash, the Indian School of Mines, Dhanbad has completed the study and submitted its report to M/s FAGMIL, a PSU under the Department of Fertilizers. M/s FAGMIL is examining the viability of gluconite mining to extract Potash. The Department will take appropriate action as per findings of M/s FAGMIL in this regard."

Comments of the Committee

1.7 The Committee had noted that New Investment Policy (NIP)- 2012 was notified by the Government on 02.01.2013 to facilitate fresh investment in urea sector to achieve self sufficiency in the sector. Under this policy, the Government had received 15 investment proposals from various fertilizer companies which are under consideration of the Department. The Committee had, therefore, recommended that all these investment proposals may be examined actively and finalised by the Department expeditiously. In their Action Taken Reply, the Department has stated that if all the proposals are materialized at one go within the stipulated period of 5 years, it would create a capacity far more excess than the requirement and with no option for the Government but to buy the product which would unnecessarily put heavy

burden on the subsidy outflows. The Department, therefore, propose to move cautiously in giving approvals to the fresh proposals and to meet the immediate/projected demand of 2016-17. The Department can at the most consider four new proposals adding upto 50 LMT after taking into account the capacity addition in PSUs (both revival and Brownfield expansion) as well as projects in the private sector which are already in progress and will be commissioned in 2013-14. For transparency and equity, a Group of Officers has been constituted to deliberate and decide on an objective criteria to select four projects and import planning of urea in future. The first meeting of the Group of Officer has taken place on 14th May, 2013. In view of the foregoing, the Committee expect that the objective criteria for selection of investment projects would be finalized cautiously but expeditiously and thereafter, on the basis of the objective criteria, the investment proposals would be actively examined and finalized on priority basis with a view to meet the immediate and the projected demand of urea in the country with in the next five years. In respect of extraction of Potash, the Committee note from the Action Taken Reply that the Indian School of Mines, Dhanbad has completed the study and submitted its report to M/s FAGMIL, a PSU under the Department of Fertilizers. M/s FAGMIL is examining the viability of gluconite mining to extract Potash. The Department will take appropriate action as per findings of M/s FAGMIL in this regard. However, the Committee regret to note that no time lines have been fixed for submission of its findings by the M/s FAGMIL. The Department has also not elaborated its action plan to arrive at its final decision in the matter. The Committee, therefore, recommend that the viability of gluconite mining to extract potash may be examined expeditiously with in a fixed time frame. The Committee would like to be apprised of the action plan of the Department and the progress made in this regard.

B. NON-PLAN EXPENDITURE

Recommendation No. 3

1.8 While stressing the need to check the huge non-plan expenditure, the Committee had recommended as under:-

> "The Committee are constrained to note that the actual non-plan expenditure during the year 2010-11 was Rs.65859.08 crore (gross), for the year 2011-12, Rs.74588.52 crore and for the year 2012-13, Rs.63974.24 crore as on 31st

January, 2013. The Committee were informed that since budget allocations for the year 2012-13 were less than requirement, the shortfall is likely to be carried over to the next financial year. The huge non-plan expenditure is primarily due to mounting fertilizer subsidy being granted under NBS policy. The subsidy on P&K fertilizer during the year 2010-11 and 2011-12 was Rs. 41500 crore and Rs.36107.94 crore respectively. The Committee were informed that all high cost Naptha /FO/LSHS based urea units have been directed for conversion to gas based units to reduce the indigenous cost of urea which in turn reduce the subsidy being granted under the NBS policy. The Committee expect that the Department would expedite the process of conversion of existing Naptha /FO/LSHS based urea units to gas so that the non-plan expenditure could be checked.

The Committee are also distressed to note that as the proposal to set up brown field plant could not be finalized by BVFCL, the demand for GBS was reduced from BE Rs. 94.61 crore to just Rs.2.00 crore during 2012-13 for meeting the pre-project activities. But even the pre-project activities could not be undertaken due to non-finalization of brown field projects. The Committee feel that being the only fertilizer company/ industry of North-East, it becomes crucial for BVFCL to set up its brown field project on time which would in turn help in development and growth of North-Eastern region. The Committee expect the Department, being the administrative controller, to take effective steps to expedite the finalisation of proposed brown field plant of BVFCL with in a fixed time frame. The Committee would like to be apprised of the action taken in this regard.

The Committee note that there has been a steady increase of subsidy on imported fertilizers from Rs.13716.12 crore in 2011-12 (AE) to Rs.15,544.64 crore in the year 2013-14 (BE). According to the Department of Fertilizers, the increase of subsidy on imported fertilizers for the year 2013-14 is due to increase in the estimated requirement of imported urea during 2013-14 vis-à-vis 2011-12 and the higher Rupee/ US dollar exchange rate as compared to 2011-12. The Committee are of the view that the increasing subsidy on imported fertilisers could be reduced if the domestic production of fertiliser is adequately increased to meet the growing demand of our farmers. The development of commercial process to extract potash from internal resources like gluconite sand would also greatly help in not only meeting the demand of potash of our farmers but in turn would also help to reduce the mounting subsidy on imported fertiliser. The Committee, therefore, recommend that the Department should make an action plan to augment the domestic production of fertiliser."

<u>Reply of the Government</u>

1.9 In reply to the aforesaid recommendation of the Committee, the Department of Fertilizers has stated as under :-

"The Department of Fertilizers has requested the Naphtha/FO/LSHS based P&K fertilizer manufacturers namely M/s FACT, MFL and GNVFC to convert their feedstock to gas based unit. These companies have taken appropriate steps towards conversion of their plant to gas based unit. However, these units are yet to receive the commitment from Government for adequate supply of gas to these units as per their requirements.

In respect of extraction of Potash, the Indian School of Mines, Dhanbad has completed the study and submitted its report to M/s FAGMIL, a PSU under the Department of Fertilizers. M/s FAGMIL is examining the viability of Gluconite mining to extract Potash. The Department will take appropriate action as per findings of M/s FAGMIL in this regard.

The current status regarding conversion of existing Naptha/FO/LSHS based Urea Units is given as under :-

<u>Status of Fuel Oil based Ammonia Feedstock Changeover Projects at Panipat & Bathinda, NFL</u>

- Zero date for both the projects is 29th January 2010.
- Mechanical completion achieved on 4th November 2012 at Bathinda and 9th November 2012 at Panipat against the contractual date of 33 months from zero date i.e. 28th October 2012.
- Ammonia plants handed over after purging to L&T (LSTK Contractor) on 14th November 2012 at Panipat and 28th November 2012 at Bathinda for hook-up / tie-in & commissioning activities.
- Ammonia production started on 9th January 2013 at Bathinda and 11th January 2013 at Panipat.
- Commissioning achieved on 16th January 2013 at Bathinda and 24th January 2013 at Panipat against the scheduled date of 28th January 2013 as per Government approval.

- The hook-up / tie-in and commissioning activities were completed in Panipat and Bathinda within the contractual time period of 90 days from handing-over of Ammonia plant.
- Presently, both Panipat and Bathinda plants have achieved 100% daily rated capacity of 900 MTPD of Ammonia and 1550 MTPD of Urea and optimization of energy consumption is being carried out by LSTK Contractor M/s L&T and the Licensor M/s HTAS.
- Presently, plants are under Sustained Load and Guaranteed Test Run stage and the process of declaration of commercial production is being initiated.

Status of Ammonia Feedstock Changeover Project at Nangal, NFL

- Zero date for the feedstock changeover project is 29th January 2010.
- On completion of mechanical erection and pre-commissioning activities required for Mechanical Completion, Plant shut-down for hook-up / tie-in and commissioning was taken on 15th February 2013. Contractual date for achieving Mechanical Completion was 28th October 2012. Project was to be commissioned by 28th December 2012.
- Presently, Ammonia plant hook-up / tie-in job has been completed. Revamped Ammonia plant is under start up and Ammonia production is expected to be achieved shortly.

Status of Naphtha based Ammonia Feedstock Changeover Projects

Kanpur Fertilizers and Chemicals Limited (KFCL)

Gas Sale Agreement signed with GAIL on 8th November 2012 for supply of RLNG w.e.f. 1st July 2013. The company started production from one stream in June 2013 while the production from other two streams will start very soon on gas.

Zuari Agro Chemicals Limited

On February 12, 2013, Company has signed unbundled Gas Supply Agreement with GAIL. Due to delay in laying of cross country pipeline and also delays in pre-commissioning and commissioning activities at Gas Terminal of GAIL, the Gas could be delivered to Fertilizer plant at Goa only effective from February 15, 2013.

Southern Petro-chemical Industries Corporation Limited (SPIC)

Basic Engineering work has been completed. Urea plant would be ready to receive gas from November 2013. SPIC has signed a MoU with GAIL and IOC to get RLNG either from Cochin or Chennai.

Mangalore Chemicals & Fertilizers Limited (MCFL)

Gas pipeline connectivity from Petronet LNG terminal at Kochi to Mangalore is expected to be completed in April, 2014. The fertilizer plant will be ready to receive the gas when the pipeline connectivity is established. Gas Sale Agreement (GSA) with IOC and Gas Transmission Agreement (GTA) with GAIL have been signed on 16th February, 2011.

Madras Fertilizers Limited (MFL)

The project is proposed to be implemented in January 2014 and trial production will commence from February 2014. After firming up the gas supplier, based on Techno-Commercial evaluation, MFL has to enter into Gas Transportation Agreement (GTA) and Gas Sales Agreement (GSA).

Brahmaputra Valley Fertilizer Corporation Limited (BVFCL)

Brahmaputra Valley Fertilizer Corporation Limited (BVFCL), a urea manufacturing loss making company under the administrative control of this Department has submitted a Techno-Economic Feasibility Report for installation of a new Brownfield Ammonia Urea plant (4th unit) at Namrup in Dibrugarh district of Assam. Planning Commission accorded 'in-principle' approval in August 2012. Cost of the project has been projected to be Rs.3311.09 Crores with equity component of Rs.815.67 Crores. The Plant would be of 8.4 lakh MT capacity with specific energy consumption of 5.2 G.cal/MT of urea. In a meeting held on 21st March 2013 under the Chairmanship of Secretary (Fertilizers), BVFCL was asked to get the valuation of its assets. After submission of valuation report of the assets, the transaction structure will be decided. M/s Price Waterhouse Coopers Pvt. Ltd. has been appointed as Consultant for open analysis, feasibility analysis of the options and suggesting most suitable option. BVFCL has appointed a Government approved valuer for assets valuation. The report of the asset valuer is awaited."

Comments of the Committee

1.10 The Committee had noted that the huge non-plan expenditure is primarily due to mounting fertilizer subsidy being granted under NBS policy. With a view to reduce the indigenous cost of urea which in turn reduce the subsidy being granted under the NBS policy, the Committee were informed that all high cost Naptha /FO/LSHS based urea units have been directed for conversion to gas based units. The Committee had, therefore, expected that the Department would expedite the process of conversion of existing Naptha /FO/LSHS based urea units to gas based units. In its Action Taken Reply, the Department has stated that Naphtha/FO/LSHS based P&K fertilizer

manufacturers namely M/s Fertilizers and Chemicals Travancore Limited (FACT), Madras Fertilizers Limited (MFL) and Gujarat Narmada Valley Fertilizers & Chemicals Limited (GNVFC) have been requested to convert their feedstock to gas based units. These companies have taken appropriate steps towards conversion of their plant to gas based units. However, the Committee regret to note that these units are yet to receive the commitment from Government for supply of gas to these units as per their requirements. The Committee, therefore, desire that the matter may be pursued vigorously with the Ministry of Petroleum and Natural Gas and other concerned authorities with a view to get firm commitment of supply of gas to the aforesaid units. The Committee further hoped that conversion of the feedstock from Naphtha/FO/LSHS based fertilizer manufacturing units to gas based units would be done expeditiously in a time bound manner.

The Committee also felt that it is crucial for Brahmaputra Valley Fertilizer Corporation Limited (BVFCL), to set up its brown field project on time which would in turn help in development and growth of North-Eastern region. The Committee had, therefore, expected that the Department would take effective steps to expedite the finalisation of proposed brown field plant of BVFCL with in a fixed time frame. In its Action Taken Reply, the Department has stated that BVFCL has submitted a Techno-Economic Feasibility Report for installation of a new Brownfield Ammonia Urea plant (4th unit) at Namrup in Dibrugarh district of Assam for which Planning Commission had accorded 'in-principle' approval in August 2012. In a meeting held on 21st March 2013 under the Chairmanship of Secretary (Fertilizers), BVFCL was asked to get the valuation of its assets done. After submission of valuation report of the assets, the transaction structure will be decided. M/s Price Waterhouse Coopers Pvt. Ltd. has been appointed as Consultant for open analysis, feasibility analysis of the options and suggesting most suitable option. BVFCL has appointed a Government approved valuer for assets valuation. The report of the asset valuer is awaited. In view of the foregoing, the Committee expect the Department to actively pursue and expedite the process to set up its brown field project with in a fixed time frame which would in turn help in development and growth of North-Eastern region. The Committee would like to apprised of the progress made in this regard.

In respect of extraction of potash from gluconite mining, the Committee have already given its comments at para 1.7 above.

C. DIRECT SUBSIDY TO THE FARMERS

Recommendation No. 4

1.11 Stressing the need for implementation of direct subsidy to the farmers in a time bound manner, the Committee had recommended as under:-

> "The Committee note that the Department is following a phased approach for direct disbursement of fertiliser subsidy to the intended beneficiaries. The implementation of Phase-I has already been made operational and subsequent phases of project i.e.; Phase-II, Phase-III and Phase-IV will be implemented once the implementation of Phase-I is stabilized. The project mechanism to transfer the subsidy directly to intended beneficiaries will also be formulated and implemented once Phase-I is stabilized. In this regard, the Committee were informed that 12 districts across 11 states have been selected for the Phase-II pilot project based on Aadhaar penetration, fertilizer consumption, geographical variance, dealers network as well as implementation status on Phase-I. The Committee expect the Government to keep strict vigilance and monitoring on the implementation of this particular phase as it would pave the way for wide implementation of direct subsidy to the farmers in the country. The Committee are, therefore, hopeful that the Phase-II pilot project will be successful and recommend that feedback from these 12 districts in respect of Phase-II of the scheme be analysed critically and on that basis, the scheme be implemented in the entire country. The Committee also reiterate its earlier recommendation that all the phases of direct subsidy transfer should be implement in a time bound manner so that there is no undue delay in the transfer of the benefits of direct subsidy to the farmers, which would in turn check the corruption, close the loopholes and profligacy in subsidies. The Committee would like to be apprised of the progress made in this regard.

Reply of the Government

1.12 In reply to the aforesaid recommendation of the Committee, the Department of Fertilizers has stated as under :-

> "Department of Fertilizers is following a phased approach in direct disbursement of fertilizer subsidy to the intended beneficiaries.

Implementation of Phase-I has already been made operational and subsequent phases will be implemented once implementation of Phase-I is stabilized. Technical Consultant of Department of Fertilizers, i.e. National Informatics Centre has completed the development of Phase-II mFMS application which is enabled to run on Point of Sale (PoS) devices, mobiles, personal computers as well as tablets. Final User Acceptance Test (UAT) was conducted on 18.03.2013. The testing of application is in progress and would be completed before deployment in the pilot districts.

In the DBT Executive Committee meeting held on 06.05.2013 taken by Principal Secretary to PM, it has been informed that National Committee on DBT has decided that transferring food and fertilizer subsidy through DBT is not under consideration at present. Therefore, Deptt. of Fertilizers could focus on other aspects of the system they are putting in place for the time being. Therefore, DoF is planning to start pilot for Phase-II in select districts.

In a meeting with fertilizer companies, chaired by Secretary (Fert.) on 30.04.2013, it has been decided to roll out 6 pilot districts of mFMS Phase-II out of 12 pilot districts in June / July 2013. The pilot is being conducted by LFS (Lead Fertilizer Suppliers) of the six States. The cost of the pilot would be met from the incentive money of Rs.50/mt for the retailer."

Comments of the Committee

1.13 The Committee had noted that the Department is following a phased approach in direct disbursement of fertilizer subsidy to the intended beneficiaries. Implementation of Phase-I has already been made operational and subsequent phases will be implemented once phase-I is stabilized. However, the Committee are distressed to note from the Action Taken Reply of the Government that National Committee on DBT (Direct Benefits Transfer) has decided on 06.05.2013 that transferring food and fertilizer subsidy through DBT is not under consideration at present and therefore, the Department could focus on other aspect of the system which are being put in place for the time being. The response of the Government also does not indicate the resolve on the part of the Department to implement the DBT scheme in the interest of the farmers in the country. The Committee are of the view that the ultimate objective of the scheme is to give the benefit of subsidy direct to the farmers and therefore, to keep this end in view, it is essential for the Department to

continue to make consistent and vigorous efforts in coordination with all stake holders to work out the modalities to give the benefit of the subsidy direct to the farmers without further delay. The Committee would like to be apprised of the efforts and the initiatives taken by the Department in this regard.

D. NUTRIENT BASED SUBSIDY

Recommendation No. 5

1.14 Emphasizing on the improved implementation of Nutrient Based Subsidy, the Committee had recommended as under:-

> "The Committee note that Nutrient Based Subsidy (NBS) on decontrolled phosphatic (P) & potassic (K) fertilizers was put in to effect from 1st April, 2010. Under the NBS policy, a fixed amount of subsidy decided on annual basis is provided to each grade of subsidised P&K fertilisers depending on its nutrient content. Since the country is largely dependent on imports for P&K fertiliser in the form of finished fertiliser or its raw material and subsidy being fixed, any rise or fall in international prices of P&K fertilisers and its inputs have effect on MRP of these fertilisers in the country. Further, variation in exchange rate also affects the delivered prices of these fertilisers. The Committee further note that under the NBS policy, fertiliser companies have been allowed to fix MRP at reasonable level.
>
> The Committee were informed that as at present, there is no mechanism under the policy to monitor and enforce reasonableness of MRP. However, in order to monitor the MRP of fertilizers fixed by the companies, the Department proposed to bring in a policy note that will address the issue of MRP. The Committee therefore, recommend that Department of Fertilizers should expedite the formulation of mechanism in a time bound manner to monitor and enforce the fertilizer companies to fix MRP of fertilisers produced by them at reasonable level.
>
> The Committee also note that a study of NBS policy is also being undertaken through a consultancy firm. The study will cover all aspects of NBS policy including its evaluation viz-a-viz price rise and its effect on balance fertilization of soil. The Committee expect that the Department of Fertilizer would take steps to expedite the study of NBS regime so that it would be

improved implementation of NBS policy. The Committee would like to be apprised of the progress made in this regard."

Reply of the Government

1.15 In reply to the aforesaid recommendation of the Committee, the Department of Fertilizers has stated as under :-

"The Department has issued policy/guidelines dated 3.5.2013 (copy enclosed as **Appendix-I)** under which it will be mandatory for all fertilizers companies to furnish the certified cost data in prescribed format for monitoring of MRPs of P&K fertilizers fixed by them. The Department is in the process to finalise a suitable mechanism to determine the reasonableness of MRP fixed by the fertilizer companies under the NBS Policy.

The Department is in the process of appointing a consultant to study the NBS policy. The study will also look into, among others, the causes of price rise of P&K fertilizers and make suggestions. The study will be of 3 month's duration."

Comments of the Committee

1.16 The Committee had noted that there is no mechanism under the policy to monitor and enforce reasonableness of MRP fixed by the fertilizer companies for the fertilizers produced by them. The Committee had, therefore, recommended that the Department of Fertilizers should expedite the formulation of mechanism in a time bound manner to monitor and enforce the fertilizer companies to fix MRP of fertilisers produced by them at reasonable level. In its Action Taken Reply, the Department has informed that policy/guidelines dated 3.5.2013 has since been issued under which it will be mandatory for all fertilizers companies to furnish the certified cost data in prescribed format for monitoring of MRPs of P&K fertilizers fixed by them. Further, the Department is in the process to finalise a suitable mechanism to determine the reasonableness of MRP fixed by the fertilizer companies under the NBS Policy. However, the Department has not indicated the time by which such mechanism is likely to be finalised. The Committee, therefore, reiterate its earlier recommendation that the Department should expedite the formulation of mechanism in a time bound manner to monitor and enforce the fertilizer companies to fix MRP of fertilizers produced by them at reasonable

level. As regards study of NBS regime, the Department has stated that appointment of a consultant to study the NBS policy is under process. The study will look into, among others, the causes of price rise of P&K fertilizers and make suggestions. The study will be of 3 month's duration. However, the Committee are not satisfied with the pace of progress in the matter. Since it is essential on urgent basis to evaluate the impact of NBS regime on price rise of P&K fertilizers, the Committee, therefore, desire that the process of appointment of consultant for the purpose be expedited with out any further delay. The Committee also hope that the time line proposed for the study on NBS regime would be strictly adhere to, enabling the Department to come out with its corrective measures/suggestions to improve the NBS policy on the basis of the findings of the proposed evaluation of the NBS regime. The Committee would like to be apprised of the progress made in this regard.

E. CONVERSION TO GAS BASED UNITS

Recommendation No. 6

1.17 Stressing the need for speedy conversion of Naptha/FO/LHS units to Natural gas/LNG gas units, the Committee had recommended as under:-

> "The Committee note that natural gas has been the preferred feed stock for manufacture of urea and at present natural gas based plants account for 80% of urea capacity, naptha is used for 9% urea and balance 11% capacity is based on fuel oil and LSHS as feed stock. Natural gas is not only clean and effective source of energy but the same is also considerably cheaper and more cost effective in term of manufacturing cost of urea. As per the policy announced in January, 2004, new urea projects, expansion of existing urea units and capacity through de-bottlenecking/revamp/modernisation will be allowed/recognised if the urea is manufactured by using natural gas/CNG as feedstock. A policy for conversion of existing Naptha/FO/LHS based units to natural gas / LNG as feed stock has also been formulated in January, 2004 which encourages early conversion of non- gas urea units to natural gas/CNG units. The Committee also note that pursuant to the said policy, out of 8 Naptha/FO/LHS urea units, 5 have been converted to gas based units.
>
> The three units of NFL i.e. Panipat, Bhatinda and Nangal and Bharauch unit of GNVFC, which are FO/LSHS based, have been converted in to gas but

the allocation of gas to these units is under consideration of the Ministry of Petroleum & Natural Gas. Out of the four Naptha based units, the Zuari Agro Limited has started production partly on gas since February, 2013 and the full production on gas will start from April, 2013. The other three Naptha based units i.e. MFL, SPIC and MCFL are yet to be converted to gas. Thus, the Committee are anguished to note the slow progress in the conversion of Naphtha/FO/LHS units to gas based units as a result of which non-gas based units continue to produce high cost urea and consequently, there is no reduction in subsidy being granted by the Government. In view of the mounting burden of subsidy, the Committee reiterate its earlier recommendation of reducing the increase in subsidy and state that Department of Fertilizers should take adequate steps to expedite process of conversion of the Naphtha/FO/LHS based units in to gas based units with in a fixed time frame. The Committee would like to be apprised of the progress made in this regard.

The Committee further note that pricing and firm availability of natural gas for existing and new units of fertilizer companies are the pre-requisites for indigenous production of urea. The concern of the fertiliser units to protect them from any additional liability arising due to increase in the delivered price of gas has been addressed in the NIP-2012. The Committee would, therefore, desire the Department to play a proactive role in association with all stakeholders viz. Ministry of Petroleum and Natural Gas. GAIL and fertiliser units to meet the requirement of fertiliser sector on priority basis. The Ministry of Petroleum and Natural Gas has informed that whenever, new gas is found in the country, the same will be allocated to fertiliser units on priority basis. The Committee were also informed that three units of NFL viz. Nangal, Bhatinda and Panipat have been connected with gas pipeline. The MFL has not taken any step for gas pipeline connectivity. The Committee 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. If felt necessary, the fertiliser units may be advised to use imported RLNG in case of non availability of domestic natural gas. Further, the Committee reiterates its earlier views that with the assured allocation and pricing 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 time overruns. The

Committee would like to recommend that expeditious and effective measures may be taken by the Department for capacity addition programmes so as to achieve self-sufficiency in fertilizer sector. The Committee would like to be apprised of the progress made in this regard.

Reply of the Government

1.18 In reply to the aforesaid recommendation of the Committee, the Department of Fertilizers has stated as under :-

"Gujarat Narmada Valley Fertilizers & Chemicals Limited (GNVFC):

M/s GNVFC is an enterprise of the State Government of Gujarat. Implementation work has been completed from quite some time and the plant is ready for starting commissioning activities since last week of September 2012. The company has requested for allocation of Natural Gas and its source since long. The entity has also sought permission to run the plant on RLNG and consider its cost as pass through cost for working out cost of production of Urea for subsidy purpose. Based on request and discussions carried out with DoF several times, the company had entered into agreement for supply of RLNG with M/s GSPC for commissioning of the plant on reasonable endeavour basis (spot gas) till 31st January 2013 at the rate of 16.4 US$ per MMBtu (GCV) exclusive of VAT and transportation. The plant is ready and all the pre-commissioning activities are completed. The company has started commissioning of the plant on 20th December 2012 in anticipation of granting approval of the above gas price.

National Fertilizers Limited (NFL)

Ammonia Plant Feedstock Changeover from Fuel Oil to Natural Gas at Panipat, Bathinda & Nangal were cleared by Cabinet Committee on Economic Affairs on 21.01.2010. Based on the communication of approval from Department of Fertilizers, contract on Lump sum Turnkey Basis (LSTK) was placed on M/s Larsen & Toubro (L&T) India for feedstock changeover projects at Panipat & Bathinda and on Consortium of Technimont (TCM) Italy & Technimont ICB (TICB) India for Feedstock Changeover Project at Nangal. Zero date of the projects was 29th January 2010.

Gas Tie-up

Domestic gas is yet to be allocated for changeover projects at Panipat, Bathinda and Nangal. For pre-commissioning, commissioning & post-commissioning upto 31st May 2013, Master Spot Sale Agreement has been entered into with GAIL for supply of spot gas for Nangal and Bathinda units. Present delivered price of spot gas is USD 17.94 / mmBTU. For supply of gas to Panipat unit, spot agreement had been entered into with IOCL upto 31st January 2013. Present delivered price of spot gas is USD 17.04 / mmBTU.

So far as Naphtha based units in southern India are concerned, the Zuari Agro & Chemicals Limited is connected by gas pipeline and has started production on gas. The Madras Fertilizers Limited has not yet taken concrete steps for gas pipeline connectivity. Mangalore Chemicals & Fertilizers Limited (MCFL) has signed the Gas Sale Agreement (GSA) with IOC and Gas Transmission Agreement (GTA) with GAIL on 16th February, 2011. The SPIC has yet to sign the GSPA agreement.

With regard to capacity addition, it is reiterated that based on NIP 2012, this Department had received 15 proposals from various fertilizers companies. The matter was discussed in the Department of Fertilizers and a need was felt to move cautiously in giving approvals to the fresh proposals and in order to meet the immediate/projected demand of 2016-17, the DoF can at the most consider four new proposals adding upto 50 LMT after taking into account the capacity addition in PSUs (both revival and Brownfield expansion) as well as projects in the private sector which are already in progress and will be commissioned in 2013-14. However, for transparency and equity, a need was felt to lay an objective criterion for selection of these proposals. A Group of Officers has been constituted to deliberate and decide on an objective criteria to select four projects and import planning of urea in future. The first meeting of the Group of Officer has taken place on 14th May, 2013.

Comments of the Committee

1.19 The Committee had noted that out of 8 Naptha/FO/LHS urea units, 5 have been converted to gas based units. The other three Naptha based units i.e. Madras Fertilizers Limited (MFL), Southern Petro-chemical Industries Corporation Limited (SPIC) and Mangalore Chemicals & Fertilizers Limited (MCFL) are yet to be converted to gas. Further, the allocation of gas to four FO/LSHS based units – three units of NFL- Panipat, Bhatinda and Nangal and one unit of GNVFC- Bharauch, is under consideration of the Ministry of Petroleum & Natural Gas. Out of the four Naptha based units, only the Zuari Agro Limited has started production on gas since February, 2013. In its Action Taken Reply, the Department has stated that M/s GNVFC had entered into

agreement for supply of RLNG with M/s GSPC. However, domestic gas is yet to be allocated for changeover projects at Panipat, Bathinda and Nangal. MCFL has signed the Gas Sale Agreement (GSA) with IOCL and Gas Transmission Agreement (GTA) with GAIL on 16th February, 2011. MFL has yet to take concrete steps for gas pipeline connectivity. Further, the SPIC has yet to sign the GSPA agreement. Thus, the Committee are not satisfied with the pace of progress in the conversion of Naphtha/FO/LHS based units to gas based units. The Committee strongly feel that the Department, being the nodal authority, should pursue the matter vigorously with the Ministry of Petroleum and Natural Gas and IOCL/GAIL and needs to undertake periodic reviews at the highest level in order to expedite conversion of all units into gas based units in a time bound manner. The Committee would like to be apprised of the progress made in this regard.

With regard to investment proposals received under NIP-2012, the Committee have already given its comments at para 1.7 above.

F. FERTILIZER MONITORING SYSTEM

Recommendation No. 7

1.20 Emphasizing the need to strengthen the existing Fertilizers Monitoring System, the Committee had recommended as under:-

"The Committee are of the view that Department of Fertilizers has the primary responsibility to assess the requirement of fertilizers and also to ensure that there is adequate and timely availability of fertilizers to the farmers. The Committee in this regard note that there is monitoring mechanism of Fertilizers Monitoring System which tracks availability of fertilizers upto district level and has now been extended through mobile Fertilizers Monitoring System (m-FMS) to the last point of sale i.e.; retailer. The Department of Fertilizers has also informed that all the stakeholders are required to register in m-FMS and perform the required reporting to increase transparency across the supply chain. The Committee, however, feel that there are still reports of black-marketing and illegal sale of fertilizers across the country. The Committee, therefore, reiterates its earlier recommendation as mentioned in the demands for grants report 2012-13 that Department of Fertilizers should strengthen the existing Fertilizer Monitoring System and make it more effective in bringing transparency in the sale of fertilizers and to eradicate hoarding and black-marketing of fertilizers.

The Committee also note that as there is no reserves of potash in the country, the total requirement of the same is met through imports and the companies are free to import fertilizers depending upon the demand and market condition in the country. However, the Committee regret to note that for the Kharif season of 2011-12, potash could not be imported due to lack of adequate contracts with international suppliers and high international prices to meet the requirements of the farmers of the country. The Committee, therefore, recommend that a mechanism may be put in place to monitor and to ensure timely procurement of potash as per the demand of the farmers. The Committee would like to be apprised of the action taken by the Department in this regard."

Reply of the Government

1.21 In reply to the aforesaid recommendation of the Committee, the Department of Fertilizers has stated as under :-

"The month-wise demand is assessed and projected by the Department of Agriculture & Cooperation (DAC) in consultation with the State Governments before the commencement of each cropping season. Accordingly, month-wise and state-wise supply plan is made. State Governments are responsible for monitoring the availability within their respective states. On the basis of month-wise & state-wise projection given by Department of Agriculture and Cooperation, Department of Fertilizers allocates sufficient/adequate quantities of fertilizers to the States by issuing monthly supply plans and continuously monitors the availability of Fertilizers at the state level. Further monitoring/distribution of fertilizers district/block wise is the responsibility of the respective states. The state wise availability during April 2012 to March, 2013 along with pre-positioning of fertilizers is at **Appendix-II**. As can be seen, the availability of all the fertilizers was adequate.

Department of Fertilizers (DOF) is responsible for distribution and movement of fertilizers in the country. DOF is also paying subsidy on all major fertilizers to ensure adequate and quality fertilizers to the farmers at affordable price. The Maximum Retail Price (MRP) of urea is under the statutory price control of the Government of India, while the MRPs of Phosphatic and Potassic (P&K) fertilizers have been freed and the manufactures/importers are deciding the MRPs for these fertilizers. The manufactures/importers and their wholesale and retail dealers are required to adhere to the provisions of the Fertilizers Control Order (FCO) regarding quality and MRP of fertilizers. As per the Allocation of Business Rules of the Government of India, administration of FCO is the responsibility of the Department of Agriculture and Cooperation. The equitable distribution of fertilizers to the farmers within the State at MRPs is the responsibility of the concerned state government. State Government can conduct search, make seizures and take punitive action against any person/dealer violating the provisions of the FCO. However, as DOF is responsible for making available subsidized fertilizers as per the requirement of the states, the issues like black marketing, illegal diversion, smuggling, breach of MRP are the issues of concern for us. Therefore, states are constantly told about the urgent necessity of keeping strict vigil and prompt action by the states to check black marketing, diversion, smuggling, breach of MRP etc., by bringing these issues to the notice of the state government at various forums and through correspondences. Lately, said issues were highlighted during the Zonal Conference on Agriculture Inputs for Kharif 2013 season held from 6th to 8th February, 2013 and the National Conference on Agriculture for Kharif Campaign-2013 held from 6th to 7th March 2013, in which representatives from all the states were present.

All the fertilizer companies are also advised time and again to take strict action against their dealers found indulging in malpractices like black-marketing, hoarding etc.

As regards Potash- there was tightness in the availability of MOP during 2011-12. There is no viable source of Potash in the country as such the entire demand of MOP is met through imports. During 2011-2012 year, up to the month of July, contracting for import of MOP could not materialize due to substantial increase of prices by cartelization by MOP producers in the International market. The contracting of MOP took place only in the month of August. As a result, availability of MOP for direct application was comfortable in Rabi'2011-12."

Comments of the Committee

1.22 The Committee had recommended that the Department should strengthen the existing Fertilizer Monitoring System and make it more effective in bringing transparency in the sale of fertilizers and eradicate hoarding and black marketing of fertilizers. It was noted by the Committee that during Kharif season of 2011-12, potash could not be imported due to lack of adequate contracts with international suppliers and high international prices to meet the requirements of the farmers of the country. The Committee had, therefore, also recommended that a mechanism may be put in place to monitor and to ensure timely procurement of potash as per the demand of the farmers. In its Action Taken Reply, the Department has claimed that the state-wise availability during April, 2012 to March, 2013 along with pre-positioning of fertilizers was adequate. Further, the equitable distribution of fertilizers to the farmers within the State at MRPs is the responsibility of the concerned state government. Thus, the Committee regret to note that the Department has put the entire responsibility on State Governments for monitoring/distribution of fertilizers in their State. However, the Committee are not entirely convinced with the explanation of the Department in the matter. The Committee strongly feel that the entire onus in this regard could not be put only on the State Governments. The Department, as being the nodal authority, can not overlook its responsibility for effective distribution and transparency in the sale of fertilizers. The Committee are of the view that it is for the Department to shoulder the responsibility and take corrective measures in coordination with State Governments and other stakeholders in the matter. As regards Potash, the Department has stated in its Action Taken Reply that the entire demand of MOP is met through imports. However, during 2011-2012, up to the month of July, contracting for import of MOP could not materialize due to substantial increase of prices by cartelisation by MOP producers in the international market and the contracting of MOP took place only in the month of August. This again reflects the failure of the Department to monitor the demand of MOP before hand and its timely import. In view of the foregoing, the Committee, therefore, desire that the entire issue concerning the demand of fertilizers and its distribution to the farmers in the country may be reviewed holistically and an effective mechanism be put in place in coordination with State Governments and other stakeholders to monitor the distribution of fertilizers to the farmers as per their requirement. The

Committee would like to be apprised of the initiatives taken by the Department and the progress made in this regard.

G. JOINT VENTURES ABROAD

Recommendation No. 10

1.23 Emphasizing the need to set up joint ventures abroad, the Committee had recommended as under:-

> "The Committee note that the Department have been encouraging joint ventures with the resource rich countries with the buy-back facilities. This is being done to fulfil the need of the Fertilizers industries which have near total dependence on the imported raw material, for P&K fertilizers. The Committee also note that the Department is also working with the goal of having access to / acquisition of fertilizer raw material abroad. The Committee, are however, disappointed to note that besides KRIBHCO, RCF is the only PSU which intends to set up urea projects at Ghana and Indonesia as JV companies with local partners along with long term off-take arrangement of urea. The Department, through diplomatic channels, is pursuing the case for RCF for the said projects. However, in order to ensure adequate supply of P&K fertilizers, the Committee recommend that the Department, being the nodal agency, should make vigorous efforts so that the JV projects are set up expeditiously. The Committee also expect that other PSUs should also be encouraged to enter into joint ventures abroad with the resource rich countries. The Department should also speed up the process of acquiring fertilizer raw materials abroad. The Committee hope that as a result of these efforts the requirement of the farmers for phosphatic fertilisers will be met."

Reply of the Government

1.24 In reply to the aforesaid recommendation of the Committee, the Department of Fertilizers has stated as under :-

> "Department of Fertilizers have been encouraging Joint Ventures with the resource rich countries with the buy-back facilities. This is being done to fulfill the need of the fertilizers industries which have near total dependence on the imported raw material, for P&K fertilizers. Department is also working for acquisition of fertilizer raw material abroad. In addition to KRIBHCO and RCF, other PSUs such as GNFC and IFFCO are also making efforts towards

signing of MOU/agreements for Joint Ventures. In case of IFFCO, recently it has signed an agreement with JPMC for setting up of a Joint venture Project namely Jordan-IFFCO company (JIFCO), for production of Phosphoric acid and sulphuric acid. The project is likely to be completed by the year 2013. IFFCO has also entered into a Joint Venture with M/s.Grow max Agri Crop, Canada for potash exploitation in Peru. IFFCO has also planned to establish a Urea plant in Canada. However, out of the total estimated equity contribution of USD 500 Million for the said proposed project, the share of IFFCO is yet to be finalized. So far as GNFC is concerned, it along with RCF is leading the discussions with Iran for setting up Urea-Ammonia plant in Iran.

So far as setting up of Gas based Ammonia-urea Fertilizer Plant in Ghana is concerned, there is no delay on the part of RCF/Department of Fertilizers. But response from Ghanaian Govt. is still awaited on the draft agreement which was submitted to them. Further the matter of notification of gas Price by the Ghanaian side, is also being lingered on by them for almost two years, despite repeated requests from Indian side. As regards Indonesia, there is also no delay on the part of RCF/Department of Fertilizers. A draft MOU was sent by RCF, with the approval of Department of Fertilizer, to M/s. Minerals, Energy & Commodities (MEC) Pvt. Ltd., Singapore, a foreign Company nominated by Indonesia Investment Coordinating Board to collaborate with RCF for its Joint Venture projects but the response from M/s. MEC is awaited."

Comments of the Committee

1.25 The Committee had noted that the Department has been encouraging joint ventures with the resource rich countries with a view to meet the requirement of farmers for P&K fertilizers. However, besides KRIBHCO, RCF is the only PSU which intends to set up JV projects abroad at Ghana and Indonesia. In order to ensure adequate supply of P&K fertilizers, the Committee had, therefore, recommended that the Department, being the nodal agency, should make vigorous efforts to set up JV projects expeditiously. The Committee had also expected that other PSUs should also be encouraged to enter into joint ventures abroad with the resource rich countries. In its Action Taken Reply, the Department has stated that in addition to KRIBHCO and RCF, other PSUs such as Gujarat Narmada Valley Fertilizers (GNFC) and IFFCO are also making efforts for Joint Ventures abroad. But the Committee regret to

note (Chapter-IX of 33rd Report of the Committee) that none of them comes under the administrative control of the Department of Fertilizers. In its Action Taken Reply, the Department has not elaborated the initiatives taken or being undertaken to expedite the setting up of joint ventures abroad with the resource rich countries. Since the fertilizers units in the country is almost dependent on the imported raw material for P&K fertilizers, it is imperative for the Department to make concerted and coordinated efforts to expedite the JV projects with buy-back facilities and acquisition of fertilizer raw material abroad. To keep this end in view, the Committee reiterates its recommendation that the Department should encourage all PSUs under its administrative control to enter into joint ventures abroad with the resource rich countries. The Committee would like to be apprised of the initiatives taken by the Department in this regard.

CHAPTER-II

OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No. 2

The Committee note with concern that the funds allocated for the 12th Five Year Plan i.e. Rs.16920.70 crore is less than the funds which were allocated during the 11th Five Year Plan i.e. Rs.21213.90 crore. The Committee are further concerned to note that for the year 2013-14, an amount of Rs.269.00 crore as GBS has been allocated as against Department of Fertilizers' proposal of Rs.372.56 crore The Committee are, therefore, apprehensive that the lesser amount of funds allocated by the Ministry of Finance may upset the schemes/programmes of the Department finalised by them in consultation with PSUs/Co-operatives and may derail the growth of the fertilizer industry in the country during the 12th Five Year Plan. The Committee also feel that as a result of reduction in the GBS allocation for the 12th Five Year Plan, the process of revival/rehabilitation of the three major loss making fertilizer units viz., BVFCL, FACT and MFL is also likely to be affected adversely. The Committee are of the view that the allocation made by the Ministry of Finance should be in commensurate to the projections made by the Department so that the targeted growth of fertiliser sector and the revival/rehabilitation plan of loss making fertiliser units do not get hampered for want of resources during the 12th plan period.

The Committee are also distressed to note that certain schemes of the 11th Plan period which could not be taken up due to various commercial/functional reasons, have been carried over to 12th Plan period. This goes to show that either those scheme were formulated with out careful and effective planning or there was a lack of concerted and co-ordinated efforts on the part of the Department to address those constraint which were impeding the implementation of the schemes. The Committee are of the view that once the annual plan has been made after careful consideration, the same needs to be implemented effectively. The Committee, therefore, expect and recommend that the Department of Fertilizers should effectively monitor the schemes planned for the duration of 12th plan period including those carried over from the previous plan period and review the progress of the projects on regular basis for timely completion and full utilisation of funds allocated for the purpose which would in turn lead to eventual growth of the fertilizer industry.

Reply of the Government

Planning Commission has intimated that Gross Budgetary Support (GBS) allocation during 12th Five Year Plan will be Rs.1484 crores as against GBS allocation of Rs.1492 crores during the 11th Plan, marginally less in 12th Plan than 11th Five Year Plan. However, it may be pointed out that during the 11th Five Year Plan, Rs.885 crores were allocated for capital subsidy for conversion and Rs.607 crores for revival of sick PSEs. During 12th Five Year Plan, the whole amount i.e. Rs.1484 crores is available for meeting the requirement of renewal and replacement of three loss making PSEs, namely BVFCL, FACT and MFL. The observations of the Standing Committee is noted and during Annual Plan discussions, Planning Commission will be impressed upon to allocate adequate funds to meet the requirement of renewal and replacement of three PSEs so as to sustain production by these companies.

The companies have been asked in the past to prepare schemes to be implemented under the Plan schemes with necessary care and due appreciation of all the factors affecting their investment proposal to obtain most beneficial outcomes from the investment. Observations of the Committee is noted and once again companies will be asked to prepare future plans in an optimal fashion to generate necessary outcomes. Schemes proposed by the companies will be reviewed/monitored by the Department of Fertilizers with a view to complete them in a timely manner and to utilize funds allocated.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Recommendation No. 3

The Committee are constrained to note that the actual non-plan expenditure during the year 2010-11 was Rs.65859.08 crore (gross), for the year 2011-12, Rs.74588.52 crore and for the year 2012-13, Rs.63974.24 crore as on 31st January, 2013. The Committee were informed that since budget allocations for the year 2012-13 were less than requirement, the shortfall is likely to be carried over to the next financial year. The huge non-plan expenditure is primarily due to mounting fertilizer subsidy being granted under NBS policy. The subsidy on P&K fertilizer during the year 2010-11 and 2011-12 was Rs. 41500 crore and Rs.36107.94 crore respectively. The Committee were informed that all high cost Naptha /FO/LSHS based urea units have been directed for conversion to gas based units to reduce the indigenous cost of urea which in turn reduce the subsidy being granted under the NBS policy. The Committee expect that the Department would expedite the process of conversion of existing Naptha /FO/LSHS based urea units to gas so that the non-plan expenditure could be checked.

The Committee are also distressed to note that as the proposal to set up brown field plant could not be finalized by BVFCL, the demand for GBS was reduced from BE Rs. 94.61 crore to just Rs.2.00 crore during 2012-13 for meeting the pre-project activities. But even the pre-project activities could not be undertaken due to non-finalization of brown field projects. The Committee feel that being the only fertilizer company/ industry of North-East, it becomes crucial for BVFCL to set up its brown field project on time which would in turn help in development and growth of North-Eastern region. The Committee expect the Department, being the administrative controller, to take effective steps to expedite the finalisation of proposed brown field plant of BVFCL with in a fixed time frame. The Committee would like to be apprised of the action taken in this regard.

The Committee note that there has been a steady increase of subsidy on imported fertilizers from Rs.13716.12 crore in 2011-12 (AE) to Rs.15,544.64 crore in the year 2013-14 (BE). According to the Department of Fertilizers, the increase of subsidy on imported fertilizers for the year 2013-14 is due to increase in the estimated requirement of imported urea during 2013-14 vis-à-vis 2011-12 and the higher Rupee/ US dollar exchange rate as compared to 2011-12. The Committee are of the view that the increasing subsidy on imported fertilisers could be reduced if the domestic production of fertiliser is adequately increased to meet the growing demand of our farmers. The development of commercial process to extract potash from internal resources like Gluconite sand would also greatly help in not only meeting the demand of potash of our farmers but in turn would also help to reduce the mounting subsidy on imported fertiliser. The Committee, therefore, recommend that the Department should make an action plan to augment the domestic production of fertiliser.

Reply of the Government

The Department of Fertilizers has requested the Naphtha/FO/LSHS based P&K fertilizer manufacturers namely M/s FACT, MFL and GNVFC to convert their feedstock to gas based unit. These companies have taken appropriate steps towards conversion of their plant to gas based unit. However, these units are yet to receive the commitment from Government for adequate supply of gas to these units as per their requirements.

In respect of extraction of Potash, the Indian School of Mines, Dhanbad has completed the study and submitted its report to M/s FAGMIL, a PSU under the

Department of Fertilizers. M/s FAGMIL is examining the viability of Gluconite mining to extract Potash. The Department will take appropriate action as per findings of M/s FAGMIL in this regard.

The current status regarding conversion of existing Naptha/FO/LSHS based Urea Units is given as under :-

Status of Fuel Oil based Ammonia Feedstock Changeover Projects at Panipat & Bathinda, NFL

- Zero date for both the projects is 29th January 2010.
- Mechanical completion achieved on 4th November 2012 at Bathinda and 9th November 2012 at Panipat against the contractual date of 33 months from zero date i.e. 28th October 2012.
- Ammonia plants handed over after purging to L&T (LSTK Contractor) on 14th November 2012 at Panipat and 28th November 2012 at Bathinda for hook-up / tie-in & commissioning activities.
- Ammonia production started on 9th January 2013 at Bathinda and 11th January 2013 at Panipat.
- Commissioning achieved on 16th January 2013 at Bathinda and 24th January 2013 at Panipat against the scheduled date of 28th January 2013 as per Government approval.
- The hook-up / tie-in and commissioning activities were completed in Panipat and Bathinda within the contractual time period of 90 days from handing-over of Ammonia plant.
- Presently, both Panipat and Bathinda plants have achieved 100% daily rated capacity of 900 MTPD of Ammonia and 1550 MTPD of Urea and optimization of energy consumption is being carried out by LSTK Contractor M/s L&T and the Licensor M/s HTAS.
- Presently, plants are under Sustained Load and Guaranteed Test Run stage and the process of declaration of commercial production is being initiated.

Status of Ammonia Feedstock Changeover Project at Nangal, NFL

- Zero date for the feedstock changeover project is 29th January 2010.
- On completion of mechanical erection and pre-commissioning activities required for Mechanical Completion, Plant shut-down for hook-up / tie-in and commissioning was taken on 15th February 2013. Contractual date for achieving Mechanical Completion was 28th October 2012. Project was to be commissioned by 28th December 2012.
- Presently, Ammonia plant hook-up / tie-in job has been completed. Revamped Ammonia plant is under start up and Ammonia production is expected to be achieved shortly.

Status of Naphtha based Ammonia Feedstock Changeover Projects Kanpur Fertilizers and Chemicals Limited (KFCL)

Gas Sale Agreement signed with GAIL on 8th November 2012 for supply of RLNG w.e.f. 1st July 2013. The company started production from one stream in June 2013 while the production from other two streams will start very soon on gas.

Zuari Agro Chemicals Limited

On February 12, 2013, Company has signed unbundled Gas Supply Agreement with GAIL. Due to delay in laying of cross country pipeline and also delays in pre-commissioning and commissioning activities at Gas Terminal of GAIL, the Gas could be delivered to Fertilizer plant at Goa only effective from February 15, 2013.

Southern Petro-chemical Industries Corporation Limited (SPIC)

Basic Engineering work has been completed. Urea plant would be ready to receive gas from November 2013. SPIC has signed a MoU with GAIL and IOC to get RLNG either from Cochin or Chennai.

Mangalore Chemicals & Fertilizers Limited (MCFL)

Gas pipeline connectivity from Petronet LNG terminal at Kochi to Mangalore is expected to be completed in April, 2014. The fertilizer plant will be ready to receive the gas when the pipeline connectivity is established. Gas Sale Agreement (GSA) with IOC and Gas Transmission Agreement (GTA) with GAIL have been signed on 16th February, 2011.

Madras Fertilizers Limited (MFL)

The project is proposed to be implemented in January 2014 and trial production will commence from February 2014. After firming up the gas supplier, based on Techno-Commercial evaluation, MFL has to enter into Gas Transportation Agreement (GTA) and Gas Sales Agreement (GSA).

Brahmaputra Valley Fertilizer Corporation Limited (BVFCL)

Brahmaputra Valley Fertilizer Corporation Limited (BVFCL), a urea manufacturing loss making company under the administrative control of this Department has submitted a Techno-Economic Feasibility Report for installation of a new Brownfield Ammonia Urea plant (4th unit) at Namrup in Dibrugarh district of Assam. Planning Commission accorded 'in-principle' approval in August 2012. Cost of the project has been projected to be Rs.3311.09 Crores with equity component of Rs.815.67 Crores. The Plant would be of 8.4 lakh MT capacity with specific energy consumption of 5.2 G.cal/MT of urea. In a meeting held on 21st March 2013 under the Chairmanship of Secretary (Fertilizers), BVFCL was asked to get the valuation of its assets. After submission of valuation report of the assets, the transaction structure will be decided. M/s Price Waterhouse Coopers Pvt. Ltd. has been appointed as Consultant for open analysis, feasibility analysis of the options and suggesting most suitable option. BVFCL has appointed a Government approved valuer for assets valuation. The report of the asset valuer is awaited.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Comments of the Committee

(Please see Para No.1.10 of Chapter-I of the Report)

Recommendation No. 6

The Committee note that natural gas has been the preferred feed stock for manufacture of urea and at present natural gas based plants account for 80% of urea capacity, naptha is used for 9% urea and balance 11% capacity is based on fuel oil and LSHS as feed stock. Natural gas is not only clean and effective source of energy but the same is also considerably cheaper and more cost effective in term of manufacturing cost of urea. As per the policy announced in January, 2004, new urea projects, expansion of existing urea units and capacity through de-bottlenecking/revamp/modernisation will be allowed/recognised if the urea is manufactured by using natural gas/CNG as feedstock. A policy for conversion of existing Naptha/FO/LHS based units to natural gas / LNG as feed stock has also been formulated in January, 2004 which encourages early conversion of non- gas urea units to natural gas/CNG units. The Committee also note that pursuant to the said policy, out of 8 Naptha/FO/LHS urea units, 5 have been converted to gas based units.

The three units of NFL i.e. Panipat, Bhatinda and Nangal and Bharauch unit of GNVFC, which are FO/LSHS based, have been converted in to gas but the allocation of gas to these units is under consideration of the Ministry of Petroleum & Natural Gas. Out of the four Naptha based units, the Zuari Agro Limited has started production partly on gas since February, 2013 and the full production on gas will start from April, 2013. The other three Naptha based units i.e. MFL, SPIC and MCFL are yet to be converted to gas. Thus, the Committee are anguished to note the slow progress in the conversion of Naphtha/FO/LHS units to gas based units as a result of which non-gas based units continue to produce high cost urea and consequently, there is no reduction in subsidy being granted by the Government. In view of the mounting burden of subsidy, the Committee reiterate its earlier recommendation of reducing the increase in subsidy and state that Department of Fertilizers should take adequate steps to expedite process of conversion of the Naphtha/FO/LHS based units in to gas based units with in a fixed time frame. The Committee would like to be apprised of the progress made in this regard.

The Committee further note that pricing and firm availability of natural gas for existing and new units of fertilizer companies are the pre-requisites for indigenous production of urea. The concern of the fertiliser units to protect them from any additional liability arising due to increase in the delivered price of gas has been addressed in the NIP-2012. The Committee would, therefore, desire the Department to play a proactive role in association with all stakeholders viz. Ministry of Petroleum and Natural Gas. GAIL and fertiliser units to meet the requirement of fertiliser sector on priority basis. The Ministry of Petroleum and Natural Gas has informed that whenever, new gas is found in the country, the same will be allocated to fertiliser units on priority basis. The Committee were also informed that three units of NFL viz. Nangal, Bhatinda and Panipat have been connected with gas pipeline. The MFL has not taken any step for gas pipeline connectivity. The Committee 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. If felt necessary, the fertiliser units may be advised to use imported RLNG in case of non availability of domestic natural gas. Further, the Committee reiterates its earlier views that with the assured allocation and pricing 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 time overruns. The Committee would like to recommend that expeditious and effective measures may be taken by the Department for capacity addition programmes so as to achieve self-sufficiency in fertilizer sector. The Committee would like to be apprised of the progress made in this regard.

Reply of the Government

Gujarat Narmada Valley Fertilizers & Chemicals Limited (GNVFC):

M/s GNVFC is an enterprise of the State Government of Gujarat. Implementation work has been completed from quite some time and the plant is ready for starting commissioning activities since last week of September 2012. The company has requested for allocation of Natural Gas and its source since long. The entity has also sought permission to run the plant on RLNG and consider its cost as pass through cost for working out cost of production of Urea for subsidy purpose. Based on request and discussions carried out with DoF several times, the company had entered into agreement for supply of RLNG with M/s GSPC for commissioning of the plant on reasonable endeavour basis (spot gas) till 31st January 2013 at the rate of 16.4 US$ per MMBtu (GCV) exclusive of VAT and transportation. The plant is ready and all the pre-commissioning activities are completed. The company has started commissioning of the plant on 20th December 2012 in anticipation of granting approval of the above gas price.

National Fertilizers Limited (NFL)

Ammonia Plant Feedstock Changeover from Fuel Oil to Natural Gas at Panipat, Bathinda & Nangal were cleared by Cabinet Committee on Economic Affairs on 21.01.2010. Based on the communication of approval from Department of Fertilizers, contract on Lump sum Turnkey Basis (LSTK) was placed on M/s Larsen & Toubro (L&T) India for feedstock changeover projects at Panipat & Bathinda and on Consortium of Technimont (TCM) Italy & Technimont ICB (TICB) India for Feedstock Changeover Project at Nangal. Zero date of the projects was 29th January 2010.

Gas Tie-up

Domestic gas is yet to be allocated for changeover projects at Panipat, Bathinda and Nangal. For pre-commissioning, commissioning & post-commissioning upto 31st May 2013, Master Spot Sale Agreement has been entered into with GAIL for supply of spot gas for Nangal and Bathinda units. Present delivered price of spot gas is USD 17.94 / mmBTU. For supply of gas to Panipat unit, spot agreement had been entered into with IOCL upto 31st January 2013. Present delivered price of spot gas is USD 17.04 / mmBTU.

So far as Naphtha based units in southern India are concerned, the Zuari Agro & Chemicals Limited is connected by gas pipeline and has started production on gas. The Madras Fertilizers Limited has not yet taken concrete steps for gas pipeline connectivity. Mangalore Chemicals & Fertilizers Limited (MCFL) has signed the Gas Sale Agreement (GSA) with IOC and Gas Transmission Agreement (GTA) with GAIL on 16th February, 2011. The SPIC has yet to sign the GSPA agreement.

With regard to capacity addition, it is reiterated that based on NIP 2012, this Department had received 15 proposals from various fertilizers companies. The matter was discussed in the Department of Fertilizers and a need was felt to move cautiously in giving approvals to the fresh proposals and in order to meet the immediate/projected demand of 2016-17, the DoF can at the most consider four new proposals adding upto 50 LMT after taking into account the capacity addition in PSUs (both revival and Brownfield expansion) as well as projects in the private sector which are already in progress and will be commissioned in 2013-14. However, for transparency and equity, a need was felt to lay an objective criterion for selection of these proposals. A Group of Officers has been constituted to deliberate and decide on an objective criteria to select four projects and import planning of urea in future. The first meeting of the Group of Officer has taken place on 14th May, 2013.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers),

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Comments of the Committee

(Please see Para No.1.19 of Chapter-I of the Report)

Recommendation No. 8

The Committee note that out of 9 public sector fertilizer companies under administrative control of Department of Fertilizers, four are sick as per the provisions of the Sick Industrial Companies (Special Provisions)Act, 1985. These are FCIL, HFCL, MFL and BVFCL. 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 Department of Fertilizers. The Committee also note that financial performance of these units have been dismal except MFL which has showed positive growth in the year 2011-12. With regards to steps being taken for revival of HPCL and FCIL, the Department of Fertilizers informed that ECOS meeting was held in January, 2013 to discuss the various issues concerning revival of HPCL/ FCIL alongwith direction of BIFR which stated that Department of Fertilizers should explore the possibility of company's net worth becoming positive and directed to work out way to repay the dues of creditors of the FCIL and HFCL to enable the company to move out of preview of BIFR. Now, ECOS recommended that matter be placed before Cabinet Committee on Economic Affairs (CCEA).

For the revival of MFL, the Department has informed that comments of the concerned Ministries/ Departments have been received by Department of Fertilizers and the same is under examination in the Department. Thereafter, the Operating Agency (SBI) will formulate a DRS and submit the same to BIFR. Further, with regard to revival of Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL) the latest status as informed by Department of Fertilizers is that a draft note from Board for Restructuring of Public Sector Enterprise (BRPSE) regarding financial restructuring and rehabilitation has been circulated for Inter-Ministerial consultation. After Inter-Ministerial consultation, the note will be sent to BRPSE for their consideration.

The Committee regret to note that the process of revival of sick and closed fertilizer units have been very slow and nothing concrete have been achieved so far. The Committee also feel that the delay in the revival of closed and sick units leads to time and cost overruns. The Committee, therefore, recommend that the process of revival of closed PSUs may be done strictly in a time bound manner. The Committee also reiterate its earlier recommendation of expediting the process of revival of closed fertilizer units and expects that Department of Fertilizers would ensure the complete revival of closed and sick fertilizer units during the 12th Five Year Plan. The Committee would like to be apprised of the progress made in this regard.

Reply of the Government

Revival of HFCL and FCIL:

With regard to revival of closed units of HFCL and FCIL it has already been indicated that a meeting of Empowered Committee of Secretaries (ECOS) was held on 23.1.2013 to discuss the various issues concerning revival of HFCL/FCIL along with recent direction of BIFR, which stated that Department of Fertilizers should explore the possibility of the companies' net-worth becoming positive and directed to work out way to repay the dues of creditors of the FCIL and HFCL to enable the companies to move out of purview of BIFR. ECOS recommended that the matter be placed before the Cabinet Committee on Economic Affairs (CCEA).

Meanwhile, Principal Secretary to the Prime Minister took a meeting on 28.1.2013 on revival of closed fertilizer urea units. During the meeting, it was inter-alia decided that the Department of Fertilizers will bring a note for CCEA in respect of FCIL seeking waiver of government dues and also seeking inter corporate loans to FCIL.

In respect of closed units of HFCL, he said that proposal /action plan on revival of HFCL be taken up once revival of FCIL is on track.

Based on the recommendations of the ECOS and directions of PMO, a proposal for revival of closed units of FCIL was placed before CCEA, which approved the same in its meeting held on 9.5.2013. CCEA, inter-alia, has approved the following:

(i) approved the recommendations of ECOS to make the net worth of FCIL positive, as suggested by BIFR, by means of the followings:

a. Waiver of Government of India loan amounting to Rs. 2739.27 crores as on 31.3.2012.
b. Waiver of interest on Government of India loan amounting to Rs. 7904.47 crores as on 31.3.2012.
c. Waiver of LIC guarantee fees amounting to Rs. 9.69 crores as on 31.03.2012.
d. Waiver of consequent tax liabilities on account of making net worth positive.

(ii) To direct the participating PSUs (SAIL, CIL & EIL) to pay a commitment fee of Rs. 25 crores to FCIL to enable FCIL to make its net worth positive.

(iii) Inter-corporate loan of Rs. 171 crores to FCIL on mutually agreed terms and conditions from PSUs participating in the revival of 3 units of FCIL on nomination basis, for settlement of creditors by way of One Time Settlement (OTS) and settlement of post closure dues (return of security deposits, dues of the ex-employees etc. to be settled @ 100%) to bring the net worth of the FCIL to positive for coming out of BIFR to expedite the revival process.

(iv) Government of India will give guarantee for inter-corporate loan of Rs. 171 crores given by PSUs (SAIL, CIL, NFL, RCF & EIL) to FCIL.

(v) Authorized ECOS to act, as and when necessary, in furtherance of revival process of units being revived by PSUs on nomination basis.

(vi) Authorized ECOS to take appropriate action, as deemed necessary, to rectify any anomaly/discrepancy in the course of implementation of these proposals.

(vii) Proposal/action plan on revival of HFCL units to be taken up once revival of FCIL units is on track.

<u>Financial Restructuring of Madras Fertilizer Limited (MFL) :</u>

A draft note for BRPSE regarding financial restructuring of MFL was circulated for Inter-ministerial consultations. The comments of the Ministries/Departments have been received in the Department. Based on their comments, the Department of Fertilizers is in process of preparing final rehabilitation proposal, to be placed before Board for Reconstruction of PSEs (BRPSE) for their recommendations.

<u>Financial Restructuring of Brahmaputra Valley Fertilizer Corp. Ltd. (BVFCL):</u>

A draft note for Board for Reconstruction of Public Sector Enterprises (BRPSE) regarding financial restructuring and rehabilitation in respect of BVFCL has been circulated for Inter-Ministerial consultation. After Inter-Ministerial consultation, BRPSE note will be sent to BRPSE for their consideration.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

<u>Recommendation No. 9</u>

The Committee note that there are nine Public Sector Undertakings (PSUs) and one multi-state cooperative society under the administrative control of the Department of Fertilizers. Out of this, Krishak Bharati Cooperative Limited (KRIBHCO), the multi-State cooperative society and three PSUs, <u>viz.</u> National Fertilizers Limited (NFL), Rashtriya Chemicals and Fertilizers Limited (RCF) and Projects and Development (India) Limited (PDIL) are profit making units. Three PSUs, <u>viz.</u> Fertilizers and Chemicals Travancore Limited (FACT), Madras Fertilizers Limited (MFL) and Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) are loss making units. Besides, two PSUs, viz. Fertilizer Corporation of India Ltd. (FCI) and Hindustan Fertilizers Corporation Ltd. (HFCL) are lying closed after incurring losses continuously over a period of time.

The Committee observe that the profit making fertilizer PSUs have shown only marginal increase in the profits from the year 2010-11 to 2011-12 and in fact, for PSUs like NFL, the profits margin has come down to negative for year 2012-13 (provisional upto December 2012) at Rs. (-) 68.14 crore and for KRIBHCO, it has reduced to Rs.176.76 crore in the year 2011-12 from Rs.200.55 crore in 2010-11.The Committee, therefore, reiterates its earlier recommendation that Department and the PSUs in tandem should make extra efforts to take effective measures to improve and streamline the functioning of these organisations in order to increase their profit margins.

Reply of the Government

1. NATIONAL FERTILIZERS LIMITED:

During 2010-11 and 2011-12, NFL earned a profit before tax of Rs.203.92 crore and Rs.184.20 crore respectively. However, during the 2012-13, loss for the year ended 31st March, 2013 is 230.62 Crore (provisional).

Major reasons for loss during 2012-13 is lower urea production and higher energy consumption due to extended shutdown at Vijaipur-I and Vijaipur-II units for commissioning of Energy saving and Urea capacity enhancement projects. Company has also undertaken Ammonia Feedstock Changeover Projects (AFCP) to convert its three (Panipat, Bathinda and Nangal) oil-based units to gas based. These units took longer shutdowns during 2012-13 for commissioning these projects. Moreover, fixed cost being considered in the concession rate of urea was fixed in 2002-03 and since then there is considerable increase in salary & wages due to wage revision, normal increments and increase in DA etc., increase in repairs and maintenance expenditure due to ageing of the plants and increase in other overheads. This has resulted in decrease in profitability of the Company on year-to year basis, as these elements of cost are not revised for reimbursement through concession rate by FICC, Department of Fertilizers. This problem is faced by all the urea making companies. The proposal to revise the fixed cost reimbursement is pending before the Government.

Company has successfully commissioned Energy saving and urea capacity enhancement Projects at Vijaipur-I & II Units during 2012-13, which will result in higher production and profitability during 2013-14 and onwards. AFCP Projects at Panipat and Bathinda units has been commissioned during January 2013 and Nangal unit is at advanced stage of commissioning. These projects are expected to result in substantial savings in the subsidy outgo of the Government.

2. MADRAS FERTILIZERS LIMITED (MFL):

After incurring consistent loss during 2003-04 to 2008-09, MFL started making profit during the last 4 years as detailed below:

(Rs. in crore)

Year	Profit
2009-10	6.88
2010-11	169.86
2011-12	111.99
2012-13	24.44(provisional)

Above was possible because of reduction in energy consumption and improvement in capacity utilization resulting from implementation of 66 out of the 124 schemes suggested by PDIL in its report on "Rehabilitation Proposal of MFL". These schemes were implemented with an expenditure of Rs.171.49 Cr with plan fund from Government of India that was released during 2009-10 & 2010-11 to MFL.

As of now, energy consumption per MT of urea has come down from 7.929 Gcal/MT in 2008-09 to 6.890 Gcal/MT in April 2013.

A Financial restructuring proposal for MFL to be submitted to BRPSE was also circulated for Inter-Ministerial consultation. Comments from various Departments have been received and are under examination in this Department.

3. FCI ARAVALI GYPSUM AND MINERALS INDIA LTD. (FAGMIL) :

The details in respect of the Sales Turnover and Profit Before Tax (PBT) of the FAGMIL are as under:

(Rs. in crore)

Particular	2009-10	2010-11	2011-12	2012-13(Prov.)
Sales Turnover	45.61	61.48	66.53	73.84
PBT	15.88	19.89	29.07	38.51

The company has achieved MOU ranking of 1.07 which is best among Fertilizer and Mining PSUs and entitles the company for Prime Minister's Award.

4. THE FERTILISERS AND CHEMICALS TRAVANCORE LIMITED:

During the year 2010-11, FACT made a loss of Rs.49.33 crores. For the year 2011-12, a profit of Rs.19.80 crore was made. The provisional working results for the year 2012-13 show a cumulative loss of Rs. 344.30 crore (provisional) making the net-worth of the Company negative.

The Company's Financial performance during the year 2012-13 was affected by a combination of factors like stoppage of Caprolactam plant for nearly six months on account of poor economics affecting Ammonium Sulphate production also, lower fertilizer production on account of stoppage of plants in February, 2013 owing to failure of monsoon and constraints in working capital. This along with raw material shortage has affected the physical and financial performance during the year.

Efforts are being made by the FACT to improve its profitability. The major schemes being implemented are as under:

I. FACT is converting its production units for usage of LNG as feedstock and fuel.
II. FACT has submitted following new projects to DoF which form part of the 12th Plan proposals:

a. Setting up a 2800 TPD Ammonia-3500 TPD Urea project at Cochin Division.
b. Capacity enhancement of NP plant at Cochin Division.
c. 1500TPD New Urea Plant at Udyogmandal.
d. Setting up a new 2000 TPD Sulphuric acid Plant at Cochin Division.

FACT has submitted a financial restructuring proposal for revival. The same is under the consideration of DOF. The salient features of the revival proposal are as under:

		(Rs.in Crore)
a)	NON-FUND BASED – WAIVERS	
(i)	Write off of GOI loan balance as on 31.3.2012	282.73
(ii)	Write off of interest payable as on 31.3.2013	160.66
	TOTAL	443.39
b)	FUND BASED – FRESH FUND INFUSION	
	Infusion of funds as interest free loan repayable in 10 yearly equal installments with two year moratorium	300.00
	TOTAL	300.00

a. Government's support for projects identified by the company as part of its expansion/diversification schemes.
b. Compensation for costly LNG vis-a-vis cheap natural gas to provide a level playing field.
c. Extension of Naphtha compensation with effect from 01.07.2013 till switch over to LNG.

5. RASHTRIYA CHEMICALS AND FERTILIZERS LIMITED (RCF):

The Profit After Tax (PAT) of the RCF during last three financial years is as

under: (Rs. in crore)

Year	Profit After Tax
2010-11	245.12
2011-12	249.23
2012-13	280.9

The above figures clearly indicate that RCF have been showing continuous improvements in the profitability.

Though profitability in fertilizer sector, being in the controlled scenario, is range bound, as can be seen from above, RCF has been showing continuous improvements in many parameters due to its sustained efforts in planning and execution. However, the profitability is dependent on fertilizer policy and prompt payment of subsidies by GoI. For example, fixed costs to be considered in Urea subsidy calculations have not been revised since 2002-03. Similarly, a legitimate cost of input like marketing margin paid on RIL gas is not recognized in subsidy. Delays in subsidy payments have resulted in increase in interest burden on the company. Revision in NPS-III at an early date and addressing the other issues as mentioned shall further improve the company's profitability. RCF is in constant dialog with this Department to address the above referred issues.

RCF is actively perusing various capacity expansion programmes which shall increase its turnover to Rs. 15000 crores by 2018 which shall further improve the profits of the company. An early approval to the company's proposal for THAL-III shall be of great advantage.

6. PROJECTS & DEVELOPMENT INDIA LIMITED:

PDIL is mainly involving in design engineering and consultancy service and also producing catalyst for the fertilizer industry and oil refineries. During the last three financial years, the net profit of the Company is as under:

(Rs. in Crore)

Year	Profit after Tax
2010-11	21.02
2011-12	26.08
2012-13	15.33 (provisional)

The profit of the company has decreased during the 2012-13. The major reasons for the same are recession, global economic slowdown and major investments in the Fertilizer sector being stagnant or low for the past many years.

7. BRAHMAPUTRA VALLEY FERTILIZER CORPORATION LIMITED (BVFCL):

There has been overall improvement in the performance of this company during the year 2012-13 as stated below:

a) The highest ever Ammonia and Urea production (Since commissioning in 1987) in Namrup-III with capacity unitization of 104% for the year.
b) The average specific energy consumption of Namrup-III plant has been brought down by 2.3 Gcal/MT of urea during this year.
c) The highest urea production (after revamp in 2005) in Namrup-II Plant for the year.
d) The operating cash profit (PBIT)of Rs.94 crores for the year.

All out efforts are being made by the company for further improvement in plant performance. Further renovation jobs are being taken up in the year 2013-14 to improve the on-stream days and bring down the specific energy consumption.

Further a financial restructuring proposal of BVFCL for BRPSE has been circulated for the Inter-ministerial comments. BVFCL will become profit making on receiving financial restructuring with dispensations as proposed in the comprehensive proposal.

8. HINDUSTAN FERTILIZER CORPORATION LIMITED (HFCL) and FERTILIZER CORPORATION OF INDIA LIMITED (FCIL):

With regard to revival of closed units of HFCL and FCIL it has already been indicated that a meeting of Empowered Committee of Secretaries (ECOS) was held on 23.1.2013 to discuss the various issues concerning revival of HFCL/FCIL along with recent direction of BIFR, which stated that

Department of Fertilizers should explore the possibility of the companies' net-worth becoming positive and directed to work out way to repay the dues of creditors of the FCIL and HFCL to enable the companies to move out of purview of BIFR. ECOS recommended that the matter be placed before the Cabinet Committee on Economic Affairs (CCEA).

2. Meanwhile, Principal Secretary to the Prime Minister took a meeting on 28.1.2013 on revival of closed fertilizer urea units. During the meeting, it was inter-alia decided that the Department of Fertilizers will bring a note for CCEA in respect of FCIL seeking waiver of government dues and also seeking inter corporate loans to FCIL.

3. In respect of closed units of HFCL, he said that proposal /action plan on revival of HFCL be taken up once revival of FCIL is on track.

4. Based on the recommendations of the ECOS and directions of PMO, a proposal for revival of closed units of FCIL was placed before CCEA, which approved the same in its meeting held on 9.5.2013. CCEA, inter-alia, has approved the following:

(i) approved the recommendations of ECOS to make the net worth of FCIL positive, as suggested by BIFR, by means of the followings:

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b. Waiver of interest on Government of India loan amounting to Rs. 7904.47 crores as on 31.3.2012.

c. Waiver of LIC guarantee fees amounting to Rs. 9.69 crores as on 31.03.2012.

d. Waiver of consequent tax liabilities on account of making net worth positive.

(ii) To direct the participating PSUs (SAIL, CIL & EIL) to pay a commitment fee of Rs. 25 crores to FCIL to enable FCIL to make its net worth positive.

(iii) Inter-corporate loan of Rs. 171 crores to FCIL on mutually agreed terms and conditions from PSUs participating in the revival of 3 units of FCIL on nomination basis, for settlement of creditors by way of One Time Settlement (OTS) and settlement of post closure dues (return of security deposits, dues of the ex-employees etc. to be settled @ 100%) to bring the net worth of the FCIL to positive for coming out of BIFR to expedite the revival process.

(iv) Government of India will give guarantee for inter-corporate loan of Rs. 171 crores given by PSUs (SAIL, CIL, NFL, RCF & EIL) to FCIL.

(v) Authorized ECOS to act, as and when necessary, in furtherance of revival process of units being revived by PSUs on nomination basis.

(vi) Authorized ECOS to take appropriate action, as deemed necessary, to rectify any anomaly/discrepancy in the course of implementation of these proposals.

(vii) Proposal/action plan on revival of HFCL units to be taken up once revival of FCIL units is on track.

KRISHAK BHARATI COOPERATIVE LIMITED:

The profitability of the Society has reduced during the year 2011-12 on account of:

a) Revamp of its existing ammonia-urea units with a project cost of Rs.1300 Crore whereby the plant was shut-down during the year 2011-12 for commissioning of new ammonia-urea plants resulting in lower urea production of 14.33 Lakh MT as against 18.41 Lakh MT achieved in the year 2010-11.

b) Society is getting reimbursement of fixed costs @ Rs.1484 PMT as fixed by Government in 2002-03. However, the actual fixed costs have increased considerably and now it is in the range of Rs.2700 PMT – Rs.2750 PMT resulting in loss from urea operations. Government of India has now proposed modified NPS-III policy, which has a provision to pay higher fixed costs. Once this policy is approved, the profitability of the Society will improve. It is worth observing that the Society was able to earn a profit of Rs.176.76 Crore during the year 2011-12 only due to the dividend received from its Joint Venture company namely OMIFCO."

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Recommendation No. 10

The Committee note that the Department have been encouraging joint ventures with the resource rich countries with the buy-back facilities. This is being done to fulfil the need of the Fertilizers industries which have near total dependence on the imported raw material, for P&K fertilizers. The Committee also note that the Department is also working with the goal of having access to / acquisition of fertilizer raw material aborad. The Committee, are however, disappointed to note that besides KRIBHCO, RCF is the only PSU which intends to set up urea projects at Ghana and Indonesia as JV companies with local partners along with long term off-take arrangement of urea. The Department, through diplomatic channels, is pursuing the case for RCF for the said projects. However, in order to ensure adequate supply of P&K fertilizers, the Committee recommend that the Department, being the nodal agency, should make vigorous efforts so that the JV projects are set up expeditiously. The Committee also expect that other PSUs should also be encouraged to enter into joint ventures abroad with the resource rich countries. The

Department should also speed up the process of acquiring fertilizer raw materials abroad. The Committee hope that as a result of these efforts the requirement of the farmers for phosphatic fertilisers will be met.

Reply of the Government

Department of Fertilizers have been encouraging Joint Ventures with the resource rich countries with the buy-back facilities. This is being done to fulfill the need of the fertilizers industries which have near total dependence on the imported raw material, for P&K fertilizers. Department is also working for acquisition of fertilizer raw material abroad. In addition to KRIBHCO and RCF, other PSUs such as GNFC and IFFCO are also making efforts towards signing of MOU/agreements for Joint Ventures. In case of IFFCO, recently it has signed an agreement with JPMC for setting up of a Joint venture Project namely Jordan-IFFCO company (JIFCO), for production of Phosphoric acid and sulphuric acid. The project is likely to be completed by the year 2013. IFFCO has also entered into a Joint Venture with M/s.Grow max Agri Crop, Canada for potash exploitation in Peru. IFFCO has also planned to establish a Urea plant in Canada. However, out of the total estimated equity contribution of USD 500 Million for the said proposed project, the share of IFFCO is yet to be finalized. So far as GNFC is concerned, it alongwith RCF is leading the discussions with Iran for setting up Urea-Ammonia plant in Iran.

So far as setting up of Gas based Ammonia-urea Fertilizer Plant in Ghana is concerned, there is no delay on the part of RCF/Department of Fertilizers. But response from Ghanaian Govt. is still awaited on the draft agreement which was submitted to them. Further the matter of notification of gas Price by the Ghanaian side, is also being lingered on by them for almost two years, despite repeated requests from Indian side. As regards Indonesia, there is also no delay on the part of RCF/Department of Fertilizers. A draft MOU was sent by RCF, with the approval of Department of Fertilizer, to M/s. Minerals, Energy & Commodities (MEC) Pvt. Ltd., Singapore, a foreign Company nominated by Indonesia Investment Coordinating Board to collaborate with RCF for its Joint Venture projects but the response from M/s. MEC is awaited.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers),
OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Comments of the Committee

(Please see Para No.1.25 of Chapter-I of the Report)

CHAPTER-III

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

-- NIL--

CHAPTER-IV

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

Recommendation No. 4

The Committee note that the Department is following a phased approach for direct disbursement of fertiliser subsidy to the intended beneficiaries. The implementation of Phase-I has already been made operational and subsequent phases of project i.e.; Phase-II, Phase-III and Phase-IV will be implemented once the implementation of Phase-I is stabilized. The project mechanism to transfer the subsidy directly to intended beneficiaries will also be formulated and implemented once Phase-I is stabilized. In this regard, the Committee were informed that 12 districts across 11 states have been selected for the Phase-II pilot project based on Aadhaar penetration, fertilizer consumption, geographical variance, dealers network as well as implementation status on Phase-I. The Committee expect the Government to keep strict vigilance and monitoring on the implementation of this particular phase as it would pave the way for wide implementation of direct subsidy to the farmers in the country. The Committee are, therefore, hopeful that the Phase-II pilot project will be successful and recommend that feedback from these 12 districts in respect of Phase-II of the scheme be analysed critically and on that basis , the scheme be implemented in the entire country. The Committee also reiterate its earlier recommendation that all the phases of direct subsidy transfer should be implement in a time bound manner so that there is no undue delay in the transfer of the benefits of direct subsidy to the farmers, which would in turn check the corruption, close the loopholes and profligacy in subsidies. The Committee would like to be apprised of the progress made in this regard.

Reply of the Government

Department of Fertilizers is following a phased approach in direct disbursement of fertilizer subsidy to the intended beneficiaries. Implementation of Phase-I has already been made operational and subsequent phases will be implemented once implementation of Phase-I is stabilized. Technical Consultant of Department of Fertilizers, i.e. National Informatics Centre has completed the development of Phase-II mFMS application which is enabled to run on Point of Sale (PoS) devices, mobiles, personal computers as well as tablets. Final User

Acceptance Test (UAT) was conducted on 18.03.2013. The testing of application is in progress and would be completed before deployment in the pilot districts.

In the DBT Executive Committee meeting held on 06.05.2013 taken by Principal Secretary to PM, it has been informed that National Committee on DBT has decided that transferring food and fertilizer subsidy through DBT is not under consideration at present. Therefore, Deptt. of Fertilizers could focus on other aspects of the system they are putting in place for the time being. Therefore, DoF is planning to start pilot for Phase-II in select districts.

In a meeting with fertilizer companies, chaired by Secretary (Fert.) on 30.04.2013, it has been decided to roll out 6 pilot districts of mFMS Phase-II out of 12 pilot districts in June / July 2013. The pilot is being conducted by LFS of the six States. The cost of the pilot would be met from the incentive money of Rs.50/mt for the retailer.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Comments of the Committee

(Please see Para No.1.13 of Chapter-I of the Report)

Recommendation No. 7

The Committee are of the view that Department of Fertilizers has the primary responsibility to assess the requirement of fertilizers and also to ensure that there is adequate and timely availability of fertilizers to the farmers. The Committee in this regard note that there is monitoring mechanism of Fertilizers Monitoring System which tracks availability of fertilizers upto district level and has now been extended through mobile Fertilizers Monitoring System (m-FMS) to the last point of sale i.e.; retailer. The Department of Fertilizers has also informed that all the stakeholders are required to register in m-FMS and perform the required reporting to increase transparency across the supply chain. The Committee, however, feel that there are still reports of black-marketing and illegal sale of fertilizers across the country. The Committee, therefore, reiterates its earlier recommendation as mentioned in the demands for grants report 2012-13 that Department of Fertilizers should strengthen the existing Fertilizer Monitoring System and make it more effective in bringing transparency in the sale of fertilizes and to eradicate hoarding and black-marketing of fertilizers.

The Committee also note that as there is no reserves of potash in the country, the total requirement of the same is met through imports and the companies are free to import fertilizers depending upon the demand and market condition in the country. However, the Committee regret to note that for the Kharif season of 2011-12, potash could not be imported due to lack of adequate contracts with international suppliers and high international prices to meet the requirements of the farmers of the country. The Committee, therefore, recommend that a mechanism may be put in place to monitor and to ensure timely procurement of potash as per the demand of the farmers. The Committee would like to be apprised of the action taken by the Department in this regard.

Reply of the Government

The month-wise demand is assessed and projected by the Department of Agriculture & Cooperation (DAC) in consultation with the State Governments before the commencement of each cropping season. Accordingly, month-wise and state-wise supply plan is made. State Governments are responsible for monitoring the availability within their respective states. On the basis of month-wise & state-wise projection given by Department of Agriculture and Cooperation, Department of Fertilizers allocates sufficient/adequate quantities of fertilizers to the States by issuing monthly supply plans and continuously monitors the availability of Fertilizers at the state level. Further monitoring/distribution of fertilizers district/block wise is the responsibility of the respective states. The state wise availability during April 2012 to March, 2013 along with pre-positioning of fertilizers is at **Appendix-II**. As can be seen, the availability of all the fertilizers was adequate.

Department of Fertilizers (DOF) is responsible for distribution and movement of fertilizers in the country. DOF is also paying subsidy on all major fertilizers to ensure adequate and quality fertilizers to the farmers at affordable price. The Maximum Retail Price (MRP) of urea is under the statutory price control of the Government of India, while the MRPs of Phosphatic and Potassic (P&K) fertilizers have been freed and the manufactures/importers are deciding the MRPs for these fertilizers. The manufactures/importers and their wholesale and retail dealers are required to adhere to the provisions of the Fertilizers Control Order (FCO) regarding quality and MRP of fertilizers. As per the Allocation of Business Rules of the Government of India, administration of FCO is the responsibility of the Department of Agriculture and Cooperation. The equitable distribution of fertilizers to the farmers within the State at MRPs is the responsibility of the concerned state government. State Government can conduct search, make seizures and take punitive action against any person/dealer violating the provisions of the FCO. However, as DOF is responsible for making available subsidized fertilizers as per the requirement of the states, the issues like black marketing, illegal diversion, smuggling, breach of MRP are the issues of concern for us. Therefore, states are constantly told about the urgent necessity of keeping strict vigil and prompt action by the states to check black marketing, diversion, smuggling, breach of MRP etc., by bringing these issues to the notice of the state government at various forums and through correspondences. Lately, said issues were highlighted during the Zonal Conference on Agriculture Inputs for Kharif 2013 season held from 6th to 8th February, 2013 and the National Conference on Agriculture for Kharif Campaign-2013 held from 6th to 7th March 2013, in which representatives from all the states were present.

All the fertilizer companies are also advised time and again to take strict action against their dealers found indulging in malpractices like black-marketing, hoarding etc.

As regards Potash- there was tightness in the availability of MOP during 2011-12. There is no viable source of Potash in the country as such the entire demand of MOP is met through imports. During 2011-2012 year, up to the month of July, contracting for import of MOP could not materialize due to substantial increase of prices by cartelization by MOP producers in the International market. The contracting of MOP took place only in the month of August. As a result, availability of MOP for direct application was comfortable in Rabi'2011-12

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Comments of the Committee

(Please see Para No.1.22 of Chapter-I of the Report)

CHAPTER-V

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

Recommendation No. 1

The Committee note that presently India is 3rd largest fertiliser producer in the world and the substantive demand of urea is met through indigenous production which is 224.69 LMT during the year 2012-13 (up to February 2013). However, the 90% demand of phosphoric fertiliser is met through imports either in the form of finished fertilisers or raw material due to absence of viable phosphatic mines in the country but for potash, the country is fully dependent on imports. Over the years, there has been a sharp increase in consumption of fertilisers due to various factors like good monsoon combined with increase irrigation facilities, increased area under cultivation, better awareness of usage of fertilisers amongst farmers and better purchasing power in rural areas. However, the Committee are distressed to note that the indigenous production of fertilisers has not increased with the growing requirement of fertiliser in the country primarily due to non-availability or limited availability of raw material/inputs as well as lack of new investment in urea sector, which is again owing to constraints in the availability of domestic natural gas.

The Committee also note that the Government has recently notified New Investment Policy (NIP) -2012 on 02.01.2013 to facilitate fresh investment in urea sector to achieve self sufficiency in the sector. The Committee hope that as a result of investment in the sector under the NIP- 2012, indigenous production of urea will increase. In fact under this policy, the Government has received 15 investment proposals from various fertilizer companies which are under consideration of the Department. The Committee expect and recommend that all these investment proposals may be examined actively and finalised by the Department expeditiously. The Committee would like to be apprised of the progress made in this regard.

The Committee also note that there is an urgent need for the development of suitable commercial process for extraction of potash domestically in order to reduce the dependence of fertiliser units on import of potash. The extensive deposits of Gluconite sand containing potash have been detected in various parts of the country and a study is being conducted by the Indian School of Mines regarding efficient process for optimum extraction of potash content from the Gluconite sand. In this regard, the Committee would like the Department to monitor the study and impress upon the Indian School of Mines to complete the study and give its findings with in a fixed time frame. The Committee desire that the progress made in this regard may also be apprised to them.

Reply of the Government

Consequent upon the approval of the announcement of New Investment Policy 2012 which was notified by the Ministry in January, 2013 Department of Fertilizers (DoF) had received 15 investment proposals from various fertilizer companies. The policy stipulates that all those units, which come into production within 5 years from the date of notification would be covered under the policy. The policy provides for guaranteed buy-back of Urea for a period of 8 years from the start of production for which subsidies/incentives will be given by the Government.

Presently there is annual demand and supply gap of around 60 to 70 LMT (likely to reach around 80 to 90 LMT by the end of 2016-17) in indigenous production after taking into account 20 LMT of Urea from OMIFCO, which is being met through imports. If all the proposals materialize at one go within the stipulated period of 5 years it would create a capacity far more excess than the requirement and with no option for the Government but to buy the product. It would unnecessarily put heavy burden on the subsidy outflows.

As per para 13 of the New Investment Policy 2012, all the urea units who plan to set up urea unit in the country are required to mandatorily provide information at beginning and completion of each stage of the project as given at Annexure-2 of the said policy. Accordingly, the Department of Fertilizers has requested aforementioned companies to submit the broad stages for setting up urea project. This is also required to assess the demand and production gap in the country as well as the cost of gas expected to be used in production of urea from new investments.

The matter regarding new capacity creation was discussed in the Department of Fertilizers and a need was felt to move cautiously in giving approvals to the fresh proposals and in order to meet the immediate/projected demand of 2016-17, the DoF can at the most consider four new proposals adding upto 50 LMT after taking into account the capacity addition in PSUs (both revival and Brownfield expansion) as well as projects in the private sector which are already in progress and will be commissioned in 2013-14. However, for transparency and equity, a need was felt to lay an objective criterion for selection of these proposals and a Group of Officers has been constituted to deliberate and decide on an objective criteria to select four projects and import planning of urea in future. The first meeting of the Group of Officer has taken place on 14th May, 2013.

In respect of extraction of Potash, the Indian School of Mines, Dhanbad has completed the study and submitted its report to M/s FAGMIL, a PSU under the Department of Fertilizers. M/s FAGMIL is examining the viability of gluconite mining to extract Potash. The Department will take appropriate action as per findings of M/s FAGMIL in this regard.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Comments of the Committee

(Please see Para No.1.7 of Chapter-I of the Report)

Recommendation No. 5

The Committee note that Nutrient Based Subsidy (NBS) on decontrolled phosphatic (P) & potassic (K) fertilizers was put in to effect from 1st April, 2010. Under the NBS policy, a fixed amount of subsidy decided on annual basis is provided to each grade of subsidised P&K fertilisers depending on its nutrient content. Since the country is largely dependent on imports for P&K fertiliser in the form of finished fertiliser or its raw material and subsidy being fixed, any rise or fall in international prices of P&K fertilisers and its inputs have effect on MRP of these fertilisers in the country. Further, variation in exchange rate also affects the delivered prices of these fertilisers. The Committee further note that under the NBS policy, fertiliser companies have been allowed to fix MRP at reasonable level.

The Committee were informed that as at present, there is no mechanism under the policy to monitor and enforce reasonableness of MRP. However, in order to monitor the MRP of fertilizers fixed by the companies, the Department proposed to bring in a policy note that will address the issue of MRP. The Committee therefore, recommend that Department of Fertilizers should expedite the formulation of mechanism in a time bound manner to monitor and enforce the fertilizer companies to fix MRP of fertilisers produced by them at reasonable level.

The Committee also note that a study of NBS policy is also being undertaken through a consultancy firm. The study will cover all aspects of NBS policy including its evaluation viz-a-viz price rise and its effect on balance fertilization of soil. The Committee expect that the Department of Fertilizer would take steps to expedite the

study of NBS regime so that it would be improved implementation of NBS policy. The Committee would like to be apprised of the progress made in this regard.

Reply of the Government

The Department has issued policy/guidelines dated 3.5.2013 (copy enclosed as **Appendix-I)** under which it will be mandatory for all fertilizers companies to furnish the certified cost data in prescribed format for monitoring of MRPs of P&K fertilizers fixed by them. The Department is in the process to finalise a suitable mechanism to determine the reasonableness of MRP fixed by the fertilizer companies under the NBS Policy.

The Department is in the process of appointing a consultant to study the NBS policy. The study will also look into, among others, the causes of price rise of P&K fertilizers and make suggestions. The study will be of 3 month's duration.

[Ministry of Chemicals & Fertilizers (Department of Fertilizers), OM No.F.No.5(1)/2013-Fin.II (Vol.II) dated 04.07.2013]

Comments of the Committee

(Please see Para No.1.16 of Chapter-I of the Report)

New Delhi;
11 DECEMBER 2013
20 AGRAHAYANA, 1935 (SAKA)

Gopinath Munde
CHAIRMAN
STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS

Appendix-I

File No. 23011/5/2013-MPR
Government of India
Ministry of Chemicals & Fertilizers
Department of Fertilizers

Shastri Bhawan, New Delhi
Dated the 3rd May, 2013

OFFICE MEMORANDUM

Subject: Implementation of the Nutrient Based Subsidy (NBS) policy for Phosphatic and Potassic (P&K) Fertilizers w.e.f. 01.04.2013– NBS Policy for 2013-14 and per MT Subsidy regarding.

The undersigned is directed to convey that per Kg subsidy on nutrients, namely Nitrogen (N), Phosphate (P), Potash (K) and Sulphur (S) contained in P&K fertilizers covered under NBS Policy for the year 2013-14 w.e.f 1st April 2013 shall be as under:

Sl. No.	Nutrients	NBS (Rs. per Kg of Nutrient)
1	N	20.875
2	P	18.679
3	K	18.833
4	S	1.677

2. Per Metric Tonne of subsidy on various grades of P&K fertilizers covered under NBS Policy shall be as under:

S. No	Grades of P&K fertilizers covered under the NBS Policy	NBS 2013-14 (Rs/MT)
1	DAP : 18-46-0-0	12350
2	MAP : 11-52-0-0	12009
3	TSP : 0-46-0-0	8592
4	MOP : 0-0-60-0	11300
5	NPS : 16-20-0-13	7294
6	NPS :20–20–0-13	8129
7	NPK 10–26–26-0	11841
8	NPK : 12–32–16	11496
9	NPK : 14–28–14	10789
10	NPK : 14–35–14	12097
11	NPK : 15–15–15	8758
12	AS: 20.6-0-0-23	4686
13	NP : 28–28–0-0	11075
14	NPK : 17–17–17	9926
15	NPK : 19–19–19	11094
16	SSP : 0-16-0-11	3173
17	NPK : 16-16-16-0	9342
18	DAPlite :16-44-0-0	11559
19	NPKS : 15-15-15-09	8909
20	NP : 24-24-0-0	9493
21	NP : 20-20-0-0	7911
22	NPS : 18-46-0-4	12350

Note: Fertilizer grade placed at serial number 22 shall be under subsidy scheme till 7th November 2013.

Bsahu

3. Any variant of the P&K fertilizers covered under NBS Policy fortified/coated with Boron and Zinc, as provided for under FCO, will also be eligible for subsidy. Such fortified/coated grades of fertilizers will attract an additional per tonne subsidy to encourage their application along with primary nutrients as per the rates mentioned below:

S. No.	**Nutrients for fortification as per FCO**	**Additional subsidy (Rs/MT) for fortified/coated fertilizers**
1	Boron (B)	300
2	Zinc (Zn)	500

4. The market price of subsidized P&K fertilizers is open and fertilizer companies are allowed to fix MRPs at **reasonable** level. In case, the MRP fixed by the fertilizer companies are found to be unreasonable, the Department may take action as per the NBS Policy, as modified vide O.M. No.23011/5(NBS-Policy)/2013-MPR dated 3.5.2013.

5. At the level of subsidy announced for the year 2013-14, the fertilizer companies are required to reduce the MRP of DAP and MOP by a minimum of Rs 1500 PMT and Rs 1000 PMT respectively. For the purpose of reduction in MRP, the reference MRP of DAP and MOP shall be Rs 24000 PMT and Rs 17000 PMT respectively. A commensurate minimum reduction in MRP in other grades of fertilizers covered under the scheme shall be as under:-

S. No	**Grades of Fertilizers**	**Expected reduction in MRP (Rs /MT)**
1	MAP : 11-52-0-0	1477
2	TSP : 0-46-0-0	1078
3	NPS : 16-20-0-13	844
4	NPS :20–20–0-13	938
5	NPK 10–26–26-0	1277
6	NPK : 12–32–16	1298
7	NPK : 14–28–14	1218
8	NPK : 14–35–14	1382
9	NPK : 15–15–15	953
10	AS: 20.6-0-0-23	483
11	NP : 28–28–0-0	1313
12	NPK : 17–17–17	1080
13	NPK : 19–19–19	1207
14	SSP : 0-16-0-11	375
15	NPK : 16-16-16-0	1017
16	DAPlite :16-44-0-0	1406
17	NPKS :15-15-15-09	953
18	NP : 24-24-0-0	1125
19	NP : 20-20-0-0	938
20	NPS : 18-46-0-4	1500

6. In case the MRP of P&K fertilizers are not reduced as indicated in para 5 and the companies are found to be indulging in undue profiteering, the IMC will review and recommend suitable measures for action by DOF. The action may include, recovery of subsidy to the extent of unreasonableness on that particular grade of fertilizer; removal of any grade/grades of fertilizers of a particular company or the fertilizer company itself from the NBS scheme and also reduction in the NBS rates.

7. The fertilizer companies are required to print Maximum Retail Price (MRP) along with applicable subsidy on the fertilizer bags clearly. Any sale above the printed MRP will be punishable under the EC Act.

8. The distribution and movement of fertilizers along with import of finished fertilizers, fertilizer inputs and production by indigenous units will continue to be monitored through the online web based "Fertilizer Monitoring System (FMS)/mobile FMS".

9. 20% of the price decontrolled fertilizers produced/imported in India will continue to be in the movement control under the Essential Commodities Act 1955 (ECA). Department of Fertilizers will regulate the movement of these fertilizers to bridge the supplies in underserved areas.

10. Manufacturers/Marketers/Importers of P&K fertilizers, including manufacturers of SSP, are to ensure that fertilizers are transported up to the retail point on F.O.R delivery basis.

11. Manufacturers of customized fertilizers and mixture fertilizers will be eligible to source subsidized P&K fertilizers from the manufacturers/importers after their receipt in the districts as inputs for manufacturing customized fertilizers and mixture fertilizers for agricultural purpose. There would be no separate subsidy on sale of customized fertilizers and mixture fertilizers.

12. The payment of subsidy to the manufacturers/importers of P&K fertilizers shall be released as per the procedure and terms and conditions mentioned in the Department Notification No. D (FA)/CCEA/2011 dated 25.10.2012 and as amended from time to time by the Department.

13. The benefits to the manufacturers of P&K fertilizers on account of use of cheaper domestic gas shall be mopped up for which separate guidelines shall be issued.

14. This issues with the concurrence of IFD vide diary No.1861/AS&FA dated 3rd May 2013 and approval of the competent authority.

PBSahu

(P. B. Sahu)
Under Secretary to government of India
Tel: 2338 7492

1. Secretary (Agriculture), DAC, Krishi Bhawan, New Delhi.
2. Secretary (Expenditure), Department of Expenditure, North Block, New Delhi.
3. Joint Secretary (INM), DAC, Krishi Bhawan, New Delhi.
4. Joint Secretary (PF-II), Department of Expenditure, North Block, New Delhi.
5. Joint Secretary, Prime Minister's Office, South Block, New Delhi.

6. Director (Cabinet), Cabinet Secretariat, Rashtrapati Bhawan, New Delhi .
7. Executive Director, FICC, Department of Fertilizers, New Delhi.
8. Director of Accounts, Department of Fertilizers, Udyog Bhawan, New Delhi.
9. DS(Finance)/DS(Budget), Department of Fertilizers, New Delhi.
10. Director General, FAI, New Delhi.
11. All the manufacturers & importers of P&K Fertilizers.
12. All SSP manufacturers.

Copy to:

1. Director, PMO, South Block, New Delhi.
2. Chief Secretaries/ All Agriculture Production Commissioners/ Secretaries (Agriculture) of the State Governments/ UTs.
3. Commissioners/Directors, Commissionerate/Directorate of Agriculture of the State Governments/ UTs.

Copy also to:

PS to MOS (Ind. Charge) C&F/PPS/PS to Secretary (Fertilizers)/ AS & FA/ JS(P&P) / JS(F&P) / JS(A&M) / Economic Advisor / Controller of Accounts / P&AO / US(Concession Wing) / Sr. AD (Accounts) FA Wing / AD (OL for translation in Hindi) / Guard File / Technical Director, NIC for uploading the same on the Department's website.

(P. B. Sahu)
Under Secretary to Government of India

File No.23011/5(NBS-Policy)/2013-MPR
Government of India
Ministry of Chemicals & Fertilizers
Department of Fertilizers

Shastri Bhawan, New Delhi
Dated the 3rd May, 2013

OFFICE MEMORANDUM

Subject: Implementation of the Nutrient Based Subsidy (NBS) policy for Phosphatic and Potassic (P&K) Fertilizers.

The undersigned is directed to state that under the Nutrient Based Subsidy Policy for P&K fertilizers being implemented w.e.f. 1.4.2010, the fertilizer companies have been allowed to fix the MRPs of P&K fertilizers at "reasonable level" vide this Department letter No.23011/1/2010-MRP(pt) dated 8.7.11 read with Notification of even number dated 5.5.2011. The following further provisions are hereby added in the existing NBS Policy:-

i. The market price of subsidized P&K fertilizers is open and fertilizer companies are allowed to fix MRPs at **reasonable** level.
ii. It shall be mandatory for all the fertilizer companies to submit, along with their claims of subsidy, certified cost data in the prescribed format and as per the requirement for the purpose of monitoring of MRPs of P&K fertilizers fixed by the fertilizer companies.
iii. In cases, where after scrutiny, unreasonableness of MRP is established or where there is no correlation between the cost of production or acquisition and the MRP printed on the bags, the subsidy may be restricted or denied even if the product is otherwise eligible for subsidy under NBS. In proven case of abuse of subsidy mechanism, DOF, on the recommendation of IMC may exclude any grade/grades of fertilizers of a particular company or the fertilizer company itself from the NBS scheme.
iv. The reasonableness of MRP will be determined with reference to the MRP printed on the bags.

2. This issues with the concurrence of IFD vide No.1861/AS&FA dated 3rd May 2013 and approval of the competent authority.

Bsahu

(P. B. Sahu)
Under Secretary to Government of India
Tel: 2338 7492

1. Secretary (Agriculture), DAC, Krishi Bhawan, New Delhi.
2. Secretary (Expenditure), Department of Expenditure, North Block, New Delhi.
3. Joint Secretary (INM), DAC, Krishi Bhawan, New Delhi.
4. Joint Secretary (PF-II), Department of Expenditure, North Block, New Delhi.
5. Joint Secretary, Prime Minister's Office, South Block, New Delhi.
6. Director (Cabinet), Cabinet Secretariat, Rashtrapati Bhawan, New Delhi .
7. Executive Director, FICC, Department of Fertilizers, New Delhi.
8. Director of Accounts, Department of Fertilizers, Udyog Bhawan, New Delhi.
9. Director (Finance), Department of Fertilizers, New Delhi.
10. Director General, FAI, New Delhi.
11. All the manufacturers & importers of P&K Fertilizers.
12. All SSP manufacturers.

-: 2 :-

No.23011/5(NBS-Policy)/2013-MPR dated 3rd May 2013

Copy to:

1. Director, PMO, South Block, New Delhi.
2. Chief Secretaries/ All Agriculture Production Commissioners/ Secretaries (Agriculture) of the State Governments/ UTs.
3. Commissioners/Directors, Commissionerate/Directorate of Agriculture of the State Governments/ UTs.

Copy also to:

PS to MOS (Ind. Charge) C&F/PPS/PS to Secretary (Fertilizers)/ AS & FA/ JS(P&P) / JS(F&P) / JS(A&M) / Economic Advisor / Controller of Accounts / P&AO / US(Concession Wing) / Sr. AD (Accounts) FA Wing / AD (OL for translation in Hindi) / Guard File / Technical Director, NIC for uploading the same on the Department's website.

PBSahu

(P. B. Sahu)
Under Secretary to Government of India

Appendix – II

<Figures in 000'MTs>

Requirement, Availability and Sales of Fertilizers during the year 2012-13 (April'12 To March'13 along with Stock Pre-Positioned)

	UREA			DAP			MOP			NPK		
States	Requirement	Availability	Sales	Requirement	Availability	Sales	Requirement	Availability	Sales	Requirement	Availability	Sales
Andhra Pradesh	3250.00	2952.23	2851.49	1230.00	886.44	648.20	660.00	415.21	313.82	2250.00	2159.07	1758.79
Karnataka	1500.00	1473.53	1446.32	890.00	685.24	404.00	562.00	338.29	268.00	1440.00	1222.05	939.54
Kerala	205.00	136.91	135.99	45.00	37.72	24.69	194.00	107.52	87.54	251.00	185.64	153.16
Tamil Nadu	1150.00	937.54	928.24	455.00	255.36	232.00	555.00	240.96	216.85	682.00	692.87	570.81
Gujarat	2375.00	1950.74	1924.25	880.00	541.02	395.19	200.00	88.76	79.43	555.00	662.69	458.42
Madhya Pradesh	1850.00	2080.47	1891.27	1150.01	1576.92	1106.90	140.00	115.74	84.75	434.00	323.88	232.52
Chhattisgarh	690.00	825.86	706.25	311.84	337.88	233.16	127.00	106.10	66.47	175.00	140.30	103.92
Maharashtra	2800.00	2366.76	2291.65	1560.00	995.50	658.80	625.00	432.63	314.12	1900.00	1685.49	1280.38
Rajasthan	1725.00	1915.34	1846.05	760.00	739.09	593.40	48.24	19.90	15.51	166.10	88.64	83.54
Haryana	2000.00	2190.25	2034.24	720.00	939.50	687.00	75.00	24.04	21.45	97.50	32.68	26.47
Punjab	2640.00	3125.78	2842.91	805.00	1044.59	870.70	106.00	52.97	35.18	147.50	50.56	42.19
Himachal Pradesh	66.50	68.99	64.64	0.00	0.00	0.00	6.30	6.86	6.57	45.50	22.91	17.44
Jammu & Kashmir	143.30	186.37	144.35	85.00	66.47	49.81	35.00	19.17	16.24	0.02	0.00	0.00
Uttar Pradesh	6000.00	6761.18	6255.85	1815.00	2765.56	2085.30	350.00	158.20	131.02	1147.50	819.00	661.79
Uttarakhand	245.00	261.79	244.76	34.50	39.90	27.19	8.00	5.32	3.82	57.00	40.08	32.10
Bihar	2150.00	2136.97	2100.88	500.00	694.89	541.30	230.00	155.06	114.00	365.00	380.08	300.37
Jharkhand	270.00	208.30	198.39	125.00	73.03	54.12	35.00	6.88	2.52	128.50	28.35	26.00
Orissa	650.00	546.04	524.66	275.00	163.31	144.11	200.00	88.63	74.60	397.50	288.11	228.60
West Bengal	1350.00	1547.51	1387.44	525.00	556.88	425.22	425.00	315.04	215.77	828.21	913.60	789.59
Assam	315.00	264.45	261.84	65.00	41.19	32.68	150.00	80.59	57.56	23.32	7.29	6.00
All India	**31544.38**	**32015.23**	**30157.49**	**12358.72**	**12447.79**	**9221.80**	**4782.11**	**2787.68**	**2135.01**	**11150.74**	**9760.45**	**7727.75**

Appendix - III

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2013-14)

The Committee sat on Wednesday, the 11 December, 2013 from 1500 hrs. to 1530 hrs. in Committee Room – B, Parliament House Annexe, New Delhi.

PRESENT

Shri A. A. Jinnah - ***In the Chair***

MEMBERS

LOK SABHA

2.	Shri Gajanan D. Babar
3.	Shri Sher Singh Ghubaya
4.	Shri SK. Nurul Islam
5.	Shri Tufani Saroj
6.	Shri Raju Shetti
7.	Shri D. Venugopal
8.	Shri Sai Prathap Annayyagari
RAJYA SABHA	
9.	Shri Biswajit Daimary
10.	Smt. Naznin Faruque

Secretariat

1.	Smt. Rashmi Jain	-	Joint Secretary
2.	Shri U.B.S. Negi	-	Director
3.	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 Thirty-third Report (15th Lok Sabha) on Demands for Grants (2013-14) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) and

(ii) Draft Report on Action Taken by the Government on the recommendations contained in the Thirty-sixth Report (15th Lok Sabha) on the subject 'Production and Availability of Pesticides' pertaining to the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals).

4. After some discussion, the above two draft Reports were adopted by the Committee without any amendment.

5. The Committee also decided to take oral evidence of some of the representationists in January 2014 who have desired to appear before the Committee in connection of Jan Aushadhi Scheme for which the Committee had given advertisements in the newspapers and electronic media.

The Committee then adjourned.

Appendix – IV

(*Vide* Para 3 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRTY-THIRD REPORT (15^{TH} LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2012-13) ON 'DEMANDS FOR GRANTS (2013-2014)' OF THE MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS).

I	Total No. of Recommendations	10
II	Observations / Recommendations which have been accepted by the Government: (*Vide* Recommendation Nos. 2,3, 6, 8, 9 and 10)	6
	Percentage of Total	60 %
III	Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply: (*Vide* Recommendation No. Nil)	0
	Percentage of Total	0%
IV	Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (*Vide* Recommendation Nos. 4 and 7)	2
	Percentage of Total	20 %
V	Observations / Recommendations in respect of which replies of the Government are still awaited:- (*Vide* Recommendation Nos. 1 and 5)	2
	Percentage of Total	20 %