TENTH REPORT

STANDING COMMITTEE ON
CHEMICALS & FERTILIZERS
(2005-06)

(FOURTEENTH LOK SABHA)

MINISTRY OF CHEMICALS & FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

PRICING AND FEEDSTOCK POLICIES RELATING TO FERTILIZERS

Presented to Lok Sabha on ***22.12.2005***

Laid in Rajya Sabha on ***22.12.2005***

LOK SABHA SECRETARIAT
NEW DELHI
December, 2005/Agrahayana, 1927 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS

(2005-06)

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INTRODUCTION

I, the Chairman, Standing Committee on Chemicals & Fertilizers (2005-06) having been authorised by the Committee to submit the Report on their behalf present this Tenth Report on 'Pricing and Feedstock Policies relating to Fertilizers'.

2. The subject was selected for examination by the Standing Committee on Chemicals & Fertilizers (2004-05). The Committee considered the information sought from the Ministry of Chemicals & Fertilizers (Department of Fertilizers) and the Ministry of Petroleum & Natural Gas on the subject. The Committee took evidence of the representatives of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) at their sittings held on 25th January, 2005 and 20th July, 2005. At the sitting of the Committee held on 20th July, 2005 representatives of the Ministry of Petroleum & Natural Gas also accompanied the representatives of the Department of Fertilizers.

3. The Committee also heard the views of the representatives of the Fertilizer Association of India (FAI) at their sitting held on 24th May, 2005.

4. The Committee considered and adopted this Report at their sitting held on 20th December, 2005.

5. The Committee wish to express their thanks to the representatives of the Ministry of Chemicals & Fertilizers (Department of Fertilizers), Ministry of Petroleum & Natural Gas and the Fertilizer Association of India (FAI) for placing their views before them and furnishing the information desired in connection with the examination of the subject.

6. The Committee place on record their deep appreciation for the work done by the Standing Committee on Chemicals & Fertilizers (2004-05) on the subject.

7. The Committee also place on record their appreciation for the invaluable assistance rendered to them by the Officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi;

21 December, 2005
30 Agrahayana, 1927 (Saka)

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

REPORT

PART – I

CHAPTER – I

INTRODUCTORY

India is an agricultural based country since time immemorial. Till independence most of the trade and economy centered round the agriculture sector. Presently, agriculture accounts for about 27 per cent of the Gross Domestic Product (GDP) which also provides sustenance to about two-thirds of the population of the country.

1.2 Fertilizers play an important role for increasing the agricultural production. Owing to the continued and sustained use of fertilizers, India has been able to increase food grains production from the modest level of 52 million metric tonnes (MT) in 1951-52 to more than 232.31 million metric tonnes in 2004-05. As of now, the country has not only achieved self-sufficiency in food grains production but also generates exportable surplus of food grains.

1.3 Out of three main nutrients namely nitrogen, phosphate and potash, required for various crops, indigenous raw materials are available mainly for nitrogenous fertilizers. The Government's policy has hence aimed at achieving the maximum possible degree of self-sufficiency in the production of nitrogenous fertilizers based on utilization of indigenous feedstock. In case of phosphates, the paucity of domestic raw material constrains the attainment of its self-sufficiency in the country. In the case of potash, owing to the absence of commercially exploitable potash sources in the country, the entire demand of potassic fertilizers for direct application as well as for production of complex fertilizers is met through imports.

1.4 Overall consumption in nutrients terms in the last five decades has increased from 0.7 lakh metric tonnes (MT) to about 183.98 lakh metric tonnes (MT) in 2004-05. Accordingly, per hectare consumption of fertilizers which was less than 1 kg. in 1951-52 has gone up to the level of 96.7 kg. per hectare in 2004-05. Similarly, the production of nitrogenous (N) and phosphatic (P) fertilizers taken together has increased from a mere 0.3 lakh MT in 1950-51 to 154.05 lakh MT in nutrients terms in 2004-05.

1.5 For sustained agricultural growth and to promote balanced nutrient application, it is imperative that fertilizers are made available to farmers at affordable prices. With this objective, urea, being the only controlled fertilizer, is sold at statutorily notified maximum retail price (MRP) and the decontrolled phosphatic and potassic fertilizers are sold at indicative MRPs. MRP of single super phosphate is indicated by the respective State Governments.

1.6 At present, there are 57 large size fertilizer units in the country manufacturing a wide range of nitrogenous, phosphatic and complex fertilizers. Of these, 28 units produce urea, 20 units produce DAP and complex fertilizers, 7 units produce low analysis straight nitrogenous fertilizers and remaining 9 manufacture ammonium sulphate as by-product. Besides, there are about 68 small and medium scale units in operation producing single super phosphate (SSP). The total installed capacity of fertilizer production was 120.61 lakh MT of nitrogen and 56.20 lakh MT of phosphate as on 01.04.2005.

1.7 The production of fertilizers during 2003-04 was 106.34 lakh MT of nitrogen and that of phosphatic fertilizers was 36.30 lakh MT of phosphate. During 2004-05, production of nitrogen and phosphate was 113.38 lakh MT and 40.67 lakh MT respectively.

CHAPTER – II

A. MECHANISM FOR PRICING OF FERTILIZERS

Presently , urea (N) is the only fertilizer which is under statutory price, movement and distribution control under the Essential Commodities Act, 1955. While the potassic and phosphatic fertilizers were decontrolled w.e.f. 25.08.1992, the low analysis nitrogenous fertilizers viz. calcium ammonium nitrate, ammonium chloride and ammonium sulphate were decontrolled w.e.f. 10.06.1994. Consequent upon the decontrol of phosphatic (P) and potassic (K) fertilizers, the prices of these fertilizers registered a sharp increase vis-à-vis the price of urea and the NPK ratio got distorted to 9.7:2.9:1 in 1993-94, which was 5.9:2.4:1 in 1991-92 i.e. the year immediately preceding the decontrol of these fertilizers. In order to cushion the impact of the increase in prices of these fertilizers, the Government introduced a scheme of concession on sale of decontrolled fertilizers. Over the years, the scale and coverage of the concession has been substantially increased to give impetus to the demand for consumption of these fertilizers and to ameliorate the nutrient imbalance in the soil which is essential for sustaining the desired growth in agricultural productivity.

B. PRICING POLICY FOR UREA

2.2 Until 31.03.2003, the subsidy to urea manufacturers was being regulated in terms of the provisions of the Retention Price Scheme (RPS) which was in vogue since November, 1977. Under RPS, the difference between retention price (cost of production as assessed by the Government plus 12% post tax return on networth) and the MRP was paid as subsidy to the urea units. Retention price used to be determined unit wise, which differed from unit to unit depending upon the technology, feedstock used, the level of capacity utilization, energy consumption, distance from the source of feedstock/raw materials, etc. The Department of Fertilizers, in a note, informed that though the RPS did achieve its objective of increasing investment in the fertilizer industry and thereby creating new capacities and enhanced fertilizer production along with increasing use of chemical fertilizers, the scheme had been criticized for being cost plus in nature and not providing strong incentives for encouraging efficiency.

2.3 According to the Department of Fertilizers, given the importance of fertilizer pricing and subsidization in the overall policy environment impinging on the growth and development of the fertilizer industry as well of agriculture, the need for streamlining the subsidy disbursement to urea units has been felt for a long time. A High Powered Fertilizer Pricing Policy Review Committee (HPC) was constituted in January, 1997 under the Chairmanship of Prof. C.H. Hanumantha Rao, to review the existing system of subsidization of urea, suggest an alternative broad-based, scientific and transparent methodology, and recommend measures for greater cohesiveness in the policies applicable to different segments of the industry. The HPC, in its report submitted to the Government on 3rd April 1998, inter-alia, recommended that unit-wise RPS for urea may be discontinued. It recommended that instead of unit-wise RPS, a uniform Normative Referral Price be fixed for existing gas based urea units and also for DAP and a Feedstock

Differential Cost Reimbursement (FDCR) be given for a period of five years for non-gas based urea units.

2.4 Expenditure Reforms Commission (ERC) headed by Shri K.P. Geethakrishnan had also examined the issue of rationalizing fertilizer subsidies. The ERC submitted its report on 20th September 2000, in which it recommended, inter-alia, dismantling of existing RPS and in its place introduction of a Concession Scheme for urea units based on feedstock used and the vintage of plants.

2.5 The recommendations of ERC were examined in consultation with the concerned Ministries/Departments. The views of the fertilizer industry and the State Governments/Union Territories, and economists/research institutes were also obtained on the ERC report. After due examination of all these views, a New Pricing Scheme (NPS) for urea units for replacing the RPS was formulated and notified on 30.01.2003. The new scheme has taken effect from 01.04.2003. It aims at inducing the urea units to achieve internationally competitive levels of efficiency, besides bringing in greater transparency and simplification in subsidy administration.

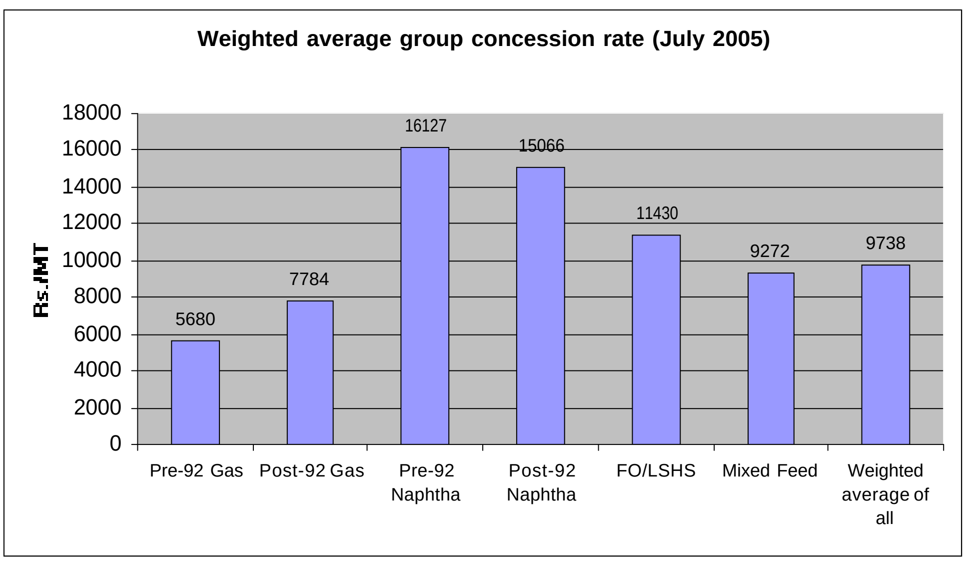
2.6 NPS is being implemented in stages. Stage-I was of one year duration, from 01.04.2003 to 31.03.2004. Stage-II is of two years duration, from 01.04.2004 to 31.03.2006. Under NPS, the existing urea units have been divided into six groups based on vintage and feedstock for determining the group based concession. These groups are : Pre-1992 gas based units, post-1992 gas based units, pre-1992 naphtha based units, post-1992 naphtha based units, fuel oil/low sulphur heavy stock (FO/LSHS) based units and mixed energy based units. The mixed energy based group shall include such gas based units that use alternative feedstock/fuel to the extent of more than 25% as admissible on 01.04.2002. Classification of units among different groups so determined will remain unchanged during Stage-I and II. Classification of existing urea units into above mentioned six groups is given as under:-

Pre-92 Gas	Post-92 Gas	Pre-92 Naphtha	Post-92 Naphtha	FO/LSHS	Mixed Feed
BVFCL-Namrup-III	NFCL-Kakinada-I	FACT-Cochin**	IFFCO-Phulpur-II	FCI – Sindri *	GSFC-Vadodara
IFFCO-Aonla-I	CFCL-Gadepan-I	DIL-Kanpur **	CFCL-Gadepan-II	GNVFC-Bharuch	IFFCO-Kalol
Indo Gulf Jagdishpur	TCL-Babrala	IFFCO-Phulpur-I		NLC-Neyveli *	RCF- Thal
KRIBHCO-Hazira	OCFL-Shahjajanpur	MCFL-Mangalore		NFL- Nangal	
NFL-Vijaipur-I	NFCL-Kakinada-II	MFL-Chennai		NFL-Bhatinda	
RCF-Trombay-I**	IFFCO-Aonla-II	SFC-Kota		NFL-Panipat	
	NFL-Vijaipur-II	SPIC-Tuticorin			
		ZIL-Goa			
No. of units = 6	No. of units = 7	No. of units = 8	No. of units = 2	No. of units = 6	No. of units = 3

* *Permanently closed*
** *At present not in production*

2.7 During Stage-I, the concession rates payable to the urea units have been determined on the basis of averaging of retention prices of urea units as on 31.03.2003. Units having exceptionally high or low retention price, i.e. deviation of 20% and above with reference to the group average have been treated as outliers in their respective groups. Those units which have low retention price than the weighted group average (estimated after excluding the outliers) are receiving concession as per their individual retention price. The remaining units (excluding outliers) are receiving the concession based upon the weighted group average retention price computed after excluding the outliers. The outliers having a retention price higher than 20% or more from the group average in their respective group have been granted an adjustment phase up to 31.03.2006 or till NG/LNG becomes available to these units, whichever is earlier. Such outliers are receiving a rate of concession based upon the group weighted average (after excluding outliers) and a structural adjustment which is 50% of the difference between their respective retention price and the group average.

2.8 Weighted average group concession rate as on July, 2005 are as under:-



2.9 Group concession rates are being calculated excluding the incidence of sales tax on inputs, which are being computed and compensated on the basis of rates effective on 01.04.2002 for each unit. However, the compensation would be proportionately reduced if the rates are reduced by any State.

2.10 Under NPS, escalation/de-escalation during Stage-II is being given in respect of variable cost only related to changes in the prices of feedstock, fuel, purchased power and water on the basis of pre-set energy norms. Escalation/de-escalation in the variable cost related to changes in the price of feedstock, fuel, purchased power and purchased water was provided to urea units on quarterly basis on the norms of the 8th pricing period of the Retention Price Scheme during Stage-I of NPS effective from 01.04.2003.

2.11 NPS provides that after commencement of Stage-I and also beyond Stage-II, there shall neither be any reimbursement of the investment made by a unit for improvement in operations nor any mopping up of gains of the units as a result of operational efficiency.

2.12 It has also been provided under the scheme that the concession rates during Stage-II shall be adjusted for reduction in capital related charges and enforcement of efficient energy norms. Accordingly, pre-set energy norms and reduction in rates of concession on account of reduction in capital related charge during Stage-II have been notified.

2.13 Under the new Scheme, there will be no capping on production of urea. The use or sale of by-products such as ammonia, CO_2 etc. will be permitted in case considered surplus beyond the reassessed capacity for urea production. The final concession would be determined on the reassessed installed capacity. The additional production beyond the installed capacity would receive concession if it is mopped up under the ECA allocation. The feedstock/fuel ratio for the entire production would be taken into consideration for assessing the concession.

2.14 Phased decontrol of urea distribution/movement has also been undertaken under the NPS. Until 31.03.2003, urea was under total distribution and movement control. During Stage-I of NPS, while 25% of production capacity was outside ECA allocation during Kharif 2003, it was increased to 50% during Rabi 2003-04. During Stage-II, urea distribution was to be totally decontrolled after having evaluated the Stage-I and with the concurrence of the Ministry of Agriculture. However, after evaluation of Stage-I in consultation with the Ministry of Agriculture, it was decided to defer the total decontrol of distribution of urea by six months beyond 31.03.2004 i.e. upto 30.09.2004, which has been deferred further till Rabi 2005-06 i.e., upto 31.03.2006.

2.15 When the Committee enquired as to whether the Government have finalized NPS in conformity with recommendation of Expenditure Reforms Commission, the Department of Fertilizers, in their written reply, stated as under:-

> "The Government has finalized the NPS based on the broad principles recommended by the Expenditure Reforms Commission. However, some of the recommendations of the ERC especially pertaining to the periodic increase in the sale price of fertilizers as well as total price and movement decontrol could not be implemented in Stage-I and II of NPS. All these issues will be considered by the Working Group constituted to formulate the policy for Stage-III of NPS beginning from 01.04.2006."

2.16 When the Committee asked about the response of various State Governments regarding switching over the system from RPS to NPS, the Department of Fertilizers replied, in a written note as under:-

> "The feedback received from various quarters including the State Governments was considered while formulating the NPS for urea units which has been formulated based on the recommendations of the ERC. The State Governments were communicated about the switch over from RPS to NPS vide communication dated 30.01.2003. The Department has not received observations from different State Governments regarding the switch over from the system of RPS to NPS."

2.17 Asked about the reaction of the fertilizers industry with reference to implementation of the first stage of NPS, the Department of Fertilizers, in a written reply stated as under;-

> "Various urea manufacturing companies have expressed their views and suggestions with reference to the implementation of the Stage-I and II of NPS. These views/suggestions will be considered by the Working Group constituted to formulate policy for Stage-III of NPS for urea units."

2.18 On being asked by the Committee about the views and suggestions expressed by various urea manufacturing units regarding implementation of Stage-I and Stage-II of NPS, the Department of Fertilizers, in a post-evidence reply stated as under:-

> "Various urea companies have given their views and suggestions regarding impact of implementation of New Pricing Scheme on urea units. Urea companies have given their suggestions with regard to equated freight for deregulated quantity of urea, grouping of urea units, reimbursement of savings in proportion to the mix of actual inputs instead of the existing practice of saving allowing for the cheapest input only, pre-set energy norms, reimbursement of electricity duty, entry tax, service tax and educational cess on actual basis, allowing for escalation/de-escalation in prices of bags and not restricting the compensation for sales tax to the levels obtaining as on 01.04.2002. These views/suggestions of urea

companies would be considered by the Working Group constituted under the Chairmanship of Dr. Y.K. Alagh to review performance of Stage-I and Stage-II of New Pricing Scheme for urea units and formulation of policy for urea units for Stage-III commencing from 01.04.2006, etc."

2.19 The Department of Fertilizers also submitted various suggestions given by the urea manufacturing units which are mainly as follows:-

(i) In the grouping of urea units based on vintage and feedstock, many urea companies have given suggestions on changing the groupings based upon the locations of the plants, quantum of usage of fuel like coal, size of the plant, etc.

(ii) No reduction of Rs. 100 per tonne from the primary freight for decontrolled quantity of urea.

(iii) Reimbursement of the increase in the road transport component of the primary freight.

(iv) Reimbursement of the increase in secondary freight.

(v) Compensation for escalation in conversion costs and overheads beyond 1999-2000.

(vi) Working capital allowance not revised despite sharp increase in input prices.

(vii) Compensation for increase in the cost of bags.

(viii) Compensation for increase in other variable costs.

(ix) Compensation for changes in all state levies like rates of purchase tax, entry tax, electricity tax, sales tax, VAT, etc.

2.20 Asked whether the Department of Fertilizers have made any assessment in regard to implementation of Stage-I of NPS and if so, what has been the achievement with regard to greater transparency, uniformity and efficiency in subsidy disbursement and encouraging cost cuts, the Department, in a written note replied as under:-

"The erstwhile unit specific and cost plus Retention Price Scheme (RPS) was replaced by a New Pricing Scheme for urea units (NPS) w.e.f. 01.04.2003. The Stage-I of NPS was of one year duration i.e. w.e.f. 01.04.2003 to 31.03.2004. Stage-II of NPS has commenced w.e.f.

01.04.2004 and will end on 31.03.2006. The Government has constituted a Working Group under the Chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage-I and II of New Pricing Scheme for urea units and to formulate a policy for urea units for Stage-III commencing from 01.04.2006. The terms of reference of the Working Group are as follows:-

(i) Review of performance of Stage-I and Stage-II of New Pricing Scheme for urea units.

(ii) Formulation of policy for urea units for Stage-III commencing from 01.04.2006.

(iii) Formulation of feedstock policy especially with regard to nature, pricing and availability.

(iv) Consideration of the demand and supply of urea upto the end of 11th Five Year Plan.

(v) Fixing milestones for conversion of existing naphtha and FO/LSHS based units to NG/LNG.

(vi) Consideration of the mode of determination and methodology of payment of concession to urea units.

(vii) Examination of issues pertaining to de-control of movement and distribution of urea.

(viii) Achievement of balanced fertilization through urea pricing; and

(ix) Any other matter which may be assigned to the Working Group by DOF or which the Group considers germane to the above issues."

2.21 The Working Group has constituted the following six Sub-Committees:-

(i) Sub-Committee on 'Demand and Supply of urea'
(ii) Sub-Committee on 'Future Vision of urea pricing policy in a time frame of 3, 5 and 10 years'
(iii) Sub-Committee on 'Costs and Supplies'
(iv) Sub-Committee on 'Movement and Distribution of urea'
(v) Sub-Committee on 'Pricing and Availability of feedstock'
(vi) Sub-Committee on 'Practices of subsidizing production, distribution and consumption of fertilizers in other countries'.

2.22 The Department of Fertilizers, in latest information provided to the Committee has, in this regard, informed that four meetings of the Working Group have been held so far. The report of the Working Group is expected to be submitted shortly.

2.23 Elaborating their suggestions regarding the implementation of NPS, Fertilizer Association of India (FAI), in a written note has suggested as follows:-

“(i) The cut in equated freight of Rs. 100/tonne on the decontrolled portion of urea should be restored immediately. The cost of freight has not been reduced due to decontrol as the demand and the availability and lead distances remain the same.

(ii) The increase in the cost of bags which is a component of the variable cost, should be reimbursed, as in the case of escalation/de-escalation in cost of feedstock etc.

(iii) Increase in road transport cost other than cost of diesel (which is recognized currently) has to be recognized and reimbursed under the NPS, as such increases are beyond the control of the industry.

(iv) The variable cost components should be taken out while averaging the cost of production (as in the case of state levies on inputs) and the variable cost components should be added back as per actuals after arriving at the average concession rate excluding the variable costs.

(v) There should be no reduction in any component of cost, especially those which have been frozen, unless it is decided to update all items of cost including the frozen ones.

(vi) The delay in processing of bills, especially for quarterly escalations/de-escalations, notification of revised concession rates and disbursement of subsidy should be minimized. The Government should pay interest on the payments which are delayed or withheld beyond a period to be prescribed under the policy.

(vii) Adequate provision for subsidy, as required under the NPS for urea units, should be made in the Union Budget. Inadequacy of budgetary allocations has resulted in stoppage of payment towards the end of the year, seriously affecting the liquidity of the urea producing units in the recent years.

(viii) The availability and pricing of gas still remains a bone of contention. The Government must take effective measures to ensure adequate availability of gas to this sector, including those units currently based on non-gas feed/fuel, to ensure successful implementation of the NPS. If gas can be assured to all gas based units and also to the naphtha based units, at least, the cost of production and hence subsidy could be reduced drastically even at the current (high) prices of gas."

2.24 When the Committee asked about the extent to which the objective of reducing energy consumption has been achieved, the Department of Fertilizers, in a written reply stated as under:-

> "Enforcement of pre-set energy norms effective from 01.04.2004 during Stage-II of New Pricing Scheme for urea units has resulted in efficient operations of the urea units. Out of the 27 urea units, more efficient norms have been imposed on 15 urea manufacturing units."

2.25 On being enquired by the Committee as to why the energy efficiency norms have not been imposed on the remaining urea manufacturing units, the Department of Fertilizers in a post-evidence reply stated as follows:-

> "The pre-set energy norms effective from 01.04.2004 have been notified in respect of all the urea manufacturing units. The pre-set energy norms in respect of 15 urea units were tighter than those compared to their energy norms under 8th pricing period of the erstwhile Retention Price Scheme. Analysis of the available data regarding the actual energy consumption during 2004-05 i.e., after introduction of pre-set energy norms, has revealed that this has encouraged the urea units to improve their efficiencies as the actual energy consumption in respect of 22 urea units out of 27 units is better than the pre-set energy norms. Furthermore, in all the cases, wherever urea units are less efficient than the pre-set energy norms, they are being reimbursed the cost of fuel and feedstock only upto the extent of the pre-set energy norms and not more in Stage-II of NPS.

> Further, policy for Stage-III of NPS including determination of energy norms is subject to the recommendations of Working Group constituted under the Chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage-I and II of New Pricing Scheme for urea units and to formulate a policy for urea for Stage-III commencing from 01.04.2006 and the government's decision thereon."

2.26 When the Committee desired to know about the reasons for not taking into consideration the increase in the cost of several items like bags, chemicals and stores, repairs and maintenance, salaries, wages, etc. for providing subsidy to fertilizer units, the Department of Fertilizers in a written reply stated as under:-

> "The NPS encourages efficiency parameters and a group based concession rate is given to the units to achieve such efficiency. The concession rate is a package rate wherein all costs were frozen except for the variation in the variable cost related to changes in the prices of feedstock, fuel, purchased power and water."

2.27 When the Committee asked about the reasons for reducing the equated freight for the decontrolled portion of urea by Rs. 100/tonnes, the Department of Fertilizers replied as follows:-

> "50% of the production of urea is decontrolled from movement control under Essential Commodities Act, 1955. For the de-controlled quantity of urea, the urea units are free to optimize the movement so as to enconomise on the freight element. Therefore, a uniform reduction of Rs. 100/- MT of urea in equated freight was imposed for the decontrolled quantity."

CHAPTER – III

CONCESSION SCHEME FOR DECONTROLLED PHOSPHATIC AND POTASSIC FERTILIZERS

The decontrolled phosphatic and potassic fertilizers, which are covered under the Concession Scheme are Di-ammonium Phosphate (DAP), Murate of Potash (MOP), Single Super Phosphate (SSP) and 11 grades of complexes. Majority of raw materials/intermediates for manufacturing these phosphatic & potassic fertilizers excluding SSP are imported. The main raw materials/intermediates required for manufacturing of these fertilizers are phosphoric acid, ammonia, rock phosphate and sulphur. Apart from this, limited quantity of naphtha, fuel oil, indigenous gas is also used by some of the manufacturers.

3.2 In case of phosphates, the paucity of domestic raw material operated as constraint on the attainment of any degree of self-sufficiency. According to the Department of Fertilizers, recognizing this limitation, a deliberate policy-mix has been adopted which involves the modulation of three options: (i) Domestic production based on indigenous/imported rock phosphate and imported sulphur; (ii) Domestic production based on imported intermediates viz. ammonia and phosphoric acid; and (iii) import of finished fertilizer viz. di-ammonium phosphate (DAP) and very rarely, mono-ammonium phosphate (MAP) and nitrogen phosphate potash (NPK) complexes. About 70% of the requirement of phosphatic fertilizers is met through the first two options. Since indigenous rock phosphate supplies meet only about 5-10% of the total requirement of P_2O_5, phosphatic fertilizers produced in the country are essentially based on imported raw materials and intermediates.

3.3 There are no known commercially exploitable reserves of potash in the country and per force, the entire requirement of potassium fertilizer nutrient for direct application as well as for production of complex fertilizers is met through imports.

3.4 The Government entrusted a cost price study of DAP and MOP to Bureau of Costs and Prices now know as Tariff Commission in 1998. The pricing of DAP and MOP hitherto is being decided based on this report of August 1998 which was further suitably modified based on the recommendations of Inter-Ministerial Group set up under the Chairmanship of Special Secretary, Department of Agriculture and Cooperation.

3.5 Subsequently, the Government entrusted cost pricing study of complex fertilizers to Tariff Commission in the year 2000. Tariff Commission submitted its recommendations in respect of complex fertilizers in May 2001. The pricing policy recommended by Tariff Commission for complex fertilizers had following major constituents:-

(i) Tariff Commission worked out unit price of nutrient, i.e., nitrogen, phosphorous and potash. However, based on the source of 'N', i.e., imported ammonia and naphtha, two separate costs of 'N' were recommended and accordingly complex fertilizers were divided into two groups.

(ii) Besides, the Tariff Commission worked out Rs. 2843/- per MT as other cost which included selling and distribution expenses, conversion cost, interest, return, etc.

(iii) The pricing of the complex fertilizers was accordingly worked out after approval from CCEA w.e.f. 01.04.2002.

(iv) Tariff Commission also suggested formulae to adjust the unit cost of nutrient in future with change in the constituent prices of constituent raw materials/intermediates, viz. imported phosphoric acid, MOP, imported ammonia, imported urea and dollar-rupee exchange rate.

3.6 The Fertilizer Association of India (FAI), in their submission, informed the Committee that the new policy based on the recommendations of the Tariff Commission with modifications made by the Department of Fertilizers was announced in January 2003 but was implemented with retrospective effect from 01.04.2002. Under the new policy, the concession on complex fertilizers is based on the weighted average cost of production rather than the earlier practice of being linked to the concession on domestic DAP. For this, the units are categorized into two groups:

(i) Group-I comprises units based on imported ammonia or indigenous ammonia based on gas as feedstock.

(ii) Group-II comprises units based on indigenous ammonia made from naphtha/fuel oil as feedstock.

For each group, a single weighted average delivered cost was computed. All other costs except the cost of essential plant nutrients viz. N, P and K were frozen at the level of the base year. The quarterly escalation/de-escalation in concession rates over the base rates were allowed as per the formula recommended by the Tariff Commission, which is essentially linked to the variations in the prices of N, P, K, the rates of customs duty and the exchange rate for conversion of US Dollar into Indian Rupees.

3.7 The Department of Fertilizers has also specifically entrusted a cost price study of DAP and MOP. The report of the same was received in February 2003. In this Report, Tariff Commission recommended slight departure from the earlier pricing policy for indigenous DAP. The salient features of indigenous DAP pricing policy recommended by Tariff Commission are as under:-

(i) DAP manufacturers were divided into two groups based on manufacturing of DAP, using indigenous phosphoric acid through the import of rock phosphate and sulphur were classified into Group-I. The DAP manufacturers using imported phosphoric acid intermediate for manufacturing DAP were classified into Group-II.

(ii) Tariff Commission recommended two different base prices for these two groups.

(iii) Besides, Tariff Commission also suggested future adjustment in the base prices of two groups of DAP based on the prevailing prices of rock phosphate, sulphur and imported ammonia for Group-I and imported phosphoric acid, imported ammonia for Group-II.

3.8 The share of feedstock for manufacturing indigenous DAP as per the latest Tariff Commission study is as per the table given below:-

Group	**Share of production**		**Wt. Avg. price**
	MT	**Percentage**	
Captive Phosphoric Acid and Captive Ammonia	254175	4%	Rs. 11509 per MT
Captive Phosphoric Acid and Imported Ammonia	2253475	34%	Rs. 10181 per MT
Imported Phosphoric Acid and Captive Ammonia	329140	5%	Rs. 12187 per MT
Imported Phosphoric Acid and Imported Ammonia	3861084	57%	Rs. 11047 per MT

3.9 The Department of Fertilizers further informed that the recommendations of the Tariff Commission on the DAP and MOP with slight changes in the delivered cost of indigenous DAP have been implemented by the Government w.e.f. 01.04.2003 after the approval of CCEA. The Government have also decided that in case the delivered cost of Group-I is more than the delivered cost of Group II units, the concession rate for Group-I shall be restricted at Group-II concession.

3.10 When the Committee asked whether this concession restricted at Group-II only is not disincentive for Group-I units, the Department of Fertilizers, in a written note, replied as under:-

> ‘The production of DAP through indigenous route was cheaper. The manufacturers producing own phosphoric acid through sulphur & rock phosphate can do more value addition. Before introducing two groups all the manufacturers were getting concession only based on imported phosphoric acid route. To encourage efficiency and competitiveness in the DAP industry it was decided to restrict the Group-I concession maximum at the level of Group-II units.”

3.11 Asked about the delivered cost of Group-I and Group-II DAP manufacturers, the Department of Fertilizers, in a written reply, stated as under:-

> “As per the Tariff Commission Report on DAP the delivered cost of Group I units (producing DAP through indigenous phosphoric acid) was Rs. 10163 per MT in comparison of Rs. 11128 per MT for Group II units (producing DAP through imported phosphoric acid). At present based on the prevailing international prices during the period April to June 2004 the delivered cost worked out to Rs. 14460 per MT for Group I & Rs. 13600 per MT for Group II.”

3.12 The Committee further enquired as to whether it was reasonable to restrict Group-I concession at the level of Group-II in respect of prevailing international price of DAP, the Department of Fertilizers stated as follows:-

> "Concession rates for indigenous DAP & imported DAP are worked out separately based on the methodology recommended by Tariff Commission. The amount of concession for indigenous DAP worked out is based on the prices of rock phosphate, sulphur and ammonia prevailing in the international market in case of Group I and prices of phosphoric acid and ammonia in case of Group II. The price of DAP prevailing in the international market does not have any impact on the concession for indigenous DAP at present."

3.13 The prices of different feedstock used in production of DAP and complex fertilizers are being updated quarterly as under:-

> Indigenous DAP - For Group I units, prices of rock phosphate, sulphur and imported ammonia are adjusted while for Group II units, the price of imported phosphoric acid and imported ammonia are taken for escalation/de-escalation.
>
> Complex fertilizers - Material cost in respect of Group II units is adjusted taking into account the prices of imported ammonia, naphtha, imported phosphoric acid and MOP. In case of Group I units, the price of imported ammonia, imported urea, imported phosphoric acid and MOP is adjusted.
>
> The prices of raw material vary in the international market. The prices of ammonia are adopted based on the Average C&F Price published in Fertilizer Marketing Bulletin (FMB) or actual Weighted Average Price of ammonia purchased by the manufacturers, whichever is less. The lower average price of urea published in FMB are considered in case of urea. The prices of phosphoric acid are taken on the basis of the prices negotiated by consortium of DAP and complex manufacturers or the actual weighted average price of phosphoric acid purchased by the manufacturers, whichever is less."

3.14 When the Committee asked about the rationale for having two different base prices for two Groups of DAP, the Department of Fertilizers, in a written note, replied as under:-

> "Production of DAP through domestic production of phosphoric acid was cheaper than the production of DAP through imported phosphoric acid route. The production of DAP through indigenous phosphoric acid was increased substantially after the creation of new capacities by OCFL and OGCL. Accordingly, it was felt that separate concession should be given on indigenous DAP based on the usage of phosphoric acid by the manufacturers."

3.15 In respect of Government policy for DAP, the Fertilizer Association of India (FAI), in a written reply submitted to the Committee stated as under:-

> "The unit wise normative fair prices were computed by the Tariff Commission based on unrealistic capacity utilization norms of 90% and 310 operating days based on the best three months' operation. The consumption norms for raw materials/inputs were based on the conversion efficiency ranging from 97% to an unachievable 100%. Even the cost of freight on the output was not included in the working capital. The normative fair price was thus artificially brought down by using unrealistic and unachievable norms which further affected the margins. Quarterly escalations/de-escalations over the base price is allowed only for variations in cost of phosphoric acid and ammonia. There is no provision for any increase in concession to compensate for any increase in other costs including costs of fuel oil, power, freight and the fixed costs which would remain frozen till March 2006. Even for allowing the quarterly escalation, the prices of phosphoric acid and ammonia (on cash basis) for the previous quarter (instead of the current quarter) are considered. This results in a significant under-recovery of cost during the period when international prices of ammonia and phosphoric acid are rising. The quantity of DAP sold is not uniform throughout the year. Hence, under-recovery of cost in one quarter cannot be recovered fully in the subsequent quarter. The DOF has also arbitrarily reduced the contracted price of phosphoric acid (for computing the concession rate) thereby disallowing a part of the price already paid for the purchase of phosphoric acid. A disallowance of US$1/tonne in price of phosphoric acid results in a reduction of concession by Rs. 23.31/tonne of DAP which further cuts into the thin margins of the units. The fact that the margins in this business are very slim is corroborated by the Report of the Tariff Commission (2003) which has reported negative margins (profit before tax) for 10 out of 11 DAP units studied by the Commission based on the figures for 2000-01."

3.16 When the Committee asked as to why there is no provision for any increase in concession to compensate for any increase in costs of fuel oil, power, freight and the fixed costs, the Department of Fertilizers, in a written note, replied as under:-

> "The cost of raw material is a major component in the cost of production in DAP. It is correct that cost of fuel oil, power, etc., increases however in case of fixed cost it decreases due to reduction in capital employed. Accordingly, no escalation/de-escalation is provided for the balance cost. In case of freight, Government considers revision in freight as when there is any revision announced in railway freight."

3.17 When the Committee asked why the prices of phosphoric acid and ammonia (on cash basis) for the previous quarter (instead of the current quarter) are considered for providing concession, the Department of Fertilizer, in a written reply, stated as follows:-

> "The concession is paid on sales. There is a gap between procurement of raw material, production of fertilizers, movement and storage of fertilizers at various locations in the States and sales. Considering this time gap it is appropriate to take the raw material prices of previous quarter instead of current quarter."

3.18 When the Committee asked about the reasons for the delay in issuing the notification of rates of concession, release of on account payments and payments of the balance amounts to the manufacturers/suppliers of P and K fertilizers, the Department of Fertilizers, in a written note, replied as under:-

> "Under the Concession Scheme Government announces the base rate at the beginning of the year. The raw material/intermediates cost is updated quarterly and the final concession rates are announced after the end of each quarter. Department of Fertilizers has already announced the final concession rates up to quarter ending 31st March 2005.
>
> Prior to October 2000, the Concession Scheme was being administered by Department of Agriculture and Cooperation. Prior to 1997-

98, the payment of concession was released to the manufacturers/importers on 100% certification basis based on the sale certificates issued by the State Governments. Some companies have approached the Department of Fertilizers for settlement of their claims on sales of decontrolled P&K fertilizers during 1995-96 and 1996-97. The Department of Fertilizers is examining the above said claims as the relevant records were not received from Department of Agriculture and Co-operation."

3.19 When the Committee asked about the reasons for not giving an indicative price at which phosphoric acid is acceptable to the Government for the purpose of giving the subsidy for DAP till May, 2005, the Department of Fertilizers replied as under:-

"The import of phosphoric acid is de-canalized. The prices of phosphoric acid are being negotiated by a consortium of phosphatic fertilizer manufacturers with the international suppliers on year-to-year basis. There was a significant increase in the phosphoric acid prices negotiated by Group for the year 2004-05 in comparison of the phosphoric acid price of 2003-04. CCEA while approving the phosphoric acid price for the year 2004-05 directed Department of Fertilizes to evolve a methodology for working out concession of P&K fertilizers based on the international price of DAP. Department of Fertilizers has constituted an Expert Group under the Chairmanship of Prof. Abhijit Sen, Member Planning Commission to examine the pricing of phosphatic fertilizers and related issues. The Expert Group has submitted its interim report to this Department on 09.06.2005 which is under consideration. Phosphoric Acid Consumer Group (PACG) has also intimated to DOF on 17.06.2005 regarding price of phosphoric acid negotiated by them for the year 2005-06. Government has announced the interim price of phosphoric acid at US$431 CFR per MT with 120 days credit for working out concession for the year 2005-06 on 20.06.2005 after taking into consideration the interim recommendation of Expert Group and the price negotiated by the PACG."

3.20 On being enquired by the Committee about the recommendations contained in the interim report, the Department of Fertilizers, in a post-evidence reply, stated as under:-

> "The Group has recommended a methodology to derive the normated price of phosphoric acid based on the international price of DAP, ammonia and the Baltic Dry Index, which is an indicator of freight. The Group has also recommended a revised methodology of subsidy to SSP using the normated price of phosphoric acid."

3.21 Further, on being asked by the Committee about the time by which the final report is going to be submitted by the Expert Group, the Department of Fertilizers, in a post-evidence note, stated as follows:-

> "The last meeting of the Expert Group was held on 13.07.2005 in which industry was also invited to put their comments before the Group. After detailed discussion, Chairman, Expert Group asked the industry to submit their view on the recommendation of the Group by 29th July 2005. The Group will meet after 29th July for further deliberation on the issue."

3.22 In this regard, the FAI while pointing out problems in receiving payment of concession for P&K fertilizers, submitted in a note to the Committee as under:-

> "The manufacturers/suppliers of P&K fertilizers face severe problems due to the delays in issuing the notification of the rates of concession, release of on account payments and payments of the balance amounts which are released after certification by the States. The extent of delay can be appreciated by the fact that payment of concession for some companies are still pending for the period prior to 1997-98.
>
> The payment of concession is also delayed (at times withheld) due to inadequacy of funds allocated for fertilizer subsidy in the union budget. Adequate provisions for fertilizer subsidy should be made in the budget based on a realistic assessment of needs as per the existing rates to avoid such delays which cause severe problems of cash flow."

3.23 When the Committee asked about the reasons for pending subsidy arrears, the Department of Fertilizers replied as under:-

> “As per the Concession Scheme, the 85% (90% with bank guarantee) of the concession is paid to the P&K fertilizers manufacturers/importers on subsequent month of sale, based on the certificate of statutory auditor of the company. Balance 15%/10% of the concession payment is released based on the sales certification received from the State Governments. The arrears of subsidy are primarily on account of non-receipt of certification of sales from various State Governments.”

3.24 The Department of Fertilizers in this regard further added as under:-

> ”It has prepared an alternative scheme of payment of concession in lieu of the State certification. This alternative mechanism is based on the linkages of the import of raw material and production/sales. The Department has sought the comments of DAC, DOE and various State Governments in this regard.”

3.25 When the Committee asked about the comments of the State Governments on the proposed procedure for release of concession dispensing certification of sales of the decontrolled fertilizers, the Department of Fertilizers, in a written note, replied as under:-

> “Comments from the State Governments of Uttar Pradesh, Haryana, Punjab, Himachal Pradesh, Chandigarh, Rajasthan, Gujarat, Madhya Pradesh, Karnataka, Arunanchal Pradesh and Mizoram were received in the proposal. Except Karnataka, most of the States either fully agreed to the proposed new system of payment of concession or had no objection with the new policy of alternative mechanism of payment of concession dispensing certification of sales of the decontrolled fertilizers by the States.”

3.26 On being enquired about the reported objections of Karnataka, the Department of Fertilizer, in a post-evidence note, replied as under:-

> "The State Government of Karnataka has not, as such, made any objection to the proposed alternative mechanism of payment of concession. However, they have favoured the present system of payment of concession and has submitted that the existing Concession Scheme provides for due accountability of the manufacturers at every level right from the Taluk to Commissionerate of Agriculture in the State for fertilizer supplies in the State through submission of various documents. It ensues timely supplies up to the Taluk level. It also made the fertilizer dealers to keep the proper record, which helped in certifying the sales."

CHAPT ER – IV

CONCESSION SCHEME FOR SINGLE SUPER PHOSPHATE

The Single Super Phosphate (SSP) is the oldest chemical fertilizer to be manufactured (1906) and used in India and continues to be recommended as one of the major sources of phosphorous (P) and sulphur (S). It is also easily available and is highly affordable. SSP contains 11% sulphur and 16% phosphorous. There are very few sources of sulphur as a nutrient for crops. SSP contributed nearly half the amount of sulphur applied to crops in 2003-04 in spite of the steep decline in its production. The other major sulphur containing fertilizers are ammonium sulphate and ammonium phosphate sulphate. Sulphur deficiency in India is widespread. Tests conducted in farmer's fields over several states reveal that about 40% of Indian soils are sulphur deficient and another 35% potentially deficient in sulphur. Sulphur is now considered as the 4th most important plant nutrient after nitrogen (N), phosphorous (P) and potash (K). Use of SSP can help remove this deficiency to a great extent. Use of SSP is generally recommended for all crops. However, it has a special significance for oilseeds and pulses for which there is a large demand with domestic production being inadequate.

4.2 The main advantage of SSP is that it can be produced relatively easily with a modest investment. Manufacturing units have, therefore, come up all over the country even though the two major raw materials, rock phosphate and sulphur, are imported (except for a small quantity produced after beneficiation of poor quality rock found in Rajasthan). The past policies of the GOI have encouraged the growth in production capacity from less than 1.28 lakh tonnes in 1950 to 61.28 lakh tonnes in 2004. With the current level of Maximum Retail Price (MRP) at about Rs. 3000 per tonne (on an average) or about Rs. 150 per bag of 50 kg., it is an affordable source of both phosphorous and sulphur for a very large number of farmers, particularly poor farmers who do not have access to irrigation.

4.3 The Government provides a fixed subsidy on Single Super Phosphate (SSP). The Maximum Retail Price (MRP) of SSP is indicated by the respective State Governments and varies from State to State.

4.4 The Fertilizer Association of India, in a written submission to the Committee, stated as follows:-

> "Unfortunately for SSP, it is compared with DAP as a source of phosphorous (DAP contains 46% phosphorous as against 16% in SSP) ignoring its additional contribution as a major source of sulphur. DAP is a source of phosphorous and nitrogen but not of sulphur. In the recent years, it appears that the importance of SSP has been overlooked while framing pricing policies, which has not only eroded the viability of SSP units but has also affected the availability of sulphur for Indian agriculture. Interestingly, with the prices of SSP being linked to that of DAP and being considered as a source of only phosphorous, the sulphur in it comes more or less free.
>
> Notwithstanding its agronomic importance for Indian agriculture SSP has been a victim of a vacillating policy environment ever since P and K fertilizers were decontrolled in August 1992. The less than favourable policies of the government for SSP reduced the production of SSP from a peak of 36.5 lakh tonnes in 1990-91 to a low of 22.57 in 1993-94 soon after it was decontrolled in 1992. With the restoration of subsidy and gradual increase of the amount from Rs. 340 per tonne to Rs. 900 per tonne, production again picked up exceeding 38 lakh tonnes in 1997-98 and 1998-99 after which it again declined to about 22.67 lakh tonnes in 2004-05 against the installed capacity of 61.28 lakh tonnes mainly due to the continuous increase in the cost of raw materials and conversion cost and

reduction in the quantum of subsidy to Rs. 650 per tonne with little or no change in the MRP fixed by the State Governments in spite of a considerable demand for the product which has remained unsatisfied. So far, more than half the capacity has been shut down."

4.5 Further, elaborating on the need of a mechanism to address the grievances relating to SSP, the representative of FAI, deposed before the Committee during evidence as follows:-

> "The cost of SSP production is increasing. However, the subsidy which was Rs. 900/- at one time, has been reduced to Rs. 650/-. There is no mechanism to increase the subsidy when the cost of production increases………… I think there is a need to ensure availability of sulphur (raw material) which is required by the plants. A mechanism should be evolved so that the industries can be brought back."

4.6 When the Committee asked about the difficulty being faced by farmers in availing and using Single Super Phosphate (SSP), the Department of Fertilizers stated in a note:-

> "SSP is not covered under ECA and movement control of Government of India. So far as its availability is concerned, State Governments are required to tie up the arrangements with the manufacturers of these fertilizers in their States. However, some of the State Governments have represented the Department regarding the complaint of non-availability of SSP as the manufacturers, reported unviable production in the current scenario of MRP and concession."

4.7 On being asked by the Committee about the reasons for reduction in subsidy on SSP from Rs. 900 to Rs. 650 per tonne with little or no change in the MRP fixed by the State Governments, the Department of Fertilizers replied as follows:-

> "Government of India announce the indicative MRP's of DAP, MOP and complex fertilizers and pays concession on these fertilizers based on the cost price study conducted by the Tariff Commission under the Concession Scheme. In case of SSP Government pays ad-hoc concession

> and MRP is announced by the respective State Governments and varies from State to State. The concession on SSP was Rs. 900 per MT in 1999-2000. Due to increase in the indicative MRP of DAP, MOP and complex fertilizers Government reduced the ad-hoc concession on SSP in anticipation that State Governments would increase the MRP of SSP."

4.8 Further, when the Committee asked as to why the Government reduced the ad-hoc concession on SSP without ensuring State Governments, to increase the MRP, the Department of Fertilizers replied in a post-evidence note as under:-

> "The MRP of SSP is fixed by the respective State Governments. Government is playing ad-hoc concession on SSP. After the increase in MRP of DAP, it was expected that the State Governments would revise the MRP of SSP commensurately. However, State Government are free to take decision and it varies from State to State based on the overall consideration of factors affecting the cost etc."

4.9 When the Committee desired to know as to what are the compulsions that the price of SSP is being fixed by State Governments, the Department of Fertilizers stated in a post-evidence reply as follows-

> "The indicative maximum retail prices (MRPs) of decontrolled phosphatic and potassic (P&K) fertilizers were decided by the respective State Governments till 31.03.1996. Based on the recommendations of the Empowered Committee constituted by the Government, it was decided to announce the uniform indicative MRPs of DAP, MOP and complex fertilizers covered under Concession Scheme w.e.f. 01.04.1997. As such there is no compulsion, however, the announcement of MRP of SSP continued with the State Governments keeping in view the localized market of SSP."

4.10 When the Committee asked about the difficulties being faced by the Central Government in fixing the price of SSP, the Department of Fertilizers replied in a note as under:-

> "There is no difficulty, however, the MRP was being fixed by various State Governments keeping in view their local conditions since SSP was de-controlled."

4.11 Further, when the Committee pointed out that whether it is advisable to increase MRP of SSP, which is mostly used by small and marginal farmers as it will affect the viability of agriculture farming, the Department of Fertilizers submitted that MRP of SSP should be comparable with MRP of DAP.

4.12 On being enquired by the Committee as to why there is no provision of quarterly escalation/de-escalation to compensate for the variations in the cost of raw materials/intermediates for determining the rate of concession in the case of SSP, the Department of Fertilizers replied in a note as under:-

> "The P&K fertilizers were decontrolled on 25.08.1992. Subsequently, the Government introduced ad-hoc Concession Scheme from Rabi'92 and ad-hoc concessions were announced for the major P&K fertilizers including DAP and SSP. The Government based on the Tariff Commission recommendations introduced quarterly Concession Scheme for DAP, however, SSP concession rates were continued to be announced on ad-hoc basis for the entire years. In the case of DAP, the MRPs were announced by the Government of India the State Governments notify the MRP of SSP and it varies from State to State. In the absence of uniform MRP and the normative delivered cost, the concession on SSP is not calculated/updated on quarterly basis."

4.13 When the Committee asked about the constraints Government are facing in promoting the use of Single Super Phosphate (SSP), the Department of Fertilizers in a written reply, stated as under:-

> "Rock phosphate and sulphur are required for manufacturing Single Super Phosphate. The rock phosphate reserves in the country are limited and only RSMML produces rock phosphate, which are suitable for manufacturing SSP. Additional production of SSP is to be supplemented through imported rock. In the recent years, the rock phosphate prices have gone up from $36 to $75. Similarly, the sulphur prices in recent years have gone up from $40 to $100. This increase in input prices has created problems in the viability in manufacturing SSP."

4.14 On being asked whether the Department of Fertilizers (DOF) has formulated a new scheme for disbursement of concession to SSP industry, DOF stated as under:-

> "Keeping in view of the problems of SSP industry, Department of Fertilizers entrusted a cost price study of SSP to Cost Accounts Branch (CAB) of Ministry of Finance. CAB has submitted its report to DOF in May 2004.
>
> The main recommendations of CAB are:-
>
> (i) CAB has suggested a single fair delivered price of SSP.
>
> (ii) CAB also suggested a uniform Maximum Retail Price of SSP throughout the country.
>
> (iii) Price adjustment formula has been suggested based on the prices of rock phosphate (indigenous & imported) and Sulphur."

4.15 On being pointed out by the Committee that when the State Governments are not increasing subsidy on SSP, then what role has been left to the Central Government on that account, the Secretary, Department of Fertilizers, submitted before the Committee during evidence, as under:-

> "The Government of India (GOI) had taken a decision that since 1999-2000, the MRP of SSP would be determined by the State Governments. And it was not necessary that there would be a uniform price in all States. The price of SSP is different in Bihar, Maharashtra and Tamil Nadu. However, GOI, would give fixed concession of Rs. 650/- on it. Government of India is trying to increase it from Rs. 650/- but facing some difficulties. Then, we took-up this matter individually with the State Governments saying that now it was in their hands to see to it whether the prevalent price in their States was reasonable or not; or there was need to increase it……….We are persuading the States whether they could increase it or not; because SSP industry is closing. The concerned Departments of GOI are not willing to increase subsidy or concession."

4.16 In this regard, the Secretary further added:-

> "Sir, we have prepared a report. After having analysed the case of SSP, we have made a proposal which has two main things. Keeping all aspects in view, the concession on SSP should be linked to the concession on DAP, at the time of its determination. Its fixed concession has been kept at Rs. 650/-. The second aspect is that as far as practical, the State Governments should determine its price so that the farmers could get sulphur from the soil, which is ending day by day. After consideration of these two aspects, we have taken views of Agriculture and Finance Departments, which is being processed by us…….. We have to rationalize the subsidy so that the targeted group i.e., the small and marginal farmers could get its benefits."

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

4.18 The Government after examination of CAB report and the interim recommendations of Expert Group has decided to increase the ad-hoc concession of SSP from Rs. 650 per MT to Rs. 975 per MT w.e.f. 01.09.2005. The State Governments have also been requested to maintain the MRP of the SSP at the present level in their States.

CHAPTER – V

SUBSIDY/CONCESSION ON FERTILIZERS

As the maximum retail prices (MRPs) of fertilizers so notified/indicated are generally less than the cost of production and/or cost of import of fertilizers, the difference between the cost of production and/or cost of import and the MRP is paid as subsidy/ concession to the manufacturers/importers of fertilizers.

5.2 The details of subsidy/concession paid on urea and decontrolled phosphatic and potassic fertilizers since 1995-96 are as under:-

Rs. in crores

Period	**Amount of concession disbursed on decontrolled fertilizers**	**Amount of subsidy disbursed on urea**			**Total for all fertilizers**
		Indigenous Urea	**Imported Urea**	**Total for Urea**	
1995-96	500.00	4300.00	1935.00	6235.00	6735.00
1996-97	1671.77	4743.00	1163.08	5906.08	7577.85
1997-98	2596.00	6600.00	721.96	7321.96	9917.96
1998-99	3789.94	7473.00	124.22	7597.22	11387.16
1999-2000	4500.00	8670.00	74.07	8744.07	13244.07
2000-2001	4319.00	9480.00	0.98	9480.98	13799.98
2001-2002	4503.52	8257.00	47.34	8304.34	12807.86
2002-2003	3224.52	7790.00	0.00	7790.00	11014.52
2003-2004	3326.00	8521.00	0.00	8521.00	11847.00
2004-2005	5142.18	10243.15	493.1	10737.06	15879.24
2005-2006 (BE)	5200.00	10110.37	943.53	11053.90	16253.90

5.3 The steady increase in fertilizers subsidies over the years has largely been the result of increasing production/consumption and increase in the costs of inputs of indigenous fertilizers and prices of imported fertilizers from time to time. The cost of various inputs/utilities, such as coal, gas, naphtha, rock phosphate, sulphur, ammonia, phosphoric acid, electricity, etc., as also the cost of transportation went up significantly during the eighties. The gas-based fertilizer units commissioned during this period also involved higher capital investment per tonne of installed capacity, necessitating constant upward revision in the retention prices. The selling prices of fertilizers to the farmers, however, remained almost at the same level between July, 1981 and July 1991. The Government effected an increase of 30% in the issue prices of fertilizers in August, 1991 after a gap of a decade. The selling price of urea, which was reduced by 10% in August 1992, was revised upwards by 20% in June 1994 followed by another increase by 10% with effect from 21.02.1997 and 5% from February, 2002.

5.4 The current price of urea is Rs. 4830 per tonne exclusive of local levies. However, the hikes in prices of urea have not materially altered the position in terms of the absolute, as there has not been any decline in amount of annual subsidy bill, because of the steady growth in production to meet the growing demand and rise in the costs of inputs. However, due to a sharp fall in the international price of urea and also due to the considerably reduced levels of imports, there has been a decline in subsidy for imported urea from 1996-97 onwards.

5.5 When the Committee asked about the amount of subsidy lying pending with Government for settlement, the Department of Fertilizers, in a post-evidence note, replied that the following amount is pending with the Government for settlement since October, 2000:-

Year	Rs. in crore		
	Indigenous fertilizers	**Imported fertilizers**	**Total**
2000-01	34.04	6.13	40.17
2001-02	56.00	6.32	62.32
2002-03	61.76	6.87	68.63
2003-04	337.17	39.03	376.20

5.6 When the Committee asked about the reasons for delay in notification of concession rates and disbursement of subsidy to urea units and further whether inadequacy of budget provision is responsible for delay in payment of subsidy, the Department of Fertilizers replied as follows:-

> "The notifications are issued after completing the formalities in time. However, due to inadequate funds provided in the budget, there has been delay in making subsidy payments to urea units. As and when funds are received, payments to urea units are made immediately."

5.7 Further, when the Committee asked whether the present level of fertilizer subsidy is sufficient to cater to the demands and needs of the farmers, the Department of Fertilizers, in a written reply, stated as follows:-

> "There has been no increase in selling prices of fertilizers since 28.02.2002. A marginal increase in selling prices of fertilizers announced on 28.02.2003 was withdrawn w.e.f. 12.03.2003. However, there has been increase in the cost of production of fertilizers on account of increase in the prices of raw materials, inputs and intermediates used in the manufacture of fertilizers. The increase in subsidy expenditure on this account has been met by the Government by increase in the allocation of amount of subsidy/concession on fertilizers."

5.8 On being enquired by the Committee as to how to reconcile the two concerns– of making available fertilizers at affordable prices and not to increase subsidy component tremendously so as to put pressure on Government's finances, the Department of Fertilizers, in a note, replied as under:-

> "With a view to controlling the subsidy expenditure on fertilizes and at the same time ensuring to make available fertilizers to farmers at affordable prices, the Government has taken several measures in the recent past:-
>
> (i) Introduction of group based New Pricing Scheme (NPS) for urea units which aims at greater efficiency, uniformity and transparency in disbursement of subsidy to urea units and inducing urea units to take cost reduction measures on their own to be competitive.
>
> (ii) Formulation of policy for investment in new and expansion projects of urea based only on natural gas/LNG as feedstock as they are cheaper feedstock compared to naphtha/FO/LSHS.
>
> (iii) Formulation of policy for de-bottlenecking/modernization/revamp of existing urea units based only on NG/LNG.
>
> (iv) Formulation of policy for conversion of existing non-gas based urea units to NG/LNG for feedstock and fuel purposes.
>
> (v) Priority allocation of APM gas to fertilizer sector alongwith power sector.
>
> (vi) Usage of RLNG and natural gas from joint venture fields to replace the costlier feedstock naphtha which the gas based urea units were being compelled to use to make up for the shortfall in supplies of domestic natural gas."

5.9 In regard to giving fertilizer subsidy directly to the farmers, the Department of Fertilizers, in their action taken reply (6th Report) stated as under:-

> "……..payment of subsidy to farmers directly is a gigantic task and would involve huge administrative expenditure and logistics. In the present circumstances, the suggested proposal of direct subsidy to farmers is not logistically and administratively practical to implement and administer."

5.10 Further, when the Committee asked what measures the Government have taken so that small and marginal farmers could also utilize the benefit of availability of fertilizers at a controlled price through subsidy/concession, the Department of Fertilizers stated as under:-

> "With the objective of making available fertilizers at affordable prices to all farmers including small and marginal farmers of the country, urea, being the only controlled fertilizer, is sold at statutorily notified maximum retail price (MRP), and the decontrolled phosphatic and potassic fertilizers, such as DAP, MOP and NPK complexes are sold at indicative MRPs. MRP of single super phosphate is indicated by the respective State Governments. As the cost of production of fertilizers is generally more than the MRP/indicative MRPs, the benefit of subsidy/concession on fertilizers is passed on the farmers including small and marginal farmers in the form of making them available fertilizers at subsidized selling prices."

5.11 In this context, the FAI during the course of evidence, submitted before the Committee, as under:-

> "If subsidy has to be provided to farmers, you introduce a direct system or any other system, that is up to you. I am giving you an example of foodgrains wich are provided to people below poverty line (BPL) at Rs. 2/kg. The cost of procurement is much higher. What does the Government do? Government buys part of the country's production and that is being given to BPL at a lower price. It is not that the entire production is taken over by the Government. According to requirement, it is procured and provided to them. It may be possible that this policy also works in case of fertilizers. The Government may buy that much fertilizer which is required to be supplied to that section of farmers for whom it is being purchased. We should provide to whom it should be given and we should not provide to whom it should not be given. That kind of segmentation is just a suggestion for the Government to find out whether it is workable or not."

5.12 On being pointed out by the Committee as to whether it was possible for the Government to buy certain quantity of fertilizers and sell the same at lower price to small and marginal farmers and the rest of fertilizer production may be sold without subsidy and price control in the open market, the Department of Fertilizers, in a written note, stated as under:-

> "The issue of dual pricing of fertilizers with a view to making available fertilizers to small and marginal farmers at lower prices alongwith the issue of direct subsidy to farmers has been examined and it has been found that in the present circumstances, it is not administratively and logistically feasible to implement such a scheme. However, the policy for Stage-III for NPS beginning 01.04.2006 will be formulated taking into consideration the recommendations of the Working Group constituted under the chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage-I and II of NPS and to formulate a policy for Stage-III commencing from 01.04.2006."

CHAPTER – VI

FEEDSTOCK POLICY FOR FERTILIZER SECTOR

Of the three main nutrients required for various crops – nitrogen, phosphate and potash, indigenous raw materials are available largely for nitrogen. Government's policy has aimed at achieving the maximum possible degree of self-sufficiency in the production of nitrogenous fertilizers based on utilization of indigenous feedstocks. Prior to 1980, nitrogenous fertilizer plants were based mainly on naphtha as feedstock. A number of fuel oil based ammonia-urea plants were also set up during 1978 to 1982. In 1980, two coal based plants were set up for the first time in the country at Talcher (Orissa) and Ramagundam (Andhra Pradesh). With associated and free gas becoming available from offshore Bombay High and South Bassein basins, a number of gas based ammonia-urea plants have been set up since 1985. Later, however, the gas availability started declining particularly in relation to the increased demand. In view of the limitations on availability of gas, a number of urea expansion projects were taken up during 1990s with naphtha as feedstock with the flexibility for switching over to gas as and when it becomes available.

6.2 At present, natural gas based plants account for nearly 63.31%of urea capacity, naphtha is used for 26% urea production and the balance 10.59% capacity is based on fuel oil and LSHS as feedstock. The two coal based plants at

Ramagundam and Talcher were closed down due to technological obsolescence and non-viability.

6.3 Natural Gas has been the preferred feedstock for the manufacture of urea over other feedstocks viz. naphtha and FO/LSHS, firstly, because it is clean and efficient source of energy and secondly, it is cost effective and internationally competitive in terms of manufacturing cost of urea. However, pricing of feedstock also becomes a very important factor in the production of urea due to the fact that the cost of feedstock constitutes about 60 to 75% of the total cost of production of urea. In respect of gas based units, cost of feedstock accounts for 60% of cost of production, whereas for naphtha based and FO/LSHS based units, it accounts for about 75% of the cost of production.

6.4 The weighted average gross concession rates (inclusive of the retail price) for urea producing units in different feedstock and vintage based groups, based on latest notified rates, are as follows:-

Sl. No.	Name of the Group	Weighted average gross concession rates as on 31.12.2004 (Rs./MT)
1	Pre-1992 gas	5680
2	Post-1992 gas	7784
3	Pre-1992 naphtha	16127
4	Post-1992 Naphtha	15723
5	FO/LSHS	11430
6	Mixed Energy	9272
Total weighted average		**9738**

6.5 A pricing policy has also been unveiled in January 2004 for setting up new urea projects and expansion of existing urea projects for augmenting the domestic production capacity of urea to meet the growing demand for enhancing the agricultural production in the country. The new/expansion projects will be based only on natural gas/LNG as feedstock, which is the most cost effective and least polluting feedstock in the fertilizer sector today.

6.6 Further, recognizing the need for policy for treatment of additional urea capacity arising from de-bottlenecking/revamp/modernization of existing urea units, the Government have announced a policy for this purpose in January 2004. Realising the efficiency and environment friendliness of natural gas, de-bottlencking/revamp/modernization will be allowed only if the additional production comes from using the natural gas/LNG as feedstock.

6.7 Some of the fertilizer companies using costlier feedstock have been rendered un-remunerative in the changed scenario. The plants based on naphtha/FO/LSHS are less energy efficient and have a higher production cost. Realising this, a policy for switchover of the existing naphtha/FO/LSHS based urea units to natural gas/LNG as feedstock has been formulated recently. The policy encourages an early conversion to natural gas/LNG so that they acquire a competitive edge in the deregulated and liberalized economic scenario.

6.8 Based on the recommendations of the Strategic Planning Group, Government dismantled the Administrative Price Mechanism (APM) with effect from 01.04.1998, in respect of a few petroleum products that included naphtha, FO and LSHS. The pricing of these products at the refinery gate level was then moved towards import parity. After 01.04.1998, oil companies are free to determine the sale prices of naphtha and FO/LSHS based on the import parity price mechanism.

6.9 The Expenditure Reforms Commission (ERC) in its report submitted to the Government on 'Rationalising Fertilizer Subsidy' observed that domestic oil industry has been charging excess amount from fertilizer industry for domestic supplies of naphtha and FO/LSHS, as compared to the import parity price for these products. Consequent to the aforesaid observations made by the ERC, a detailed study was conducted by the Cost Accounts Branch of the Department of Expenditure, Ministry of Finance, wherein a detailed examination of the existing methodology followed by the domestic oil companies was done and a revised methodology based on pricing principles of import parity was put in place w.e.f. 09.07.2001. It remained in existence upto 31.03.2002. The Ministry of Petroleum & Natural Gas (P&NG) informed in March 2002 that post APM, Government will not intervene in fixing the price of naphtha/FO/LSHS from 01.04.2002 and fertilizer units were asked to deal directly with the oil companies.

6.10 Although natural gas is the preferred feedstock for production of urea, but due to the dwindling supplies of natural gas, even the gas based units have been forced to partially use naphtha for feedstock. As per the information made available by the Department of Fertilizers, current availability of NG/LNG is only 93 million metric standard cubic metre per day (MMSCMD). As per the projections of the Ministry of Petroleum & Natural Gas, production of ONGC and OIL's gas is expected to go down from the current level of around 55 MMSCMD to about 38 MMSCMD, by the year 2010-11, whereas the production of JVs/Private players will increase from the present level of around 20 MMSCMD to about 67 MMSCMD during the same period. Further, the supply of LNG from suppliers such as Qatar, Shell and Iran will increase from the present 18 MMSCMD to 52.66 MMSCMD by 2010-11.

6.11 As per the Hydrocarbon Vision-2025 document, the demand for natural gas has been projected as under:-

Year	Demand (MMSCMD)
2006-07	231
2011-12	313
2024-25	391

6.12 However, as per the projections of the Working Group on Petroleum & Natural Gas for the 10th Five Year Plan, the demand projected is as follows:-

Year	Demand (MMSCMD)
2003-04	155
2004-05	176
2005-06	179
2006-07	179

6.13 As regards the demand and supply of natural gas to fertilizer units, the Department of Fertilizers in their presentation during the evidence informed the Committee that the shortage of Natural Gas to existing gas based units during 2003-04 was is as under:-

Total requirement of existing gas based units	**Actual supply during 2003-04**	**Shortfall**	**Percentage of shortfall**
33.32 MMSCMD	22.13 MMSCMD	11.19 MMSCMD	33.6

6.14 The Department of Fertilizers has also informed the Committee that in the wake of recently formulated policies for setting up of new and expansion of urea units and switch over of non-gas based units to NG/LNG, the fertilizer industry has estimated that the total requirement of NG/LNG will increase to 68 MMSCMD.

6.15 On the issue of availability of natural gas, the Fertilizer Association of India (FAI), in a written submission to the Committee, has stated as under:-

> "India has 21 million tonnes of urea producing capacity. About 67% of this capacity is located along gas supply pipelines. The remaining capacity is based purely on naphtha or fuel oil. The gas based urea plants received less than 70% of their gas requirement during 2004-05. The deficit was made up with naphtha which is 3 times costlier than natural gas.
>
> During the current year, the supply of ONGC gas has been reduced to less than 50% of the requirement. About 25% will be met by regassified LNG which is imported and the remaining 25% by gas supplied by private producers and/or naphtha. LNG is available only to the plants located in Gujarat and those along the HVJ pipeline. Units like RCF, Thal and NFCL, Kakindada do not get any LNG due to location. Therefore, though use of naphtha will be reduced during 2005-06, more expensive domestic gas and LNG (compared to ONGC gas) have been thrust upon the fertilizers units. Initially, all gas based fertilizer units were allocated natural gas from the ONGC's production. As far as possible, these units should get their full requirement of gas from the ONGC which is sold under an administered price mechanism (APM). The increased cost of gas supplied by private producers/importers of LNG translates into higher subsidies since the MRP for urea remains unchanged."

6.16 In regard to switchover of non gas plants to gas, the FAI has stated, in a written note as under:-

> "Change of feedstock in naphtha based plants can be carried out within a short time and with a relatively small investment. Fuel oil based plants would require a large investment and a longer period to carry out the modifications. If all the naphtha based units could switch the feedstock to gas, there would be a saving in the annual subsidy for urea of the order of Rs. 2800 crore at the prevailing price of naphtha and the market determined price of gas of about US $ 5.00 per million BTU. Therefore, measures need to be taken to supply natural gas to all naphtha based plants at the earliest possible so that urea would be produced by these units at a much lower cost. This in turn would reduce the subsidy paid by the Government."

6.17 On the aspect of pricing of gas, the FAI has further informed the Committee, as under:-

> "Natural gas from ONGC is being supplied at about US $ 2.00 per million BTU to the plants at the landfall point like Hazira, and US$2.80 per million BTU for plants located along the HVJ pipeline under the administered price mechanism (APM). But the quantity available of this gas meets less than 50% of the total requirement of the gas based plants it services. The balance 50% is being met by other sources. Domestic gas supplied by private producers has been priced at US$ 3.80 per million BTU only for the current year (2005-06) and it is apprehended it will be increased in April 2006. Re-gassified LNG is priced at about US $ 5.00 per million BTU. If the gas based urea plants are supplied 100% of their requirements from ONGC under APM, there could be a saving of about Rs. 1800 crore annually.
>
> That gas prices are inflated is borne out by the fact that the Tariff Commission in its interim report on gas pricing has recommended almost a 50% reduction in gas transportation cost imposed by GAIL along the HVJ pipeline."

6.18 When the Committee desired to know about the steps taken by the Government to provide gas to fertilizer units in adequate quantity, the Department of Fertilizers replied in a written note as under:-

> "It had taken up the matter with the Ministry of Petroleum & Natural Gas for making priority allocation of domestic natural gas to fertilizer sector. Further, the Department has given no objection to urea units to enter into agreements with LNG suppliers for supply of R-LNG to make for the shortfall of the domestic natural gas and also enter into agreements with GAIL (India) Limited for procurement of natural gas from joint venture fields."

6.19 Elaborating it further, the Department of Fertilizes stated:-

> "After consideration of the recommendations of the Group of Ministers (GOM) constituted to examine the Ministry of Petroleum & Natural Gas's proposals on 'Revision of natural gas allocation and prices', the Government have approved the following proposals:-
>
> (i) Determination of producer price for ONGC and OIL will be referred to Tariff Commission. Tariff Commission will submit its report within six months. The issue of the transportation tariff for the HBJ and Dahej-Vijaypur Pipeline (DVPL) is already under reference to Tariff Commission.
>
> (ii) Till the Tariff Commission submits its recommendations and a decision is taken thereon, the consumer price of APM has been increased from Rs. 2850/MCM to a fixed price of Rs. 3200/MCM on an ad-hoc basis.
>
> (iii) The price of gas for NE region has been pegged at 60% of the revised price for general consumers. Thus, the consumer price for the NE region has been increased from Rs. 1700 to Rs. 1920/MCM.
>
> (iv) ONGC will not subsidize JV gas, which may be sold at market price in terms of the respective Production Sharing Contracts (PSCs). However, for the current year, for the existing supplies through the network of GAIL, a cap of R-LNG price of US $ 3.86/MMBTU at landfall point will be enforced.

(v) All available APM gas from ONGC and OIL would be supplied to only the power and fertilizer sectors against their existing allocations after meeting the requirements of specific end users committed under court orders. The private units and public sector units in the fertilizer sector will be treated at par in matters of gas supplies and pricing.

(vi) The Tariff Commission would also be looking into determination of pricing of any additional gas as well as future production of gas from new fields to be developed in future by ONGC/OIL."

6.20 It was informed by the Department of Fertilizers that the Petronet LNG Limited (PLL) and GAIL have offered to supply LNG to urea companies at the delivered price of US $ 4.87/MMBTU within Gujarat on NCV basis inclusive of all taxes and duties and US $ 4.88/MMBTU outside Gujarat. The Department of Fertilizers and the fertilizer industry feels that the price being quoted is very high as the fertilizer industry cannot afford this high price. It can remain viable with imported urea if LNG is made available at a price not more than US $ 3.0-3.5/MMBTU.

6.21 The Committee were also informed by the Department of Fertilizers that as the differences between PLL/GAIL and the fertilizer industry over pricing and other clauses of the Gas Sale Agreements for supply of LNG to urea companies could not be resolved, the Cabinet Secretariat, with the approval of Prime Minister constituted an Inter-Ministerial Group (IMG) under the Chairmanship of Finance Minister to examine issues regarding preferential allocation of domestic natural gas to fertilizer industry and making available imported LNG to fertilizer units, its pricing and the related taxation issues. First meeting of IMG was held on 21.07.2004. Based on decisions taken in the first meeting of IMG, the issue of reasonableness of pricing of various components of RLNG being marketed by PLL (post FOB price) has been referred to the Tariff Commission.

6.22 On being enquired by the Committee about finalization of Reports of the Tariff Commission and the Inter-Ministerial Group (IMG), the Department of Fertilizers, in a written reply, stated as under:-

> "Tariff Commission has submitted interim report on 'Pricing of Cost Components of LNG Import & Regasification and Transportation Tariff of NG/R-LNG'. Ministry of P&NG has raised certain observations with regard to recommendations made by the Tariff Commission in its interim report and requested for the consideration of those points before submitting the final report. Ministry of P&NG has also requested the Tariff Commission to wait till a full time Chairman joined the Commission. The Department of Fertilizers has requested the Tariff Commission to submit the final report expeditiously as full time Chairman has also recently been appointed now so that second meeting of the IMG could be convened to deliberate further on the task assigned to it."

6.23 In a subsequent note, the Department of Fertilizers informed (December, 2005) that the Tariff Commission has submitted its final report on 20.10.2005, which is under examination by the Department.

6.24 The Department of Fertilizers, in a written note, informed the Committee that for exploring the possibility of importing LNG by fertilizer industry on its own at competitive prices, the Department of Fertilizers constituted a Core Group on 30.07.2004 under the Chairmanship of Director General, Fertilizer Association of India with representatives from urea companies, Department of Fertilizers, Ministry of Petroleum & Natural Gas and Ministry of Shipping. The Core Group was assigned the task of exploring the options of delivery of LNG through direct import by the fertilizer industry by forming a consortium as against the purchase of LNG from suppliers at the presently quoted prices, creation of its own infrastructure vis-à-vis utilizing the existing infrastructure of PLL and GAIL on hire/rent basis; means of ownership and financing of the proposed LNG project of the fertilizer industry; negotiations with other LNG suppliers if the LNG procured by fertilizer industry is not adequate; and any other options which, in the opinion of the Core Group, can be feasible.

6.25 Regarding latest position about the Core Group, the Department of Fertilizers informed as under:-

> "The Core Group constituted under the Chairmanship of Director General, Fertilizer Association of India for procurement of committed supply of LNG by fertilizer industry had submitted its report in March 2005. The Core Group has concluded that additional quantities of RLNG can now be available only after commissioning of RLNG terminal of Shell at Hazira and expansion of PLL's terminal at Dahej. The Core Group has further opined that it may not be possible at this stage for the present Core Group or any other Group of fertilizer companies to obtain firm commitments for LNG supplies at various locations. Core Group has, however, recommended that individual companies may continue to make their own arrangements for their requirement of NG/LNG as and when supplies are available at desired locations and GOI should continue to intervene in allocation and price of NG/LNG till a regulator for the sector is established."

6.26 The Department of Fertilizers has further informed, in a note that seven urea units have entered into agreement with LNG suppliers for supply of R-LNG to make for the shortfall of the domestic natural gas.

6.27 In this connection, the Secretary, Department of Fertilizers, during the course of evidence, submitted before the Committee as under:-

> "Another alternative has been circulated by the Ministry of Petroleum & Natural Gas that there is hope of getting natural gas from some joint ventures. It is from Rajasthan, Krishna-Godavari Basin and some other

places also. For this, market price will have to be paid. We are trying that whatever ONGC's commitment for fertilizer industry is there, that should be delivered on earlier price. We are trying to extract some concession for this quantity."

6.28 Emphasizing the need for establishment of an independent Regulator for energy sources like petroleum products, Natural Gas, Coal, etc. the Fertilizer Association of India submitted before the Committee:-

"There is a strong need for transparency in the pricing of hydrocarbons. For this the hydrocarbon sector should be deregulated and brought under the ambit of an independent regulator. The GOI has introduced a Petroleum Regulatory Bill in 2002 in Parliament. In its submission to the Government, the FAI had suggested the need for covering issues related to the pricing of petroleum products, a common carrier principle for transportation, storage and handling and dispute redressal mechanism. The Regulator should have the power to fix the prices of the hydrocarbons in a transparent manner on the principle of cost of goods and services. The principle applies equally to the supply of coal to the units which use this cheap indigenous fuel for the generation of steam and power. It is indeed a tragedy that a country so well endowed with coal should have to import coal and LNG for generating power.

Considering the fact that fertilizers should be provided to the farmers at affordable prices, the GOI should have the enabling mechanism to fix the prices of feedstock for the fertilizer industry even in a decontrolled scenario for hydrocarbon and the fertilizer sectors. It sufficient domestic natural gas is supplied at a reasonable price under APM, the Indian Fertilizer Industry is capable of supplying urea at prices much lower than imported urea and insulate Indian agriculture from the volatile international (urea) market."

6.29 Asked about the views of the Government about the need for a Regulatory Authority, as suggested by FAI, the Department of Fertilizers stated, in a note:-

"Recognizing the need of an independent regulator in the wake of de-regulation of the hydro-carbon sector, the Ministry of Petroleum & Natural Gas has initiated steps for setting up of Petroleum & Natural Gas Regulatory Board (PNGRB). The Department of Fertilizers is of the opinion that the Board should have the powers not only to monitor the prices of the products, but also fix and regulate prices and take corrective measures to prevent monopolistic trade practices and ensure transparency and fair play in fixation of prices of petroleum products as well as transportation tariff."

6.30 When the Committee enquired from the Ministry of Petroleum & Natural Gas whether the hydrocarbon sector should be deregulated and brought under the ambit of an independent regulator and if so, the steps taken in that direction, the Ministry, in a written note, replied as follows:-

> "Pursuant to the decision of the Government to deregulate the hydrocarbon sector w.e.f. April 2002 in a phased manner, most of the hydrocarbon sector has been deregulated. To ensure healthy competition as well as to protect the consumer interest, the Government has decided to set up a Petroleum & Natural Gas Regulatory Board, which will be an independent Regulatory body. This body will basically regulate the downstream petroleum and natural gas sectors. So far as the upstream petroleum sector is concerned, the Government does not envisage a need for a statutory Regulator because the upstream sector is basically guided by the Exploration Licensing Policy and upstream legislations. For the blocks awarded under the Exploration Licensing Policy, Government enters into Production Sharing Contracts (PSC) with the party/parties awarded the block. Exploration & production operation, obligations of operators etc., as well as pricing issues are governed in terms of the respective PSCs as well as upstream laws."

6.31 On being further enquired by the Committee about the action taken by the Government to bring transparency in the pricing of hydrocarbons, the Ministry of Petroleum & Natural Gas replied as under:-

> "In April 2002, with the declared intention of moving towards market-determined pricing for petroleum products, the Government announced the dismantling of the Administered Pricing Mechanism (APM). Nevertheless, the prices of PDS kerosene and domestic LPG continued to be decided by the Government as these are subsidized products. Since the end of 2003, there has been an unprecedented, sharp and spiraling increase in international oil prices combined with considerable week to week and even day to day volatility. Government, therefore, froze the prices of PDS kerosene and began modulating the prices of petrol and diesel also in addition to that of domestic LPG.

Since June 2004, the Government elucidated the principles which would govern its policy of containing the burden of increase in international prices on consumers of sensitive petroleum products. It was decided that the burden should be equitably shared by consumers, the Government and the oil companies. Therefore, the full impact of the international price increase has not been passed on to consumers of sensitive products. In August, 2004 the Government made yet another attempt to move towards market determined pricing by introducing a price band mechanism under which the OMCs were allowed to revise prices of MS/HSD within a band of +/- 10% of the mean of rolling average prices of last 12 months and last quarter. However, the steep and unprecedented rise in prices resulted in breach of the price band within weeks of introduction and the Government was forced to keep the mechanism under abeyance.

The periodic price revisions of sensitive petroleum products like petrol, diesel, PDS SKO and domestic LPG effected were on account of the steep increase in international prices coupled with the periodical changes in tax structure based on the Government policy. The Government pricing policy has attempted to strike the right balance between the interests of the stake-holders, namely, the consumers, OMCs and the Government. As 76% of the crude requirements are met by imports, the pricing mechanism would need to be responsive to the volatilities of the international market, while seeking the optimal balance of interests.

Government is constantly monitoring the price situation with a view to implementing the appropriate remedial options including making the pricing of petroleum products transparent."

6.32 Asked about the present status of Petroleum Regulatory Bill 2002, the Ministry of Petroleum & Natural Gas, in a written note, informed as follows:-

"The Petroleum Regulatory Board Bill, 2002 introduced in 13th Lok Sabha was lapsed on account of dissolution of the House as it was not passed by it. A fresh draft of Petroleum & Natural Gas Regulatory Board Bill (PNGRB) was prepared for consideration of the Cabinet. The Cabinet in its meeting held on 24th November, 2004 had directed that the matter may be examined by Group of Ministers (GOM) in the first instance. The present status of proposed Bill is as under:-

The GOM in its meeting on 25th January 2005 deliberated on various issues linked to the establishment of PNGRB and GOM recommended that a Committee of Secretaries of the concerned departments should examine the issues on which there were divergent opinions and their recommendation be brought before the GOM.

Accordingly, the Committee of Secretaries (COS) considered the matter in its meetings of 4th and 15th March 2005 and made appropriate recommendations. Before we could approach the GOM, it was felt that the draft bill considered by the COS in the meetings held in March 2005 needed certain modifications. The matter was again placed before the COS with proposed modifications in its meeting on 15th July, 2005.

The COS, in its meeting of 15th July 2005, while making appropriate recommendations, recommended that the proposed amendments in the draft bill should be examined by the Ministry of Law before the proposal is placed before the GOM/Cabinet. A draft bill incorporating the recommendations of COS was prepared and sent to Ministry of Law on 27th July 2005 for vetting. However, the matter is still pending with them, presumably due to work load on account of various other important bills. As soon as the draft bill vetted from the Ministry of Law is received, the GOM will be approached as decided in the COS meeting of 15th July, 2005. The Ministry of Law has been requested at the level of Secretary (P&NG) to expedite the vetting of the draft bill."

6.33 Regarding the latest position in the matter, the Department of Fertilizers informed (December, 2005) as under:-

"The Group of Ministers deliberated further in its meeting held on 04.11.2005. GOM has asked the Ministry of Petroleum & Natural Gas to place the matter before the Cabinet after revising the draft Bill incorporating the modifications in consultation with the Ministry of Law and in line with the deliberations held in the meeting of GOM on 04.11.2005."

CHAPTER – VII

DE-BOTTLENECKING/REVAMP/MODERNIZATION OF EXISTING UREA UNITS

The Department of Fertilizers, in a written note, informed the Committee that having realized the efficiency and environment friendliness of natural gas the Government have announced a policy for de-bottlenecking/revamp/modernization of fertilizer units. The salient features of this policy notified on 29.01.2004 are as follows:-

(a) The de-bottlenecking/revamp/modernization of the plant should result in not less than 10% increase in the existing urea production capacity.

(b) This revised notified capacity, however, will not be used to revise the existing relevant group concession rate as determined under the New Pricing Scheme (NPS) for urea units.

(c) The company will be required to obtain prior permission of the Department of Fertilizers (DOF) before embarking upon any de-bottlenecking/revamp/modernization of its urea plant(s).

(d) The de-bottlenecking/revamp/modernization should lead to increase in production entirely based on Natural Gas (NG)/Liquefied Natural Gas (LNG) only as fuel and feedstock and no increase in production capacity based on any other costlier feedstock/fuel will be allowed. No feedstock/fuel substitution will be allowed for the enhanced production capacity.

(e) For the companies obtaining permission for enhancement in capacity by way of de-bottlenecking/revamp/modernization, the entire production available from the existing production capacity along with the enhanced capacity on account of de-bottlenecking/ revamp/modernization will be considered based on natural gas/LNG in the event of NG/LNG becoming available for the entire urea production.

(f) The gas based plants presently also utilizing costlier substitute feedstock/fuel due to inadequate availability of gas may be permitted to undertake de-bottlenecking/revamp/modernization subject to the condition that the aggregate quantity of costlier feedstock/fuel shall not increase beyond the level recognized by FICC as on 01.04.2003. This permission will be for a specified period to be determined by DOF at the time of granting approval.

(g) The units undertaking de-bottlenecking/revamp/modernization will be allowed to retain any energy efficiency gain therefrom and it will not be mopped up for any revision in the pre-set energy norms already notified under NPS. The specific energy consumption will not be compensated in excess of the pre-set energy norms for Stage-II of NPS.

(h) The additional urea capacity, created by de-bottlenecking/revamp/ modernization shall be used for sale for agricultural purposes within the country. The units may also export or sell to complex manufacturers or for any other industrial use with the prior permission of DOF. However, concession will be admissible only for direct sale of urea for agricultural purposes.

(i) The Government reserves the right to mop up this additional production under the Essential Commodities Act, 1955 (ECA) allocation, where exigencies on the demand and supply situation so warrant.

(j) As de-bottlenecking/revamp/modernization concerns the existing urea plants which are already getting concession based on group concession rates under NPS w.e.f. 01.04.2003, the plants obtaining permission for de-bottlenecking/revamp/modernization will be given their existing concession rates with a provision for escalation/de-escalation on account of changes in the prices of feedstock/fuel. No compensation will be given for any other components such as capital related charges (CRC), conversion cost etc. including additional investment made for such de-bottlenecking/revamp/modernization.

7.2 When the Committee asked about the number of units that have undergone de-bottlenecking/revamp/modernization and the number which are still pending with the Government, the Ministry, in their written reply, stated that no revamp, modernization and de-bottlenecking of urea unit have taken place during the last two years. However, revamp of units of Brahmaputra Valley Fertilizer

Corporation Limited (BVFCL) which commenced on 02.11.1998 is under implementation.

7.3 When the Committee desired to know as to whether there was any expansion plan for two units of Rastriya Chemicals & Fertilizers Limited (RCF) in Maharashtra, the Secretary, Department of Fertilizers, deposed during evidence, as under:-

> "Thal-III is a big project for expansion of RCF. This project is under process and it will take some time. Actually its present estimated cost is Rs. 1840 crore and its annual production would be 10 lakh MT urea. However, it will take sometime as the project is being made. Its problem is of availability of gas. RCF-Trombay's urea unit is closed because the gas is unavailable for it."

7.4 On being pointed out by the Committee that a number of proposals were under consideration and what were the reasons for delay in approving these proposals, the Secretary, Department of Fertilizers, submitted to the Committee:-

> "There are seven projects from four manufacturing units for de-bottlenecking, that means they want to add additional capacity by investing money. The proposals are there in the Department. We hope to get them through very fast. Of course, we are very sorry that it has taken some time, which is not desirable but now these proposals will get through."

7.5 The Committee were informed, in a written note, that the details of proposals for de-bottlenecking of urea plants submitted to the Department of Fertilizers are as under:-

Sl. No.	Name of the PSU/Cooperative	Proposed location	Estimated Capital Cost (Rs. Crore)	Production envisaged		Year of additional urea availability
				Product	Capacity (lakh MTPA)	
1	IGFL, Jagdishpur (De-bottlenecking)	Jagdishpur, (UP)	157.43	Urea	2.442	2006-07
2	TCL, Babrala (De-bottlenecking)	Babrala, (UP)	140	Urea	2.90	2005-06
3	IFFCO (De-bottlenecking projects)	Aonla-I Aonla-II Phulpur-I Phulpur-II (UP)	110.15 107.45 147.66 115.43 480.69	Urea	1.353 1.254 1.254 1.254 5.115	Not available
4	CFCL (De-bottlenecking project)	Gadepan II	310.03	Urea	2.244	

The above proposals are under consideration of the Government.

7.6 The Committee noticed that no revamp, modernization and de-bottlenecking of urea units had taken place during the last two years and wanted to know when the proposals were submitted, the Department of Fertilizers, in a post-evidence reply, stated the dates of receipt of proposals of de-bottlenecking as under:-

Sl. No.	Name of the PSU/Coop.	Date of receipt of proposal
1	TCL, Babrala (De-bottlenecking)	17.02.2004
2	IGFL, Jagdispur (De-bottlenecking)	24.08.2004
3	IFFCO (4 De-bottlenecking Projects)	27.09.2004
4.	CFCL (De-bottlenecking Projects)	13.04.2005

7.6 On being asked by the Committee about the reasons for inordinate delay in giving clearance to these proposals, the Department of Fertilizers, in a written reply after evidence, stated as under:-

> "As these de-bottlenecking projects have to be based on Natural Gas/Liquefied Natural Gas, being the most efficient feedstock, and as the sale of urea for agricultural purposes from these proposed projects will involve outgo of subsidy on Government account, detailed scrutiny of these proposals is being carried out."

CHAPTER – VIII

JOINT VENTURE PROJECTS IN FERTILIZER SECTOR

Due to constraints in the availability of gas, which is the preferred feedstock for production of nitrogenous fertilizers and the near total dependence of the country on imported raw materials for production of phosphatic fertilizers, the Government has been encouraging Indian companies to establish joint venture production facilities with buy back arrangement, in other countries, which have rich reserves of natural gas and rock phosphate.

8.2 Asked about the details of the existing joint ventures in the fertilizer sector, the Department of Fertilizers furnished the following information:-

> "The Government of India (GOI), Indian Farmers Fertilizer Cooperative Limited (IFFCO) and Southern Petrochemical Industries Corporation Limited (SPIC) are equity partners in a joint venture company set up in Senegal. The initial equity contribution of the Indian consortium in the venture in 1980 amounted to Rs. 13.67 crore, i.e. about 18.20% of its total equity. At present the Indian sponsors together hold 27.27% equity (GOI-7.70%, IFFCO-18.35% and SPIC-1.22%) in the Joint Venture company in Senegal named Industries Chimiques du Senegal (ICS). The company, produces phosphoric acid and finished phosphate fertilizers in its plants in Senegal. The phosphoric acid produced in the plant is being utilized for production of phosphate fertilizers in the country through buy back arrangements by IFFCO. ICS implemented a project for doubling the production capacity of its phosphoric acid plants and development of new rock phosphates mines at cost of about US $ 250 million, which has been commissioned in February 2002. The phosphoric acid production capacity of the plant has thus increased to 6.60 lakh tonnes per annum. A major portion of the phosphoric acid produced by ICS is sold to IFFCO.

SPIC, Jordan Phosphates Mines Company Limited (JPMC) and Arab Investment Company (AIC) have set up a joint venture project in Jordan to produce 2.24 lakh tonnes of phosphoric acid per annum. 52.17% of the equity of the joint venture named Indo Jordan Chemicals Company Limited is held by SPIC, 34.86% by JPMC and 12.97% by AIC. The plant had been commissioned in May 1997. The phosphoric acid produced by this venture is imported by SPIC.

A joint venture Indo Moroc Phosphore SA (IMACID) between Office Cherifien Des Phosphates (OCP), Morocco and Chambal Fertilizers & Chemicals Ltd. (CFCL) to produce 3.30 lakh tonnes per annum of phosphoric acid at a total cost of US $ 205 million had been commissioned in Morocco in October 1999. After completion of first phase of revamp/de-bottlenecking project during 2004, the capacity has increased to 3.65 lakh metric tonnes per annum. The equity of US $ 65 million in the venture is held by OCP and CFCL equally. Subsequently in May 2005, both OCP and CFCL have sold one fourth of their equity stake in IMACID to Tata Chemicals Limited India to induct it as third equal joint venture partner.

The joint ventures already established have given the Indian sponsors an assured source of supply of phosphoric acid, the vital input for manufacture of DAP and other phosphate and complex fertilizers.

Overseas joint ventures under implementation/consideration:

IFFCO & KRIBHCO along with Oman Oil company have set up a joint venture urea project in Oman, for production of 16.52 LMT of urea and 2.48 LMT of ammonia per annum. Oman India Fertilizer Company (OMIFCO), the joint venture company, is supposed to sell urea produced to Government of India at fixed Long Term Prices, for a period of 15 years and ammonia to IFFCO for 10 years at a fixed price. The implementation of this project has commenced on 15.8.2002 and as on 14th May, 2005, the project has achieved overall cumulative progress of 99.58%. The first trial run of ammonia was produced on 14.05.2005, the first trial run of urea was produced on 28.05.2005. OMIFCO's equity of US $ 320 million is held by the Oman Oil company (50%) and Indian Sponsors, IFFCO & KRIBHCO equally (25% each).

SPIC is setting up a gas-based nitrogenous fertilizer plant at Dubai in United Arab Emirates to produce 4.00 lakh tonnes of urea per annum at an estimated cost of US$170 million. The joint venture company by the name SPIC Fertilizers and Chemicals Limited, incorporated in Mauritius, is promoted by SPIC with equity participation of US$ 22.64 million and Emirates Trading Agency of UAE with equity participation of US$ 6.4 million. The project is under implementation and is expected to be commissioned during the second quarter of 2007 and urea produced is proposed to be imported by SPIC through a firm buy back arrangement."

8.3 The Department of Fertilizers had constituted an inter-Ministerial Task Force under the Chairmanship of Secretary (Fertilizers) to finalize a long-term policy for setting up fertilizer joint ventures. Based on their study of the subject, the Task Force has made following main recommendations:

(i) The Government should encourage a judicious mix of build up of fertilizer production capacity through domestic projects and setting up of joint ventures abroad. For overseas joint ventures the Government must facilitate efforts of Indian fertilizer industry by suitable policy interventions including fiscal, marketing and diplomatic support as below and provide a similar if not better environment for domestic projects.

(ii) Government should take active steps to attract investment by International financial institutions like the International Finance Corporation (IFC) in the Indian fertilizer joint ventures abroad. Indian financial institutions and export credit agencies should also be encouraged to participate in lending for overseas joint ventures in the fertilizer sector, to strengthen Indian sponsors' bargaining position with the overseas lenders and export credit agencies. Policy environment should facilitate Indian Financial Institutions extending attractive/sustainable rates of interest for Indian fertilizer companies promoting joint ventures abroad.

(iii) Attractive fiscal, including tax, concessions for specified periods should be extended by the Government for the investments made as well as the dividends received by Indian Fertilizer companies from their joint ventures abroad. This should be specifically allowed/provided when the host country does not have any double taxation treaty with India and it proposes to allow tax free environment to Indian investors to set up fertilizer projects in their countries.

(iv) Preference for direct purchases by Indian sponsors from joint ventures/subsidiaries and permission to sell the imported material in the brand of Indian fertilizer companies could be allowed by the Government subject to its commitments in the WTO. Such purchases or imports should also continue to get due concessions/subsidy from the Government directly as per then prevailing subsidy regime. To facilitate this there may be need to de-canalise imports of urea from such ventures in the coming years.

(v) The Government should act as a facilitator for overseas investment by Indian entrepreneurs rather than participating or committing to any long-term buyback arrangements for finished products from such joint ventures. This is more so since imports on Government account in such manner cannot be for unlimited quantities without considering issues such as decontrol, free import/export, demand-supply gap etc. of fertilizers.

(vi) Government should actively involve itself in enabling Indian sponsors of overseas joint venture fertilizer companies to get required raw material/feed stock allocations and other fiscal concessions from the host countries on priority through bilateral governmental negotiations.

8.4 When the Committee asked what fiscal and marketing support Government proposes to provide to the Indian Fertilizer Industry for setting up of Joint Ventures abroad, the Department of Fertilizers, in a written reply, stated as under:-

> "The Government is considering taking policy initiatives to encourage the setting up of joint ventures abroad by fertilizer companies particularly in countries where the long-term regular supply of feedstock is assured at reasonable and competitive rates."

PART II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Fertilizers play an important role in increasing the agricultural production. Till the early 1970's, fertilizer consumption was quite low and consequently the foodgrains production too was low. There used to be a huge foreign exchange outgo on account of imports of foodgrains. In the wake of the green revolution in the 1970s, there has been a quantum increase in fertilizer consumption. The production of foodgrains has increased from 52 million metric tonnes (MT) in 1951-52 to 232.31 MT in 2004-05. Fertilizer consumption has increased from about 1 kg. per hectare to about 96.7 kg. per hectare during the same period. During this period, over 50 fertilizer production units have come up in private, public and cooperative sectors.

(Recommendation Sl. No. 1)

2. Out of the three main nutrients namely nitrogen (N), phosphate (P) and potash (K), raw materials are available indigenously for nitrogenous fertilizers and the country is in the range of self-sufficiency. In the case of phosphates, paucity of domestic raw material constrains the attainment of its self-sufficiency. Since there are no commercially exploitable source of potash in the country, the entire requirement is being met through imports. Presently, the installed capacity of production of nitrogen is about 120.61 lakh MT and that of phosphate is 56.20 lakh MT. Considering the need for making available fertilizer to the farmers at reasonable prices, from the very beginning the Government has been taking various steps in this direction. The Fertilizer Control Order first introduced in 1944, was made effective in 1957. Under this order, the Government was to fix selling price of fertilizers. The Government also retained the right to acquire certain percentage of fertilizers from the production units for distribution through Public Distribution System (PDS). Similarly, under the Essential Commodities Act (ECA), 1955, the Government has been issuing ECA allocation since 1972 to specify how much fertilizer will move to which State to fulfill the expected demand.

(Recommendation Sl. No. 2)

3. Based on the report of the Fertilizer Prices Committee, the Government introduced the Retention Price Scheme (RPS) in 1977 mainly for urea. Under RPS, the difference between retention price (cost of production as assessed by the Government plus 12% post-tax return on net worth) and the MRP was paid as subsidy to the production units. According to the Government, this system helped to increase the investment in fertilizer sector resulting in setting up of big fertilizer plants. In the context of problems of foreign exchange outgo on account of fertilizer imports, in 1991 a Joint Parliamentary Committee on Fertilizer Pricing also examined the issue. Based on the recommendations of the JPC, phosphatic and potash fertilizers were decontrolled in 1992. Also, the price of urea was increased by 30 per cent. Given the importance of fertilizers pricing and subsidy management, a High Powered Fertilizer Pricing Committee (HPC) under the Chairmanship of Prof. C.H. Hanumantha Rao examined the matter in 1997-98. Subsequently, the Expenditure Reforms Commission (ERC) also examined the fertilizer related issues. Based on its recommendations, a New Pricing Scheme (NPS) was introduced w.e.f. 01.04.2003 replacing the RPS system. NPS is being

implemented in two stages viz. Stage-I from 1.4.2003 to 31.3.2004 and Stage-II from 01.04.2004 to 31.3.2006. Under the system, existing fertilizer units have been divided into 6 groups based on vintage and feedstock for determining the group based concessions. Under this scheme phasing out of ECA allocation has been proposed.

(Recommendation Sl. No. 3)

4. For the urea policy beyond 1.4.2006, i.e. to decide about the method of fixing selling price, movement decontrol, etc., the Government constituted a Working Group under the Chairmanship of Dr. Y.K. Alagh. The Working Group was asked to review performance of Stage-I & Stage-II of NPS for urea units and formulation of policy for urea units for Stage III commencing from 1.4.2006. The Working Group further constituted six Sub-Committees with a view to examining in depth, issues like demand and supply of urea, movement and distribution of urea, subsidy given in other countries, pricing and availability of feedstock, etc. The Report of the Working Group to decide about the policy beyond 1.4.2006 is reportedly under finalization. The Committee desire that this should be expedited as there is hardly any time left for the commencement of Stage-III of NPS. The Committee would,

however, like the Government to take into consideration the following issues while finalizing the urea policy beyond 1.4.2006:-

(i) Since most of the developed/developing countries are giving direct or indirect subsidies to their farming sectors, and considering economic conditions of small and marginal farmers, growing incidence of natural calamities, farm debts, etc., it is essential that the element of subsidy/concession which is about Rs. 16000 crore per annum is not brought down. Rather, it should be periodically raised and linked with cost index.

(ii) There is Movement Control/ECA allocation for urea from the beginning and the same is being phased out gradually. The size of the country, its difficult far flung and hilly areas, extreme climates, recurrence of natural calamities, etc., call for having some control by the Government for movement/allocation of fertilizers. Accordingly, the Government should not shy away from their responsibility.

(iii) It should be ensured that with the ever growing population, the country should remain self-reliant in food-grain production, which is closely linked with fertilizer policy.

(iv) Sudden decontrol of phosphatic and potassic fertilizers showed its great adverse impact on the ideal consumption ratio of NPK in 1992. Even after more than a decade, it is yet to be achieved fully in all parts of the country. While framing future policy for any type of fertilizers, the motto of balanced use of (NPK- 4:2:1) fertilizers should not be lost sight-off.

(v) Supply of gas to fertilizer sector should continue to be given priority.

(vi) Various suggestions given by the Fertilizer Association of India (FAI) in the matter on behalf of fertilizer industry should be examined in depth for implementation.

(vii) Introduction and production of new form of soil nutrients like soluble fertilizers should be encouraged to meet the new agricultural techniques like drip irrigation, etc.

(viii) Policy should also include incentives for setting up new fertilizer plants as also to take up modernization/renovation of existing fertilizer units.

(ix) Considering the role and need of public sector in this core area future policy should take note of revival of sick fertilizer units in the Public Sector.

(Recommendation Sl. No. 4)

5. The Committee note that the grant of fertilizer subsidy is the core issue for the Government as well as farmers of the country. Presently, Budget allocation for the subsidy/ad-hoc concessions is made under the Budget of the Department of Fertilizers which is about Rs. 16000 crore annually. The Fertilizer Association of India (FAI) pleaded before the Committee that the main objective of this subsidy to provide its benefits to the poor and marginal farmers has not been achieved fully. The Committee in their earlier Reports have brought out this aspect of providing direct benefit of subsidy to poor farmers time and again. However, the response of the Department of Fertilizers has not been very encouraging. The Committee do not share the repeated contention of the Government stating that the payment of subsidy to the farmers directly is a gigantic task and it is not administratively and logistically feasible to implement such a scheme. They are of the view that the direct subsidy can be provided at least to the poor and marginal farmers by categorizing them separately from the big farmers on the lines of the scheme of providing foodgrains to people below poverty line (BPL), i.e., by purchasing fertilizers at higher cost and then supplying the same at lower rate directly to the category of poor and marginal farmers. The Committee trust that the Government would examine this suggestion at the time of finalization of policy for Stage-III of NPS commencing from 01.04.2006.

(Recommendation Sl. No. 5)

6. The Committee's examination of feedstock policy for fertilizer industry has revealed that gas feedstock is preferred over naphtha and coal on account of gas based plants being cost efficient and energy saving. For these reasons as per the Government decision taken in January, 2004, all new fertilizer plants as also the modernization/revival programmes for existing plants will be approved, only if those are gas/LNG based. Even though the Government has been giving fertilizer and power sectors priority over other sectors in terms of pricing and availability of gas, there are issues which need to be sorted out at the earliest in consultation/coordination with the Ministry of Petroleum & Natural Gas. As against the demand of the fertilizer sector for 33.32 million metric standard cubic metre per day (MMSCMD), the actual supply of gas during

2003-04 was 22.13 MMSCMD only. With the implementation of the policy decision of the Government to set up only gas based plants and to switch over the existing plants to gas, the demand of gas for fertilizer sector is likely to reach 68 MMSCMD. The Government, accordingly, should take adequate steps to allocate requisite gas supply to fertilizer plants on priority basis.

(Recommendation Sl. No. 6)

7. Apart from the availability of gas, another important area having a bearing on the health and growth of the fertilizer industry is pricing of gas for the fertilizer sector. As per the present decision, the Tariff Commission has fixed the price for gas which has been committed by ONGC and OIL (Rs. 3200/MCM). However, gas from private/joint ventures is to be obtained at market price. The FAI on behalf of the fertilizer units pleaded before the Committee that the industry can afford a gas price upto US $3.0-3.5 MMBTU whereas joint ventures/imported gas was available at the rate of US$4.5-5 and this was affecting adversely the viability of fertilizer units. The proposed Regulatory Authority for the Petroleum Sector which would sort out these matters, is yet to be established. The

Committee, therefore, would like the Government to ensure that the natural gas is supplied in requisite quantity at reasonable price to the fertilizer industry which is serving the need of agriculture sector/farming community. Needless to emphasize, the Government should initiate necessary action to set up the Petroleum Regulatory Authority at the earliest.

(Recommendation Sl. No. 7)

8. Apart from urea (N), phosphatic and potassic fertilizers play an important role in agricultural production. Raw material for the manufacture of complexes of these fertilizers are imported. Even though these fertilizers were decontrolled in 1992, some ad-hoc concessions/subsidy are being given on these fertilizers. Similarly, concession is given on sale of imported decontrolled fertilizers. Budget provision for the year 2005-06 for sale of indigenously produced decontrolled fertilizers was Rs. 4000 crore, whereas provision for concessional sale of imported decontrolled fertilizer was Rs. 1200 crore. The quantum of concession is decided by the Tariff Commission which takes into consideration issues like comparative prices of N, P & K fertilizers, customs duty, exchange rates, etc. Considering the nutrient value and

essentiality of P&K fertilizers for continuous foodgrains production and maintaining fertility of the soil, there is a compelling need to continue with the system so that costly fertilizers remain within the reach of small and marginal farmers. The Government should also help the fertilizer industry for securing long term agreements for imports of raw materials for P&K fertilizers/complexes.

(Recommendation Sl. No. 8)

9. It came out during the course of examination that manufacturers/suppliers of P&K fertilizers have certain grievances like delay in announcing the concession/prices, delay in reimbursement and non-payment of arrears, particularly for the period prior to 2000. The ad-hoc concession scheme till the year 2000 was being administered by the Ministry of Agriculture and Cooperation and thereafter it has been entrusted to the Department of Fertilizers. Reportedly, some of the records are yet to be received by the Department of Fertilizers from the Ministry of Agriculture and Cooperation. The Committee desire that the process should be expedited so that long pending dues to the industry are released by the Government at the earliest.

(Recommendation Sl. No. 9)

10. It also came out during the course of examination that the procedure for certification, disbursement of due amount, etc. differ from State to State and some of the States are having problems in running the scheme for decontrolled fertilizers effectively and efficiently. The Committee expect the Department of Fertilizers to examine the issues with a view to exploring an efficient system which should be uniformly applicable to all the States. The primary objective should be availability of fertilizers to the small and marginal farmers at the lowest possible price.

(Recommendation Sl. No. 10)

11. Regarding the announcement of the concessions on sale of P&K fertilizers, the Committee have been informed that the scheme for the year 2005-06 has already been announced and for the future policy an Expert Group has been constituted to look into the mater. The Group was to give their Report by the end of July, 2005. The Committee would like to be apprised about the recommendations of the Expert Group as also the follow-up action taken on the recommendations.

(Recommendation Sl. No. 11)

12. Yet another category of P and K fertilizers is Single Super Phosphate (SSP). SSP contains 11% sulphur and 16% phosphorous. SSP manufacturing units are spread all over the country. The Government provides fixed subsidy on SSP and the price fixation is done by the respective State Governments. MRP and price level vary from State to State. The installed capacity of the SSP fertilizer in the country is about 60 lakh MT. In pursuance of the Committee's recommendation made in their 6th Report (Fourteenth Lok Sabha), the price concession per tonne has been raised from Rs. 650 per tonne to Rs. 975 w.e.f. 01.09.2005. The Government has asked the State Governments to maintain the MRP of SSP at the present level resulting in direct additional concession to the farmers. The Committee feel that this is a good step for the benefit of the farmers at large and trust that farmers' interest would be taken care of in future as well.

(Recommendation Sl. No. 12)

13. Another area having a bearing on the fertilizer policy is the setting up of new fertilizer plants and also taking up modernization/renovation programmes of the existing plants. Building of more capacities is essential to meet the ever-

growing requirements. In the context of delay in clearing some modernization proposals of the fertilizer units like Tata Chemicals Limited (TCL), Babrala, Indo Gulf Fertilizers Limited (IGFL), Jagdishpur and Indian Farmers Fertilizers Cooperative Limited (IFFCO), the representatives of the Department of Fertilizers assured the Committee that these would be cleared soon. According to the DOF, the main reason for delay in approvals has been the long time taken in sorting out gas related issues as all new projects are to be gas based plants only. As recommended elsewhere in the Report, the Committee desire that the Department of Fertilizers should sort out this vital issue in consultation with the Ministry of Petroleum & Natural Gas.

(Recommendation Sl. No. 13)

14. The Committee are happy to note that due to constraints in the availability of gas, which is the preferred feedstock for production of nitrogenous fertilizers and the near total dependence of the country on imported raw materials for production of phosphatic fertilizers, the Government has been encouraging Indian companies to establish joint venture production facilities with buy back arrangement, in other

countries, which have rich reserves of natural gas and rock phosphate. It came out during the course of examination that a few joint venture fertilizer projects have been set up in Senegal, Jordan, Morocco and Oman. The Committee, however, find that these are mainly urea based plants. The Committee learn that by the end of the 10th Five Year Plan and thereafter, there is likely to be significant demand-supply gap for fertilizer nutrients and additional production capacity, either in India or abroad, would be required to meet this gap. In the absence of any preferred and economic alternative feedstock, the Committee, strongly recommend that the Government should take an active role in taking up joint venture projects abroad for producing phosphatic and potassic fertilizers. This step will help immensely in securing our future requirements.

(Recommendation Sl. No. 14)

New Delhi;
<u>21 December, 2005</u>
30 Agrahayana, 1927 (Saka)

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

Appendix-I

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2004-05)

EIGHTH SITTING

(25.01.2005)

The Committee sat from 1200 hrs. to 1330 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Jai Prakash
3. Shri Prahlad Joshi
4. Shri Sukhdev Singh Libra
5. Shri A.K. Moorthy
6. Shri A. Venkatarami Reddy
7. Shri T. Madhusudhan Reddy
8. Shri Narsingrao H. Suryawanshi
9. Shri V.K. Thummar

Rajya Sabha

10. Dr. Chhattrapal Singh Lodha
11. Shri Ajay Maroo
12. Shri Sanjay Rajaram Raut
13. Shri Raj Mohinder Singh
14. Shri T.R. Zeliang

Secretariat

1. Shri M. Rajagopalan Nair - *Joint Secretary*
2. Shri C.S. Joon - *Deputy Secretary*
3. Shri S.C. Kaliraman - *Under Secretary*

Representatives of Department of Fertilizers

1.	Shri S.N.P.N. Sinha	- Secretary
2.	Shri Ashok Chawla	- Addl. Secretary & Financial Advisor
3.	Ms. Swatantra K. Sekhon	- Executive Director (FICC)
4.	Shri Tajinder Singh Lascher	- Economic Advisor
5.	Shri Manoj Kumar	- Director
6.	Shri M.G. Banga	- Joint Commissioner (FSD)
7.	Shri Rajnish	- Director
8.	Shri A.P. Singh	- Director

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

3. Thereafter, representatives of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) gave a visual presentation on the issues relating to the subject 'Pricing and Feedstock Policies relating to Fertilizers'. The Committee, then, took oral evidence of the representatives of the Department of Fertilizers in connection with examination of the said subject.

4. During the course of discussion, the main issues which were taken up are as under:-

(i) Effectiveness of Stage-I and Stage-II of New Pricing Scheme for Urea units and to formulate a policy for Urea units for Stage-III commencing from 1.4.2006.

(ii) Follow-up action on the recommendations of the Cost-Account Branch relating to cost price study of Single Super Phosphate (SSP).

(iii) Closure of fertilizer units due to non-availability of sufficient natural gas.

(iv) Debottlenecking/revamp/modernization of fertilizer units.

(v) Shortage and blackmarketing of Urea and DAP fertilizers particularly in Punjab, Haryana and Western UP.

(vi) Measures to avoid delay in release in subsidy to fertilizer units.

***** Matter not related to this Report***

5. ** ** ** ** ** ** ** ** ** ** **

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6. ** ** ** ** ** ** ** ** ** ** **

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7. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

***** Matter not related to this Report***

Appendix-II

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2004-05)

THIRTEENTH SITTING

(24.05.2005)

The Committee sat from 1130 hrs. to 1300 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Jai Prakash
3. Shri Sukhdev Singh Libra
4. Shri Tek Lal Mahto
5. Shri A.K. Moorthy
6. Shri P. Rajendran
7. Shri Narsingrao H. Suryawanshi
8. Shri V.K. Thummar
9. Shri A.K.S. Vijayan

Rajya Sabha

10. Dr. Chhattrapal Singh Lodha
11. Shri Gireesh Kumar Sanghi
12. Shri R. Shunmugasundaram
13. Shri Raj Mohinder Singh

Secretariat

1.	Shri P. Sreedharan	-	Joint Secretary
2.	Shri C.S. Joon	-	Director
3.	Shri S.C. Kaliraman	–	Under Secretary
4.	Shri M.K. Madhusudhan	-	Under Secretary

Representatives of Fertilizer Association of India (FAI)

1.	Shri B.K. Saha	-	Director General
2.	Shri R.C. Gupta	-	Dy. Director General
3.	Dr. S. Nand	-	Additional Director (Tech.)
4.	Shri A.C. Dubey	-	Chief Economist

2. At the outset, owing to the non-presence of Chairman of the Committee, the Committee chose Dr. Chhattrapal Singh Lodha, a Member of the Committee to act as Chairman in accordance with Rule 258 (3) of Rules of Procedure and Conduct of Business in Lok Sabha. The Acting Chairman welcomed the representatives of Fertilizer Association of India (FAI) to the sitting of the Committee.

3. Thereafter, the Director-General, FAI made a brief audio-visual presentation highlighting the achievements as well as problems faced by the fertilizer industry.

4. After some time, Hon'ble Chairman joined the sitting and presided over the sitting for the remaining part.

5. During the course of sitting, the following issues came up for discussion:-

(i) Overall performance of fertilizer sector;
(ii) Pricing and availability of feedstock *viz*. Naphtha and Natural Gas/Liquefied Natural Gas;
(iii) Feasibility of direct import of LNG by the fertilizer industry;
(iv) Import of raw materials/intermediates for manufacture of DAP; and
(v) Increase of subsidy on Single Super Phosphate (SSP) etc.

5. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

Appendix-III

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2004-05)

SIXTEENTH SITTING

(20.07.2005)

The Committee sat from 1500 hrs. to 1800 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Sukhdev Singh Libra
3. Shri A.K. Moorthy
4. Shri P. Rajendran
5. Shri Narsingrao H. Suryawanshi
6. Shri V.K. Thummar
7. Shri Mansukhbhai D. Vasava
8. Shri Bhanupratap Singh Verma
9. Shri Bhal Chandra Yadav

Rajya Sabha

10. Dr. Chhattrapal Singh Lodha
11. Shri Ajay Maroo
12. Shri Raju Parmar

Secretariat

1.	Shri P. Sreedharan	-	Joint Secretary
2.	Shri C.S. Joon	-	Director
3.	Shri S.C. Kaliraman	-	Under Secretary
4.	Shri M.K. Madhusudhan	-	Under Secretary

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Representatives of Ministry of Chemicals & Fertilizers (Department of Fertilizers)

1.	Shri S.N.P.N. Sinha	- Secretary
2.	Dr. Jivtesh Singh Maini	- Addl. Secretary & Financial Advisor
3.	Shri B.K. Sinha	- Joint Secretary
4.	Shri Vijay Chhibber	- Joint Secretary
5.	Ms. S.K. Sekhon	- Executive Director (FICC)
6.	Shri Tejinder Singh Laschar	- Economic Advisor
7.	Shri Manoj Kumar	- Director
8.	Shri M.G. Banga	- Director
9.	Shri A.P. Singh	- Director
10.	Shri Randhir P. Reddy	- Director
11.	Shri R. Asokan	- Director CE, FICC

Representatives of Ministry of Petroleum & Natural Gas/PSUs

1.	Shri Swami Singh	- Director , M/O P&NG
2.	Dr. U.D. Choubey	- Director (Marketing), Gail (India) Limited
3.	Shri V.K. Sibal	- Director General Of Hydrocarbons

2. ** ** ** ** ** ** ** ** ** ** **

** ** ** ** ** ** ** ** ** ** **

***** Matter not related to this Report.***

3. ** ** ** ** ** ** ** ** ** ** **
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4. ** ** ** ** ** ** ** ** ** ** **
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5. After tea-break, the Committee took up the subject ‘Pricing and Feedstock Policies relating to Fertilizers’. The Hon’ble Chairman welcomed the representatives of the Department of Fertilizers and the Ministry of Petroleum & Natural Gas/PSUs. The representatives of the Department of Fertilizers made a brief audio-visual presentation before the Committee regarding an overall picture of the fertilizer sector.

6. The Committee then took evidence of the representatives of the officials on the subject. During the course of evidence, the following issues came up for discussion:-

(i) Production and availability of fertilizers;
(ii) Revival of Sindri Unit of the Fertilizer Corporation of India Limited (FCI);
(iii) Availability of sub-standard fertilizers in the market;
(iv) Scarcity of fertilizers particularly in Punjab;
(v) Setting up of laboratories at Central and State level for testing quality of fertilizers produced by private companies;
(vi) De-bottlenecking/revamp/modernization of fertilizer units;
(vii) Problems relating to Single Super Phosphate (SSP); and
(viii) Rationalisation of subsidy/concession on fertilizers and targetting it to small and marginal farmers.

7. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

***** Matter not related to this Report.***

Appendix-IV

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS
(2005-06)

SIXTH SITTING

(20.12.2005)

The Committee sat from 1500 hrs. to 1600 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Sardar Sukhdev Singh Libra
3. Shri P. Rajendran
4. Shri T. Madhusudhan Reddy
5. Shri V.K. Thummar
6. Shri Bhanupratap Singh Verma

Rajya Sabha

7. Shri Gireesh Kumar Sanghi
8. Shri Vasant Chavan
9. Shri B.S. Gnanadesikan
10. Shri Ajay Maroo
11. Shri R. Shunmugasundaram

Secretariat

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

2. At the outset, the Hon'ble Chairman welcomed the Members to the sitting. He invited the Members to give their suggestions, if any, pertaining to the draft report which had been circulated to the Members.

3. Thereafter, the Committee considered the draft Report in detail on 'Pricing and Feedstock Policies relating to Fertilizers' and adopted the same with minor amendments.

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

5. The Committee also appreciated the work done by the officials of the Lok Sabha Secretariat attached to the Committee in preparation of the Report.

6. ** ** ** ** ** ** ** ** ** ** **
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The Committee then adjourned.

***** Matter not related to this Report***