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STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2005-06)

FOURTEENTH LOK SABHA

MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS (2006-2007)

TWELFTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI
April, 2006/Vaisakha, 1928 (Saka)

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(FOURTEENTH LOK SABHA)

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DEMANDS FOR GRANTS

(2006-2007)

Presented to Lok Sabha on ***19.05.2006***

Laid in Rajya Sabha on ***19.05.2006***

LOK SABHA SECRETARIAT
NEW DELHI

April, 2006/Vaisakha, 1928 (Saka)

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(2005-06)

Shri Anant Gangaram Geete - Chairman

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Lok Sabha

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

Rajya Sabha

22. Shri Vasant Chavan
23. Shri B.S.Gnanadesikan
24. Shri Raj Mohinder Singh Majitha
25. Shri Ajay Maroo
26. Shri Gireesh Kumar Sanghi
27. Shri R. Shunmugasundaram
***28. Shri Shreegopal Vyas
29. Shri T.R. Zeliang
****30. Vacant
***** 31. Vacant

Secretariat

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

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* *Nominated w.e.f. 14.02.2006*
** *Nominated w.e.f. 20.01.2006.*
*** *Nominated w.e.f. 21.04.2006*
**** *Consequent upon his expulsion from Rajya Sabha, Dr. Chhattrapal Singh Lodha ceased to be member of this Committee w.e.f. 23rd December, 2005 (vide Rajya Sabha Bulletin Part-II-No-42733 dated 23.12.2005).*
***** *Shri Raju Parmar ceased to be Member of this Committee w.e.f. 2nd April 2006 after his retirement from Rajya Sabha.*

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals and Fertilizers (2005-06) having been authorised by the Committee to submit the Report on their behalf present this Twelfth Report on Demands for Grants of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) for the year 2006-07.

2. The Committee examined the Demands for Grants pertaining to the Ministry of Chemicals & Fertilizers (Department of Fertilizers) for the year 2006-07 which were laid on the Table of the House on 14th March, 2006.

3. The Committee took evidence of the representatives of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) at their sitting held on 28th March, 2006.

4. The Committee considered and adopted the Report at their sitting held on 25th April, 2006.

5. The Committee express their thanks to the Officers of the Ministry of Chemicals & Fertilizers (Department of Fertilizers), Ministry of Commerce, Department of Agriculture & Cooperation for furnishing the material and other information, which they desired in connection with the examination of Demands for Grants of the Department for the year 2006-07 and for giving evidence before the Committee.

6. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi;

April 26, 2006
Vaisakha 06, 1928 (Saka)

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

REPORT

PART-I

INTRODUCTORY

The Department of Fertilizers (DOF) comes under the Ministry of Chemicals & Fertilizers. The main objective of the Department is to ensure adequate and timely availability of fertilizers for maximizing agricultural production in the country and for this purpose to promote and assist industries in the fertilizers sector and to plan and arrange import and distribution of fertilizers.

1.2 The main activities of DOF include planning, promotion and development of the fertilizer industry, programming and monitoring of production, pricing, import and supply of fertilizers and management of financial resources by way of subsidy/concession for indigenous and imported fertilizers. The Department also disburses payments to manufacturers/importers of decontrolled fertilizers under the concession scheme made available to the farmers at the indicative Maximum Retail Price (MRP).

1.3 In addition, the activities of DOF also include the administrative control of the following public sector undertakings and cooperatives in the fertilizers sector:-

(i) Fertilizer Corporation of India Limited (under closure)
(ii) The Fertilizers and Chemicals Travancore Limited
(iii) Madras Fertilizers Limited
(iv) National Fertilizers Limited
(v) Rashtriya Chemicals and Fertilizers Limited
(vi) Brahmaputra Valley Fertilizer Corporation Limited
(vii) Hindustan Fertilizer Corporation Limited (under closure)
(viii) Projects and Development India Limited
(ix) Pyrites, Phosphates and Chemicals Limited (under closure)
(x) FCI Aravali Gypsum Minerals India Limited
(xi) Krishak Bharati Cooperative Limited

1.4 The Department also has administrative responsibility for Indian Potash Limited (IPL), a company with shareholding by private, cooperative and public sector fertilizer companies. The office of the Executive Director, Fertilizer Industry Coordination Committee (FICC) also works under the Department of Fertilizers. This office provides the Secretariat support to the FICC constituted to administer the Retention Price Scheme for Nitrogenous Fertilizers and various incentive schemes to augment indigenous production of fertilizers.

I IMPLEMENTATION STATUS OF RECOMMENDATIONS CONTAINED IN THE SIXTH REPORT ON DEMANDS FOR GRANTS (2005-06)

1.5 The Standing Committee on Chemicals & Fertilizers presented in Parliament their Sixth Report on Demands for Grants (DFG) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) for the year 2005-06 on 21st April, 2005. The Committee presented their Ninth Report on 'Action Taken by the Government on the recommendations contained in the Sixth Report of the Committee on Demands for Grants (2005-06) of the Department of Fertilizers' in Lok Sabha on 13th December, 2005. Out of 16 recommendations, 12 recommendations (Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 14 and 15) were accepted by the Government. In respect of one recommendation (Sl. No. 9), the Committee did not desire to pursue in view of the Government's reply. In respect of one recommendation (Sl. No. 13), the reply of the Government was not accepted by the Committee. In respect of two recommendations (Sl. Nos. 12 and 16), the replies of the Government were of interim nature. The Ninth Action Taken Report was sent to the Department on 14th December, 2005 for furnishing Action Taken Statement on the recommendations made by the Committee in the Report. Subsequently, the Minister of Chemicals & Fertilizers made a statement in Lok Sabha on 22nd December, 2005 regarding the status of implementation of the recommendations contained in the Sixth Report on Demands for Grants (2005-06). On the basis of the information made available by DOF category-wise analysis of implementation of recommendations by the Government is given at **Annexure**.

II. TENTH FIVE YEAR PLAN PEFORMANCE

1.6 For the Tenth Five Year Plan (2002-2007), Planning Commission approved an outlay of Rs. 5900.00 crore consisting of Rs. 975.00 crore as Domestic Budgetary Support, Rs. 75.00 crore as External Aid routed through Budget and Rs. 4850.00 crore to be met out of Internal and Extra Budgetary Resources (IEBR). The following table shows the utilization of plan funds during the 10th Five Year Plan:-

(Rs. in crore)

Sl. No.	Name of the Undertaking	10th Plan 2002-07	2002-03 (Actual)	2003-04 (Actual)	2004-05 (Actual)	2005-06 (BE)	2005-06 (RE)	2006-07 (BE)
1	FCI-FAGMIL	380	3.00	--	0.04	--	--	1.05
2	FACT	475.00	15.00	17.26	10.14	40.00	40.00	30.00
3	HFC (BVFCL)	275.00	150.00	131.30	4.45	37.49*	37.49	40.86 **
4	NFL	160.00	64.32	11.62	25.81	55.00	46.87	59.02
5	RCF	1900.00	54.10	28.16	143.89	305.22	344.88	237.70
6	PDIL	10.00	1.00	0.50	1.37	3.26	1.50	2.00
7	PPCL	1.00	--	--	--	--	--	--
8	MFL	99.00	15.00	14.00	11.93	16.29	9.49	9.00
9	KRIBHCO	1680.00	178.47	203.82	7.43	542.00	593.79	586.00
10	IFFCO@	810.00	210.29	--	--	--	--	--
11	Misc. schemes under the Deptt.	110.00	20.80	19.94	21.96	18.04	18.02	18.95
	Total	**5900.00**	**711.98**	**426.60**	**225.65**	**1017.30**	**1092.04**	**985.03**

* ***This includes Rs. 14.00 crore for lumpsum provision for North East Region.***
** ***Includes Rs. 10.00 crore for lumpsum provision for North East Region.***
@ ***Government of India's equity stands reduced to 'nil'. Hence, no figure furnished in respect of IFFCO.***

1.7 During the course of examination the Committee pointed out that out of 10th Plan outlay for the fertilizer sector, during the first 4 years of the plan, expenditure was only about 40% of the outlay. Asked about the reasons for shortfall in utilization of plan funds, the DOF in a written reply stated that the main reasons for shortfall in utilization of plan funds are as follows:-

"(a) The plan allocation in respect of KRIBHCO included a provision for their Hazira Expansion Project. However, for various reasons this project has not yet been implemented and, hence the funds earmarked for it could not be utilized.

(b) As regards RCF, an amount of Rs. 1330.00 crore had been earmarked for an Ammonia – Urea Project at Thal which has not yet been implemented for various reasons. Hence, the funds earmarked for the Thal project could not be utilized.

(c) A plan out lay of Rs. 810.00 crore was made for M/s IFFCO. Out of this, an amount of Rs. 210.29 crore could be utilized during 2002-2003. Thereafter, the entire Government of India's equity has been repatriated by IFFCO, and hence, IFFCO is no more a public sector undertaking/cooperative under the Government of India. Consequently, the funds earmarked for IFFCO cannot be tabulated.

(d) The plan allocation of Rs. 380.00 crore had been made for M/s FCI for the 10th Five Year Plan. Only an amount of Rs. 3.00 crore was utilized in 2002-2003. FCI has since been closed with effect from 5.9.2002. Therefore, the balance amount earmarked in the Plan could not be utilized.

(e) In the case of FACT, the 10th Plan proposal was for Rs. 475.00 crores. So far, a sum of Rs. 45.60 crore has been spent. Further funds of Rs. 24.25 crore have been received by FACT for 2005-2006. Plan outlay for 2006-2007 is Rs. 30.00 crore. The shortfall for the 10th Five Year Plan is on account of non-clearance of major projects like new sulphuric acid plant at Cochin Division for Rs. 103.00 crore and railway siding at Udyogmandal for Rs. 74.00 crore and certain improvements in Phase-1 plant at Cochin Division."

1.8 When the Committee asked as to why there was no revised plan prepared by the Department to re-apportion the plan funds for better utilization as it was aware of non-implementation of some of the projects due to the impending closure of some PSUs or otherwise, midway, the Department of Fertilizers stated that the plan allocation, which consists of IEBR as well as budgetary support, for the 10th Five Year Plan (2002-07) and the likely expenditure is as follows:-

(Rs. in crore)

Sl. No.	**PSU**	**10th Five Year Plan**			**Likely expenditure during 10th Plan**		
		DBS	**IEBR**	**Total**	**DBS**	**IEBR**	**Total**
1.	FCI/FAGMIL	190.00	190.00	380.00	3.04	1.50	4.54
2.	FACT	375.00	100.00	475.00	112.40	--	112.40
3.	HFC/BVFCL	275.00	--	275.00	364.10	--	364.10
4.	MFL	92.00	7.00	99.00	66.22	--	66.22
5.	NFL	--	160.00	160.00	--	215.77	215.77
6.	PDIL	7.00	3.00	10.00	2.87	5.26	8.13
7.	PPCL	1.00	--	1.00	--	--	--
8.	RCF	--	1900.00	1900.00	--	769.07	769.07
9.	IFFCO	--	810.00	810.00	--	210.29	210.29
10.	KRIBHCO	--	1680.00	1680.00	--	1517.72	1517.72
11.	Deptt. Schemes including Rs. 75 crores for Rain fed farming Prroject (externally aided)	110.00	--	110.00	99.69	--	99.69

1.9 It was further stated that the plan allocation figures in the Five Year Plan are indicative figures. The annual plan allocations are however negotiated and approved by the Planning Commission separately in consultation with the Department of Fertilizers and each company for specific projects. Under-utilization of funds on account of delay or non-implementation of any project funded through IEBR under one company are not for re-appropriation for other purposes. Hence, the question of preparation of revised plan and re-appropriation of plan funds does not arise. However, Budgetary Support provided by the Government can be re-appropriated with the approval of the competent authority as and when required.

1.10 Elaborating the reasons for non-utilisation of plan fund, the DOF stated in a note:-

> "As regards HFC the tenth plan allocation of Rs. 275 crore (entirely budgetary support) will be fully utilized for BVFCL which has been newly formed after demerger of Namrup units for HFC, for implementing revamp of its Namrup units. In fact, the likely expenditure of Rs. 364.10 crore will be higher than the original allocation at the start of the 10th Plan period.
>
> So far as PPCL is concerned, the plan allocation of Rs. 1 crore could not be utilized as it has been decided to be closed by the Government.
>
> The total budget of PDIL for the 10th Plan was Rs. 10.00 crore. The funding of this was Rs. 7.00 crore by way of budgetary support and Rs. 3.00 crore from IEBR. By the end of 10th Plan, the company is expected to utilize Rs. 2.87 crore from the budgetary allocation and Rs. 5.26 crore from the IEBR source. The main reason for the short fall in the utilization of Plan fund is on account of deferment of the expenditure on revamp of the catalyst plant. This decision has been initiated due to negligible demand of catalyst in the recent years leading to low capacity utilization.
>
> In respect of NFL, the likely expenditure during the 10th Plan period would be Rs. 215.77 crore against the 10th Plan outlay of Rs. 160.00 crore. The entire expenditure is from the resources generated by the company. Considering the above, it is expected that expenditure during 10th Five Year Plan may exceed the plan outlay of Rs. 160.00 crore thereby exceeding the targets of 10th Five Year Plan.
>
> The budgetary allocation of MFL for the 10th Plan was Rs. 99.00 crore; consisting of budgetary support of Rs. 92.00 crore and IEBR of Rs. 7.00 crore. Based on the actual proposals and utilization, an amount of Rs. 50.42 crore has been provided for till 2005-06 as budgetary support, and a provision of Rs. 9.00 crore has been made for 2006-07. A proposal for the financial restructuring of the company is presently under consideration. The actual provision and expenditure during the year 2006-07 will depend upon the final decision in this regard. As for IEBR, due to its financial constraints, the company has not been able to mobilize any resources.
>
> As regards Hazira Fertilizer Project of KRIBHCO, Public Investment Board (PIB) had recommended the proposal at an estimated project cost of Rs. 1750 crores for consideration by the Cabinet Committee on Economic Affairs (CCEA). However, KRIBHCO had opened the price bids on April 28, 2005. As the lowest bid was much higher than this estimate, KRIBHCO has issued separate ITBs for ammonia and urea plants to all the five pre-qualified bidders in order to have better response and sufficient competition

on December 21, 2005. The last date for bid submission was February 18, 2006, which has been extended up to March 31, 2006.

As regard RCF, a revised proposal for Thal Expansion envisaging an estimated cost of Rs. 2239 crore and capacity addition of 11.55 Lakh Metric tones of urea per annum was received from the company in January, 2006 and is being examined in the Department, alongwith another proposal for debottlenecking in respect of its existing plant. The company has also been asked to obtain approval of Board of Directors on these proposals. "

1.11 On being enquired about the observations made in mid-term appraisal of the 10th Five Year Plan in respect of Fertilizer Sector and the follow-up action taken thereon, DOF in a written reply, stated as under:-

"Re – examine fertilizer subsidies in order to improve the nutrient balance and also to target this more to smaller holdings, for example through higher subsidy on fixed quantity per farmer.

The issue of integrated nutrient management has been examined by a Task Force on balanced use of fertilizers, set up by Department of Agriculture & Cooperation, Government of India. The Task Force has recently submitted its final recommendations and an Inter-departmental Group has been constituted under the Chairmanship of Secretary, Department of Agriculture & Cooperation to review the recommendations of the Task Force. This Group is expected to present its report within two months. As soon as the final report of the Inter-departmental Group looking into the recommendations of the Task Force is received, further action will be taken in terms of the recommendations to improve nutrient balance in the soil.

As far as targeting subsidy to small farmers through supply of fixed quantities to farmers at higher subsidy is concerned, it is stated that the question of giving subsidy directly to the farmers has been raised from time to time, but it has not been found feasible. The Expert Group set – up under the Chairmanship of Dr. Y.K.Alagh recommended that, on an experimental basis, a scheme for disbursal of subsidy directly to farmers in three selected districts where reliable land records are available may be formulated. This recommendation is being examined."

1.12 On a query as to whether full utilization of 10th Five Year Plan funds by the end of the year 2006-07 would be done, the Department of Fertilizers stated in the negative. It was further informed that the Plan expenditure by the end of the year 2006-07 is estimated at Rs. 3366 crore.

Capacity Build-up and production

1.13 The indigenous annual capacity for fertilizer production at the end of the Eighth and Ninth Five Year Plans and the annual capacity at the end of the year 2005-06 are indicated below:-

(in lakh tonnes)

Fertilizer Nutrient	Capacity at the end of the terminal year (1996-97) of Eighth Plan	Capacity at the terminal year (2001-02) of Ninth Plan	Capacity at the end of 4th year of Tenth Plan (2005-06)
Nitrogen	97.77	120.58	120.61
Phosphate	29.06	52.31	56.59

1.14 The target and actual production of fertilizers and percentage achievement against the target from 2003-04 onwards is given below:-

(In lakh tonnes)

Year	Nitrogen			Phosphate		
	Target	Actuals	% age achievement	Target	Actuals	% age achievement
2003-04	111.81	109.36	97.81	46.41	38.00	81.88
2004-05	114.06	113.35	99.38	49.26	40.67	82.56
2005-06*	116.29	113.50	97.60	46.00	41.73	90.72

* Estimated

1.15 When the Committee asked as to why there was no substantial increase in capacity in respect of nitrogen in the 10th Plan, the Department of Fertilizers replied in a note as follows:-

> "As per Industrial Policy Resolution dated 24th July 1991, no license is normally required for setting up/expansion of fertilizer plants and entrepreneurs are free to set up/expand fertilizer projects anywhere in the country subject to environmental clearance. As the MRP of fertilizers is statutorily fixed/indicated, fertilizer manufacturers are compensated by way of subsidy/concession as the difference between the cost of production as assessed by the Government and the MRP. Keeping this in view, approval

of Government is required for new/expansion projects in the context of the cost of production to be recognized for purposes of the subsidy/concession.

In the latter context, the Government has in January 2004 announced policies for new and expansion projects of urea and creation of additional capacity through de-bottlenecking/revamp/ modernization of existing urea units. In response to these policies, a number of proposals for expansion and de-bottlenecking with total proposed capacity of 55.79 lakh metric tonnes per annum have been received from various existing urea units. Approval in principle has been given in respect of the two proposals for creation of additional capacity of 5.342 LMTPA through de-bottlenecking. The remaining proposals, alongwith certain points raised by the units concerned with the above two de-bottlenecking proposals are under examination of the Government. The Government is also examining the possibilities of revival of certain closed urea units."

1.16 On being enquired about the likely capacity by the terminal year of the 10th Plan i.e. 2006-07, the Department of Fertilizers stated as follows:-

('000 tonne)

Name of the product	Annual installed capacity	Nitrogen (N)	Phosphate (P)
Urea	20752.5	9546.2	0.0
DAP	7299.0	1313.8	3357.5
Ammonium sulphate	671.5	141.0	0.0
Calcium ammonium Nitrate	622.5	155.6	0.0
Ammonium Chloride	128.0	32.0	0.0
Complexes	5222.4	872.5	1201.4
SSP	6874.2	0.0	1099.9
Total	**41570.1**	**12061.1**	**5658.8**

No major fertilizer plant is likely to be commissioned during the year 2006-07.

1.17 On being pointed out by the Committee that with the growing consumption of fertilizers in the country there should be matching additional capacity, the DOF replied in a note as under:-

> "Over the years substantial indigenous capacity has been built up for the production of urea in the country, making it nearly self-sufficient. The present installed capacity in the country is 204.2234 LMTPA (this does not include 2 plants of 3.30 LMTPA capacity each of RCF-Trombay-V and FACT-Cochin which have remained non-operational for the past few years). With the commissioning of Oman India Fertilizer Company (OMIFCO)'s urea plant in July 2005, with a long term buy-back arrangement for its entire production of 16.52 LMTPA, the total available capacity would increase to 220.74 LMTPA. The demand forecast of urea during the Eleventh Plan period, as per the Working Group on Fertilizers for the Tenth Plan is 281.24 lakh tonne. Proposals for a total capacity of 55.79 LMTPA through expansion and de-bottlenecking have been received and are under consideration. In addition, the possibility of revival, in the form of brown field units, of some of the closed units of the FCI and HFCL are also under consideration. This would depend upon the availability of gas and the overall demand-supply projections. In this context, the Department is also actively engaged in discussions with the Ministry of Petroleum & Natural Gas to tie up possible sources of the supply of gas required for the existing gas based units as well as for the additional capacities mentioned above. Simultaneously, the Department is also exploring the possibilities of setting up some more joint ventures abroad on the pattern of OMIFCO in Oman."

1.18 Elaborating the importance of availability of gas to the fertilizer sector, the Secretary, Fertilizer stated during evidence that about 35% of the indigenous fertilizer capacity is based on Naphtha and fuel oil and it accounts for 70 per cent of the subsidy. He also stated that there should be priority for the fertilizer sector at par with energy sector.

1.19 When the Committee asked whether any plan has been initiated taking into consideration the growing fertilizer requirement of our agriculture sector, the Department of Fertilizer informed that Demand forecast of Urea, DAP and MOP during Eleventh Plan Period as per figures given by Working Group on Fertilizers for Tenth Plan Period is as follows:-

('000' MT)

Year	Urea	DAP	MOP	Complex @	SSP @
2007-08	24951	9694	3237	7400	3250
2008-09	25710	10245	3358	7400	3250
2009-10	26489	10830	3487	7500	3250
2010-11	27292	11452	3620	7500	3300
2011-12	28124	12110	3757	7500	3300

@ *Based on assessed requirement for 2005-06 by Department of Agriculture & Cooperation (DAC).*

1.20 As far as P&K fertilizers is concerned, it is observed that demand forecast for phosphatic fertilizers, especially DAP is very high in comparison to present trends of consumption. In the Tenth Plan period, the demand projection and actual sales of different fertilizers has been as below:-

Demand forecast of Urea, DAP and MOP in Tenth Plan

('000' tonnes)

Year	Urea	DAP	MOP
2002-03	21386	7180	2175
2003-04	22118	7705	2273
2004-05	22810	8187	2364
2005-06	23503	8669	2455
2006-07	24214	9166	2547

Consumption/requirement of Urea, DAP and MOP during Tenth Plan

('000' tonnes)

Year	Urea	DAP	MOP
2002-03	18493	5479	1912
2003-04	19767	5624	1841
2004-05	20665	6256	2406
2005-06 *	23425	7803	2889
2006-07 (Kharif 06) *	12237	3310	1466

* Requirement

1.21 It would be seen from the above though the demand forecast in case of Urea and MOP is largely accurate in comparison with the actual/likely consumption, while the demand forecast in DAP has been comparatively (20-30%) higher.

1.22 The P&K fertilizers are decontrolled, and the shortfall in production in DAP is met through imports by various manufactures and importers. In MOP the whole demand is met through imports as there are no economically exploitable known domestic reserves of potash. With a view to facilitating the smooth availability of DAP, the Government intends to:

a) Benchmark the phos-acid price with international DAP, on the basis of recommendations of the Expert Group. This will help industry to enter into long term contracts for supplies of phos acid and consequently increase in indigenous production

b) Encouraging the setting up of joint ventures abroad, which will not only help in increasing availability, but also have a stabilizing impact on international prices.

c) The Department of Fertilizers in consultation with Department of Agricultural & Cooperation is also considering the possibility of broad basing the basket of the P&K fertilizers in the concession scheme so that availability of fertilizers to the farmers at affordable price is ensured.

d) Revive the SSP industry by providing reasonable concession on the sales of SSP.

e) The Department is also engaged in detailed discussions with the Ministry of Mines, Geological Survey of India, etc., with a view to identifying possible indigenous resources of phosphate and Potash materials.

III. ANALYSIS OF THE DEMANDS FOR GRANTS (NO. 8) OF THE DEPARTMENT OF FERTILIZERS

1.23 As against actual Plan and Non-Plan expenditure of Rs. 48.48 crore and Rs. 15896 crore respectively during 2004-05, budgetary-provisions for 2005-06 and 2006-07 are as under:-

(Rs. in crore)

	2005-06 Budget			**2005-06 Revised**			**2006-07 Budget**		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue Section	18.04	17030.07	17048.11	18.02	18030.07	18048.09	18.95	18030.07	18049.02
Capital Section	93.78	25.18	118.96	86.98	25.18	112.16	79.86	25.18	105.04
Total	**111.82**	**17055.25**	**17167.07**	**105.00**	**18055.25**	**18160.25**	**98.81**	**18055.25**	**18154.06**

1.24 When the Committee asked about the reasons for low allocation of funds in 2006-07, the Department of Fertilizers replied that the following Plan and Non-Plan budgetary provision has been approved by the Planning Commission and Ministry of Finance respectively for the years 2005-06 (Revised Estimates) and 2006-07 (Budget Estimates):-

(Rs. in Crores)

	REVISED ESTIMATES 2005-06		**BUDGET ESTIMATES 2006-07**	
	Proposed	**Approved**	**Proposed**	**Approved**
Plan	152.71	105.00	133.34	98.81
Non-Plan	25580.02	18055.25	25446.89	18055.25

1.25 On being enquired by the Committee as to whether the Department of Fertilizers was satisfied with the budget allocations and whether the allocations are adequate to discharge the responsibilities entrusted, it was informed that the allocation was not sufficient to meet the requirement.

IV. HEAD-WISE EXAMINATION FOR BE, RE (2005-06) AND BE (2006-07)

A. Secretariat Economic Services

MAJOR HEAD 3451

1.26 The provision under this head is for Secretariat expenditure of the Department. Provision (Non-Plan) for Secretariat Economic Services are as under:-

Year	Allocation/utilization (Rs. in crore)
2004-05 (Actual)	5.92
2005-06 (BE)	6.43
(RE)	7.23
2006-07 (BE)	7.43

1.27 The Committee asked whether the Ministry of Finance's directives for economy measures are being adhered to by the Department of Fertilizers and also in the PSUs/organizations under the administrative control of the Department, DOF replied in a written note as follows:-

> "Ministry of Finance directives for economy measures issued from time to time are followed and every effort is made that these are adhered to in the Department.
>
> So far as PSUs under the administrative control of the Deptt. of Fertilizers are concerned, the economy measures including cost-cutting measures are taken care by them and this is being regularly monitored by the Department."

B. Subsidy/Concession on Fertilizers

MAJOR HEAD 2401 - (For subsidy on imported urea and concession on decontrolled fertilizers)
2852 - (Subsidy on indigenous urea)

1.28 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. The following table shows the details of subsidy/concession on urea and decontrolled phosphatic and potassic fertilizers during the last 5 years:-

(Rs. in crore)

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**	
2001-02	4503.52	8257.00	47.34	8304.34	12807.86
2002-03	3224.52	7790.00	0.00	7790.00	11014.52
2003-04	3326.00	8521.00	0.00	8521.00	11847.00
2004-05	5142.18	10243.15	493.1	10737.06	15879.24
2005-06 (BE)	5200.00	10110.37	943.53	11053.90	16253.90
2005-06 (RE)	5749.20	10410.37	1093.53	11503.90	17253.10
2006-07 (BE)	5749.20	10410.37	1093.53	11503.90	17253.10

1.29 On being pointed out by the Committee about delay in reimbursement of subsidy to fertilizer units and the latest position in this regard and whether the Department of Fertilizers has sufficient funds under the ‘Head’ to clear the claims due for the year – 2005-06, DOF stated in a written reply as follows:-

> “It is a fact that the subsidy bills are being delayed due to paucity of funds. The Department has paid ‘on account’ payment of subsidy claims upto September 2005 for DAP, MOP and complex fertilizers. Similarly, ‘on account’ payment of subsidy claims upto December 2005 in case of SSP units have been paid. The total budget allocation for the financial year 2005-06 under the Concession Scheme was Rs.5200 crore. Additional funds for an amount of Rs.550 crore were further allocated in 2nd batch of supplementary demands. This entire amount has been spent. An additional amount of Rs.3952.56 crore is required during the Year 2005-06 to clear the pending liabilities under the Concession Scheme.
>
> In the case of urea, an amount of Rs.10110.37 crore was provided in the Budget Estimate for the Financial Year 2005-06. Further, Rs.300.00 crore was also provided in the 2nd batch of supplementary raising the budget allocation to Rs. 10410.37 crore. Bills up to the month of September 2005 have been settled. The pending liability for the year 2005-06 is Rs.2194.26 crore.”

1.30 It was further informed by the Department of Fertilizers that it is expected to clear the claims for the sale of fertilizers upto October, 2005, by end of March, 2006, as Rs. 1200 crore is being allocated to the Department under 3rd Supplementary Demands for Grants 2005-06.

1.31 In this connection, during evidence, the representative of the Department of Fertilizers apprised the Committee that the subsidy bill of over Rs. 5000 crore will carry forward to next year even after additional allocation of approximately Rs. 2200 crore in the second and third supplementaries. Since, the whole Budget has been passed, so, there will be no limitations of vote-on-account and the Department will clear the carry over dues within one or two months.

1.32 On being pointed out by the Committee that there should have been greater persuasion on the part of the Department to get more funds from the Ministry of Finance, DOF in a written note stated that the matter was actively pursued relating to the additional allocation of funds for disbursal of subsidy for the year 2005-06. The matter was also taken up with the Finance Minister and also brought to the notice of Hon'ble Prime Minister. The issue was also placed for discussion in two meetings of the Committee of the Secretaries (COS). As a result of these efforts, an additional allocation of Rs. 1200 crores has been made in the third batch of Supplementaries 2005-06.

1.33 On the question of whether the Department analyzed the possible consequences of lower allocation of funds in making fertilizer available to the farmers, DOF replied that it closely monitored the availability of fertilizers to the farmers and it was satisfactory during the Rabi 2005-06 season. The budget for the year 2006-07 has been passed by the Parliament and the funds will be available for the disbursement of subsidy in the first week of April 2006. The Department will be able to clear the pending claims of the fertilizer companies during the following month. The Department is also pursuing with the Ministry of Finance for additional allocation of funds in the first batch of supplementary demands for grants in 2006-07.

1.34 When the Committee asked about the reasons for non-increase under the head subsidy/concession for the year 2006-07, the Department of Fertilizers in a written note replied as follows:-

> "The consumption of fertilizers including urea is likely to increase during the year 2006-07. Based on the increase in consumption of fertilizers and prevailing higher prices of fertilizers and fertilizer-inputs Department of Fertilizers had estimated a requirement of Rs.25405.44 crore for subsidy against which the allocation given by the Ministry of Finance is Rs.18021.16 crore during 2006-07."

(i) Concession Policy for P&K and SSP Fertilizers

1.35 Presently DAP, MOP, SSP and 11 grades of complex fertilizers are covered under the Concession Scheme on decontrolled P&K fertilizers. The Government announces the indicative MRP of DAP, MOP and complex fertilizers. The normative delivered price of these fertilizers are worked out by the Department on the basis of the recommendations of the Tariff Commission. The normative delivered price is updated quarterly based on the escalation/de-escalation formulae given by the Tariff Commission. The MRP announced by the Government are lower than the normative delivered price of these fertilizers. The difference between the quarterly updated normative delivered price and the indicative MRP is paid to the manufacturers/importers, as concession on these fertilizers.

1.36 In case of SSP, the Government is paying adhoc concession @ Rs.975/- per MT on the sales of SSP made by the manufactures. The MRP of SSP is fixed by the various State Governments and varies from State to State.

1.37 The Department of Fertilizers had constituted an Expert Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission, for benchmarking phosphoric acid price with international price of DAP for purposes of determining the concession on DAP. The Expert Group has recommended that the domestic DAP subsidy should be benchmarked with international DAP prices in a transparent manner. The Department of Fertilizers is in the process of formulating a revised policy for DAP keeping in view the recommendations of the Expert Group.

1.38 When the Committee desired to know about the main recommendations of the Expert Group, the Department of Fertilizers in a written note enumerated the recommendations of the Expert Group as under:-

> "The subsidy on DAP will form the basis for subsidy on other phosphatic and complex fertilizers also. The subsidy on DAP will have three components —
>
> - The first component relates to the difference in the landed price of imported DAP and the MRP
> - The second component of the subsidy is the cost of marketing including all the selling and distribution expenses and dealers' margin. This component is substantially based on the tariff commission recommendations with some adjustments and is recommended at Rs.1350 per metric ton.
> - These two components of subsidy would be payable without any discrimination both to domestic manufacturers as well as importers. However, only those importers of DAP would be eligible for marketing component of subsidy who have infrastructure and extension network for providing various services to the farmer in a comprehensive manner and who are not exclusively in the business of sale of DAP.
> - The third component of subsidy will be payable only to domestic manufacturers.This is to offset disadvantage to the domestic manufactures of DAP vis-a-vis manufacturers abroad. This recommendation is in line with the observations of Gokak Committee wherein it has been brought out that in the event of ammonia prices becoming very high or the DAP price falling very low in the international market, the domestic manufacturer suffers disadvantage to the extent of 26-30%.
> - Floor and ceiling for the disadvantage has been recommended as 5% and 20%. The government may review the competitiveness achieved by the industry in future and accordingly consider downward revision of these two limits.

- The extent of disadvantage would be estimated on the normated cost of phosphoric acid arrived at using the methodology indicated by the expert group while giving its interim recommendations. This would also take into account the cost of holding inventory by the domestic industry.

- The cost of domestic production would be arrived at taking into account the normated cost of phosphoric acid, international ammonia prices, cost of conversion and capital cost based on the norms given by the tariff commission.

- The marketing cost of Rs.1350 would be escalated on an annual basis linked to WPI (General) index.

- The adjustment in subsidy on the first two components would be made quarterly after taking into account the prevalent international prices and foreign exchange rates.

- The DAP prices to be taken into account would be representative prices in the international market so that they are not prone to manipulation. Thus based on these recommendations the subsidy would be independent of any direct cost inputs and industry would be able to take their commercial decisions based on a transparent reflection of the various elements of subsidy.

- Keeping in view the lower levels of MRP vis-à-vis international prices in respect of urea and MOP, the other major fertilizers in use, the expert group did not recommend any immediate change in the MRP. However, changes in MRP may be considered in case the MRP goes below 65% of the landed price of imported DAP. The government may however consider revision in the MRP of DAP in case any rationalisation is brought in the MRPs of other nutrients."

1.39 Asked about the follow up action on the above recommendations, DOF stated that it has examined the recommendations of Expert Group and proposed the revised methodology for working out concession rates for DAP and complex fertilizers. A draft CCEA note on the subject has been circulated for inter-ministerial consultations.

(ii) Availability of Urea

1.40 The assessed requirement, availability and sales of urea in the last three crop seasons have been as under:-

(figures in lakh metric tonnes)

Season	Assessed requirement	Availability	Sales
Kharif 2004	105.74	106.60 $	97.81
Rabi 2004-05	108.35	117.08 $	107.67
Kharif 2005	114.39	113.90 $	107.67
Rabi 2005-06	119.86	68.42 *	61.75*

* figures upto 31.12.2005
$ Excluding silo stock and stock at Shiphold

1.41 During the course of examination the Committee pointed out that there were press reports suggesting shortages of urea in several parts of the country like Andhra Pradesh, Gujarat, Western U.P., Punjab, Haryana etc. Asked about the reasons for these shortages, DOF stated as under:-

> "As against the requirement of 119.86 LMT of urea, 44.58 LMT for DAP and 14.99 LMT for MOP, the availability is expected to be about 123.58 LMT, 49.47 LMT and 32.44 LMT respectively during the current season. Sales during the current season till 28th February, 2006 has been 100.53 LMT, 34.90 LMT and 12.73 LMT respectively.
>
> The requirement and availability of urea in Andhra Pradesh, Gujarat, Uttar Pradesh, Punjab and Haryana is as under :-

(Qty. in '000 MTs)

States	Requirement for Rabi 2005-06 (Oct – March)	Availability Upto 28.2.06	Sales Upto 28.2.06	Closing Stock Upto 28.2.06
Andhra Pradesh	1250.00	1131.51	1067.76	63.75
Gujarat	650.00	684.63	640.17	44.47
Uttar Pradesh	2700.00	2327.79	2208.84	118.96
Punjab	1250.00	1084.54	1053.03	31.50
Haryana	925.00	860.65	830.21	30.42

> It may be seen that the availability has been adequate enough to support the sales in these States."

1.42 However, in reply to a question, Secretary, DOF stated during evidence that at times there could be sufficient fertilizer in a State, but there could be some movement problems and as a result some Districts could face shortages. DOF, on receipt of such problems takes action to mitigate them. At times quantity of ECA allocation is raised to meet the emergent situation.

(iii) <u>Import of Fertilizers</u>

1.43 The imports of Urea, DAP and MOP in the country (in product terms) during the last three years have been as under:-

(Quantity in lakh tonnes)

Year	Urea	DAP	MOP
2003-04	0.00	7.34	25.80
2004-05	6.41	6.44	34.09
2005-06 (Upto Dec.2005)	14.75	22.42	36.73

1.44 When the Committee wanted to know about the reasons for increase in the import of urea in 2004-05 and further in 2005-06 compared to 2003-04, the Department of Fertilizers stated that the reasons for increase in the import of urea are due in the increase in requirement as shown in the following table:-

(Qty. in Lakh MTs)

Period	Requirement	Production	Sales
2003-04	211.58	192.03	195.79
2004-05	214.07	202.68	205.47
2005-06	234.25	202.38 (Estt)	220.00 (Estt)

1.45 On being equired by the Committee about the reasons for increase in the import of DAP in 2005-06 as compared to 2004-05, the Department of Fertilizers stated that the requirement and indigenous production of DAP during 2004-05 and 2005-06 was as under :-

(Qty. in Lakh MTs)

Period	Requirement	Production
2004-05	70.59	51.84
2005-06	78.02	45.41 (Estt)

1.46 Since the requirement for 2005-06 has increased over that of 2004-05 and the production is estimated to be less than last year, it has necessitated the increased imports.

(iv) <u>New Pricing Scheme</u>

1.47 A New Pricing Scheme (NPS) for urea units has been enforced w.e.f. 01.04.2003 replacing the erstwhile Retention Pricing Scheme (RPS). NPS is being implemented in stages. Stage-I was for one year duration, from 01.04.2003 to 31.03.2004. Stage-II was for two years duration, from 01.04.2004 to 31.03.2006. For reviewing the effectiveness of Stage-I and II of NPS and for formulating policy for urea units beyond Stage-II i.e. from 01.04.2006 onwards, the Department of Fertilizers had constituted a Working Group under the Chairmanship of Dr. Y.K. Alagh. As per the information given by the Department of Fertilizers, the Working Group has submitted its report on 26.12.2005, which is under examination with a view to formulating a policy for Stage-III of NPS commencing from 01.04.2006.

1.48 When the Committee desired to know about the main findings of the Working Group, the Department of Fertilizers stated that the main findings of the Working Group with regard to parameters for the fertilizer policy in the next phase are as follows:-

"1. The Indian agricultural economy, by all accounts is going through a critical phase. Profitability of Indian agriculture fell by around 15% in the decade of Nineties. The growth rate went down and in the second half of the decade there was a set back to diversification to cash crops. The employment growth rate fell. The Planning Commission has highlighted these developments as a major problem in an otherwise strong and growing economy. Input growth also fell and counterbalanced the improvements in factor productivity in Indian agriculture. The slower growth of irrigation, fertilizer and the spread of technology, became a matter of major concern.

2. Fortunately there has been some improvement in the last two years. The global agricultural cycle seems to have turned. Commodity demand is improving and crops like cotton and some other cash crops are showing buoyancy. Policy concerns with respect to agriculture, particularly with rural finance and technology may also have played a role. It is of very high importance to consolidate the positive trends and to build a sound foundation for the agricultural and rural economy in the Eleventh Plan.

3. The Working Group explored the possibility of a radical shift to the market in the next phase for urea pricing. However, given the background described in the last para and some features which are outlined now, it was necessary to design a structured transitional regime for the fertilizer economy. Some of the important issues relate to the high price of imports, considerable uncertainty in the global energy economy and as indicated above the need for caution in order to continue sustaining the growth potential of the country's agricultural economy.

4. It is sometimes argued that imports are a feasible path for meeting the urea requirements of the country's agricultural economy. The merits or otherwise of this arguments in the past have been considered in the relevant section of this report. However, in the present phase this is not a feasible option. The average cost of production of a tonne of urea in India and its import price are as follows :

   (i) Average cost of a tonne of urea produced in India in 2004-05 is Rs.9738;

   (ii) The average import price including handling charges in the period ending March, 2005 is Rs.12,264 approximately per tonne.

(iii) Since then the import prices would if at all have firmed up and these costs are marginal and not of large scale imports.

5. The average issue price of urea in the country in 2004-05 was Rs.4830 per tonne.
6. These are the parameters within which the New Policy has to be designed. A sharp rise in the price of urea can be ruled out in the present state of the agriculture economy. This may jeopardise the nascent increase in fertilizer demand in the last two years. If at all, the Working Group recommends that fertilizer prices could be increased by the upper limit of the increase in the Index of Prices of Output Received by the agriculture sector of the economy as estimated by the Commission on Agriculture Costs & Prices.
7. There is the issue of the fertilizer industry having incentives to produce better products for the nation's agricultural economy which are more suitable for each agro-climatic regime, soil condition, water availability and climate, also incorporating the latest technological trends. The Working Group has designed a suitable incentive mechanism for this which is market friendly and has marginal cost, but could release powerful productivity forces.
8. An argument is made of direct subsidy only to some sections of the farming community. This argument has to be considered in the context of operational viability and consistency with the reform process for the industry as a part of the national economy. In the opinion of the Working Group the present time is not appropriate for large scale experimentation with the distribution system which may hinder and seriously undermine the process of uptake of fertilizers. Also it notes that administered pricing and distribution schemes, have limitations and are being rationalised in the sectors where they exist. However, it has recommended that in districts where the cooperatives and joint sector of the fertilizer industry have strong roots with farmers' associations, grass-root village level cooperatives and well-worked out distribution systems, a subsidy directly aimed at the farmer could be attempted to be administered in consultation with the farmers' groups.
9. As regards the supply price of fertilizer the ideal option would have been to move over to the Long Range Marginal Cost or the Long Range Average Cost price of fertilizers for the Indian economy. Simultaneously there would be a package of incentives of a once-and – for-all nature for non gas based units to move to the most efficient technologies available to the country. Fertilizer Pricing is a very contested issue in the country with many socio-political ramifications and the Working Group's assessments is that at the present stage this may lead to gains to efficient units which while justified on grounds of efficiency returns may not be easily defensible and hence it has suggested an SBS (Second Best Strategy).

10. In the Second Best Strategy there are two groups — a gas based group and a FO/LSHS based group. There would be incentives for efficiency within each group and so-called unintended gains would be much less.
11. In this Second Best Strategy (SBS) energy prices would be a by-pass subject to upper limits set by a mandated Committee under Secretary Fertilizer with representatives of the concerned Ministries and parastatals.
12. For the transitional regime in the SBS formulation, the Working Group would suggest once and for all incentives of the kind designed in the SPV announced by the Finance Ministry for the public- private partnership in infrastructure. It may be recalled that the scheme provides for comfort to the extent of 25 per cent of total capital cost for infrastructure investments essential for the national economy. It is recommended that the final modernisation of the urea industry should be counted as essential infrastructure for this purpose.
13. Thus once and for all incentive would be given :-
    (a) to units switching over from Naphtha/FO/LSHS; and
    (b) to units which have done this modernisation in the last five years and still have substantial debt servicing and interest payment obligations on account of investments made in lines recommended and desired by the Government.
    (c) For Fuel Oil/LSHS based units the uncertainty in arranging for gas supplies is considerable particularly in the existing energy situation. A subsidy may be arranged for the differential energy cost until the gas supply is arranged. It may be noted that these units are in the Public Sector, largely in the Central Public Sector.
14. These proposals are self contained and the Working Group strongly recommends that they should not be tampered with as has been occasionally the practice in the past. They are designed to provide a logical transition to a single price regime regulated by an import tariff, assuming that urea prices level down in the next few years.
15. If the SBS Scheme is not acceptable, the Working Group recommends that the existing groups may be carried through the NPS Stage-III subject to certain rationalizations."

1.49 On being asked by the Committee about the districts selected for disbursal of subsidy directly to farmers on experimental basis, the Department of Fertilizers stated as under:-

"Working Group headed by Dr. Y. K. Alagh has recommended, inter alia, that a scheme for disbursal of subsidy directly to farmers in three selected districts where reliable land records are available may be

> formulated on an experimental basis. No districts have been identified so far. The recommendation is under examination with a view to determination of its feasibility and the possible modalities."

1.50 The Committee pointed out that the Stage-III of NPS was to be made effective w.e.f. 01.04.2006 and enquired as to how long the Department was going to take for examination of the findings of the Working Group for formulating a policy on various aspects of fertilizers sector. The Department of Fertilizers in a written reply submitted as under:-

> "The Department is examining the report with a view to formulating a policy for Stage-III of NPS commencing from 1.4.2006. In this context, Minister (Chemicals & Fertilizers) also held a meeting with representatives of fertilizer industry on 21.2.2006 to elicit their views on the report. Based on these consultations and inter-departmental discussions, the Department would soon circulate a Note for consideration of CCEA on urea policy for Stage-III of NPS."

1.51 Subsequently, the Department of Fertilizers also in a supplementary note informed the Committee that the draft of the policy for urea units for Stage-III of New Pricing Scheme commencing w.e.f. 01.04.2006 has been circulated for inter-ministerial consultation.

1.52 Elaborating it further, the representative of the Department, during the course of evidence, apprised the Committee as under:-

> "………We have already examined this (Report of the Working Group). Our Minister had a detailed interaction with the industry. We have examined this. The Note has already been circulated for the Inter-Ministerial consultation. We should be able to take it up for a final decision of CCEA by the middle of April. Decision should take place within April itself about the policy which has to come into operation from first of April."

C. Indo-UK Fertilizer Development Programme - Grant to KRIBHCO for Dryland Farming Project

MAJOR HEAD 2852

1.53 The budget provisions for this purpose are as under:-

Year	Allocation/utilization (Rs. in crore)
2004-05 (Actuals)	19.87
2005-06 (BE)	14.95
(RE)	14.95
2006-07 (BE)	12.95

1.54 When the Committee desired to know about projects that have been completed during the 10th Five Year Plan, the Department of Fertilizers stated in a written note that the following projects have been completed during the 10th Five Year Plan: -

> "**Eastern India Rainfed Farming Project (EIRFP)**: – With the financial and technical assistance of Department for International Development (DFID), Government of UK, EIRFP was started in 1995, and completed on 31/03/2005. The main objective of the project was to improve the livelihood of the tribal and rural communities in Eastern part of India. The total amount spent on this project was Rs.35.184 crore. This project has been implemented by KRIBHCO. The funds from DFID to KRIBHCO are routed through the Department of Fertilizers.
>
> **Western India Rainfed Farming Project (WIRFP – Phase II)**: - This is being implemented by Indian Farm Forestry Development Cooperative Ltd. (IFFDC) supported by DFID, UK with the aim of enhancement of livelihood of 1,50,000 poor rural tribal people in Paratapgarh, District Chittorgarh (Rajasthan) and Ratlam (Madhya Pradesh). The period of this project is 1999-2006. The total budget of this project is Rs. 36.86 crore. The funds from DFID to IFFDC are provided by DFID directly to IFFDC."

1.55 On being further enquired by the Committee about the expected grant from U.K. during the year 2006-07 and whether scope and quantum of this project can be enlarged substantially, the Department of Fertilizers stated in a written note as under:-

> "The expected grant for Western India Rainfed Farming Project (WIRFP) for the year 2006-07 is Rs.12.95 crore from Department for International Development (DFID), Government of UK. WIRFP is being implemented in seven districts of Western India covering Madhya Pradesh, Rajasthan and Gujarat since 1st April 1999. This project aims at sustainable livelihood for the tribal rural community of the rain-fed regions in these states. As per the project agreement this project will also come to an end in June 2007. The project cost under WIRFP is Rs.81.88 crore and the expenditure incurred since 1st April 1999 to December 2005 is Rs.59.56 crore.
>
> There is a definite scope for increase in the expansion of this project in similar areas, but the matter lies between the Cooperative and the funding agency. Keeping in view the impact of project interventions, the Government of Madhya Pradesh has expanded the scope and adopted them under the Madhya Pradesh Rural Livelihood Project (MPRLP), which is funded by DFID through the State Government."

1.56 During the study tour of the Committee to Ahmedabad in February, 2006, representatives of Krishak Bharati Cooperative Limited (KRIBHCO) informed that about 11 lakh tribal communities has been benefited from WIRFP. KRIBHCO has also adopted some villages to take up social activities.

D. S & T Programme

MAJOR HEAD 2852

1.57 The Budget allocations (Plan) for S&T Programme are as under:-

Year	Allocation/utilization (Rs. in crore)
2004-05 (Actuals)	1.50
2005-06 (BE)	2.00
(RE)	2.00
2006-07 (BE)	4.97

1.58 When the Committee asked about the objectives behind increase of over 100% in 2006-07 Budget, the Department of Fertilizers stated in a note as under:-

> "During the year 2005-06, an amount of Rs. 2.00 crore was provided for funding S&T projects through premier academic institutions primarily aimed at research & development of processes and equipments to lower specific energy consumption in fertilizer plants, disposal of hazardous spent catalyst after recovery of valuable metals, recharging the fertility of the soil and adopting pollution free means for chemical reaction in fertilizer plants. However, an amount of Rs. 4.97 crore has been sought for the period 2006-07 for the ongoing research projects and new projects to be taken up during the year. In addition some projects and studies are also proposed to be taken up on the side of fertilizer usage, application, etc."

E. <u>Provision for Projects/Schemes for the benefit of the North Eastern Region and Sikkim</u>

MAJOR HEAD 4552

1.59 Budget allocations (Plan) on Lumpsum provision for Projects/Schemes for the benefit of the North Eastern Region and Sikkim are as under:-

Year	Allocation/utilization (Rs. in crore)
2005-06 (BE)	14.00
(RE)	14.00
2006-07 (BE)	10.00

1.60 When the Committee asked about the specific projects being undertaken in North Eastern States, the Department of Fertilizers in a written reply stated that:-

> "Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL), has revamped its Namrup units in Assam in the North-Eastern region of the country to enhance its total actual urea production from 1.50 lakh Tonnes Per Annum (TPA) to 5.55 lakh TPA. The company is strategically located in the north-eastern region in the state of Assam which produces urea fertilizer drawing natural gas through the extensive piping network from Oil fields operated by Indian Oil Limited and ONGC. The company is the biggest fertilizer unit in the entire region of north-east, Bihar and West Bengal. This fertilizer complex has the potential to play a key role in economic development of the region by creating peripheral amenities and for providing employment opportunities to local people."

F. Plan and Non-Plan Budgetary provisions for the Fertilizer PSUs

1.61 The following table shows the Plan and Non-Plan budgetary provisions for the PSUs under the administrative control of the Department of Fertilizers:-

(Rs. in crore)

PSU	Non-Plan loans			Plan loans/investment		
	BE 2005-06	RE 2005-06	BE 2006-07	BE 2005-06	RE 2005-06	BE 2006-07
HFC	0.01	0.01	0.01	--	--	--
FCI	0.01	0.01	0.01	--	--	--
PPCL	0.01	0.01	0.01	--	--	--
PDIL	--	--	--	--	--	--
BVFCL	25.15	25.15	25.15	37.49 *	37.49 *	40.86 **
FACT	--	--	--	40.00	40.00	30.00
MFL	--	--	--	16.29	9.49	9.00
Total	**25.18**	**25.18**	**25.18**	**93.78**	**86.98**	**79.86**

* ***This includes Rs. 14.00 crore for lumpsum provision for North East Region.***
** ***This includes Rs. 10.00 crore for lumpsum provision for North East Region.***

1.62 When the Committee desired to know about the reasons for decrease in Plan loans/investment in RE (2005-06) over BE (2005-06) and further decrease in BE (2006-07), the Department of Fertilizers replied that in case of FACT there is no decrease in plan allocation for the year 2005-06. The plan allocation for FACT for the year 2005-06 was Rs 40 crore.

1.63 For the year 2006-07 initially FACT had submitted schemes covering Rs 60 crore, but after technical analysis of the schemes only an amount of Rs 30 crores was considered necessary. Subsequently, FACT have revised its schemes as per the allocated amount keeping in view the need for critical upkeep and maintenance/replacement requirements of the plant for sustained production.

1.64 In case of MFL initially an allocation for Rs. 16.29 crore was recommended for 2005-06 subject to technical scrutiny. After technical analysis of the schemes of MFL for the year 2005-06 by the Department only schemes worth Rs. 9.49 crore were recommended for undertaking necessary renewals and replacements and for maintaining the continuous operation of the plants. Hence there was decrease in Plan loans/investment in RE(2005-06) over BE (2005-06). For BE 2006-07 the company had proposed schemes worth Rs. 9.00 crore only.

V. DEBOTTLENECKING/REVAMP/MODERNIZATION AND EXPANSION OF FERTILIZER UNITS

1.65 The Department of Fertilizers has informed that the policy announced in January 2004 for creation of additional capacity of urea by way of new and expansion projects and de-bottlenecking/revamp/modernization of existing urea units have generated a very good response in the fertilizer industry. The Department has received proposals from various urea companies for expansion and de-bottlenecking, which would result in additional capacity of about 50.8 LMT of urea.

1.66 When the Committee enquired as to how many units have undergone debottlenecking/revamp/modernization and how many cases are still pending with the Government for approval after announcement of the policy in January 2004, the Department of Fertilizers, stated as under:-

> "Eleven proposals for debottlenecking/revamp /modernization proposing capacity addition of 22.29 Lakh Metric tonnes per annum (LMTPA) have been received in this Department for approval. Two of the debottlenecking proposals namely Tata Chemicals Limited (TCL), Babrala and Indo Gulf Fertilizers Limited (IGFL), Jagdishpur have been approved in principle, and the remaining are under consideration."

1.67 On being further asked by the Committee about the reasons for delay in giving Government approval for the proposals aimed at increasing production capacity of fertilizers in the country particularly in the context of stagnated production capacity of fertilizers and closure of several units of PSUs resulting in increasing imports year after year, the Department of Fertilizers stated that proposals for a total capacity of 55.79 LMTPA through expansion and de-bottlenecking have been received and are under consideration. Approval in principle has been given in respect of the two proposals for creation of additional capacity of 5.342 LMTPA through de-bottlenecking.

VI. REVIVAL OF CLOSED PSU UNITS

1.68 The Government have taken a decision to close Fertilizer Corporation of India Ltd. (FCI), Hindustan Fertilizer Corporation Ltd. (HFC) and Pyrites, Phosphates and Chemicals Ltd. (PPCL) as they were not found techno-economically viable. However, in line with the Common Minimum Programme of the Government, the possibilities of revival of the closed units of these PSUs is being examined. Proposals for revival of Barauni and Durgapur units of HFC; and Gorakhpur and Sindri units of FCI have been received from these companies for setting up 'Brown Field Fertilizer Plants' at the existing sites. In the case of Ramagundam and Talcher units also, revival proposals have been received both from the public sector and private sector companies. In the case of Haldia unit of HFC, Shriram EPC had submitted a proposal for setting up a coke oven complex including production of fertilizers. Possibility of reviving the Amjhore unit of PPCL by mining and selling the pyrites available at the unit direct as fertilizers is also being examined.

1.69 When the Committee asked about the latest position of revival proposal in respect of each of the above PSUs, the Department of Fertilizers in a note stated as under:-

> "The proposals received from HFC for the revival of its Barauni and Durgapur units and those from FCI in respect of Gorakhpur and Sindri units are for setting up brown field fertilizer projects at the existing site based on gas as feedstock. According to the Ministry of Petroleum & Natural Gas and GAIL, the revival of the above closed fertilizer units will be possible once the availability of gas for the extension of the HBJ gas pipeline from

> Jagdishpur to Haldia from various sources like Iran and Myanmar, etc is firmed up. As per present indications, the gas for this pipeline is likely to be available by 2009-10. Proposals have been received from private sector sources in respect of Ramagundam and Talcher units of FCI and for Haldia unit of HFC for setting up a coke oven complex including production of fertilizers. These are under consideration. In the case of Amjhore unit of PPCL, the possibility of reviving the unit by mining and selling the pyrites direct as fertilizers is under examination. FCI Aravalli Gypsum and Minerals India Ltd. (FAGMIL), another fertilizer PSU under the control of Department of Fertilizers and engaged in mining and selling of gypsum in Rajasthan has expressed its interest in the proposal."

1.70 On being asked about the likely cost of revival and time taken to complete them, the Department of Fertilizers stated that the estimated cost of establishing a brown field gas based plant would presently be around Rs. 2500 crores depending upon the site conditions. It normally takes around three years to establish the plant. The proposal received in respect of Haldia envisages a cost of Rs. 935 crore with an estimated time frame of 24 months. The proposal is being evaluated by PDIL.

1.71 Further, when the Committee enquired about the production capacity as a result of revival and whether it would be cost effective, the Department of Fertilizers informed that the total production capacity as a result of revival would depend upon the specific plants which are taken up for revival on the basis of techno-economic viability. The normal minimum standard capacity of a gas based urea plant is around 10.5 lakh tonnes per annum.

VII. PERFORMANCE OF INDIVIDUAL UNDERTAKINGS

PUBLIC SECTOR UNDERTAKINGS

A. BRAHMAPUTRA VALLEY FERTILIZER CORPORATION LIMITED (BVFCL)

1.72 As against the fund requirement of Rs. 108.67 crore as per updated cost estimates as on 22.11.2005, there was a provision of Rs. 49.43 crore in RE 2005-06. A further provision of Rs. 59.24 crore is required as budgetary allocation.

1.73 When the Committee asked about the ongoing projects of BVFCL for which budget provision has been made, the Department of Fertilizers informed that the approved R.E for 2005-06 for BVFCL's revamp project was Rs. 37.49 crore out of which a sum of Rs. 35.34 crore has been released. With this the total fund released for the project is Rs. 560.89 crore. The project cost approved by the PIB is Rs. 610 crore. Hence, an additional provision in 2006-07 is necessary.

1.74 Further on the question of whether the provided funds are adequate to complete the approved projects/programmes, the Department of Fertilizers stated that the Public Investment Board (PIB) had approved second revised cost estimates of BVFCL's Namrup Revamp Project of Rs. 610.24 crore, against which there has been a further escalation of Rs. 60.39 crore due to cost and time overruns. This brings the actual expenditure incurred on the project to Rs. 670.63 crore. Funds to this extent will be required after technical scrutiny and the approval of the final project cost by the competent authority. This is presently under examination.

1.75 During 2004-05, the company incurred a net loss of Rs. 22.87 crore and is expected to incur a loss of Rs. 89.45 crore during the year 2005-06.

1.76 Asked about the reasons for incurring of losses by the company year after year and steps taken to contain the losses and make the operations of the company viable, DOF informed that the following are some of the main reasons underlying the operational losses of Namrup units of BVFCL:-

"(i) Suspension of production of Namrup-I unit due to high cost of production of Ammonia.

(ii) Non-viability of Namrup-III under NPS due to prevalent pre-set specific energy consumption norm w.e.f. 1.4.2004. Whereas the pre-set energy norm of Namrup-III based on DPR is 9.26 Mkcal/MT of urea, its actual energy consumption in 2004-05 was 14.649 Mkcal/ MT of urea and the lowest achieved being 12.66 MKcal/MT in 2003-04.

(iii) Low capacity utilization of Namrup-II unit due to limited gas availability.

As regards Namrup-I as suggested by High Powered Technical Committee which studied its viability, the management of BVFCL has been asked to explore operating the unit on alternative methodology after availability of gas is fully ensured. Besides, different options in respect of energy levels in respect of Namrup-III and the pricing mechanism to be adopted in the case of Namrup-II are being examined by Department in consultation with FICC. The Government has also made provision for non-plan assistance to the company to meet its operational losses."

1.77 During the study tour of the Committee in January, 2006, BVFCL sought the assistance on the following:-

(i) At present, only one stream of urea plant of Namrup-II is being run due to limited gas availability. To run the plants at desired level of capacity utilization, the Natural Gas requirement is 1.95 million metric standard cubic metre per day (MMSCMD). The supply rate at present from M/s Oil India Limited is in the range of 1.72-1.80 MMSCMD. Ministry level intervention is sought for assured supply of 1.95 MMSCMD.

(ii) The Namrup plants are of energy intensive vintage technology and have to compete with the energy efficient plants. FICC should consider the achievable energy as norms for reimbursement in fixing price for urea produced in Namrup plants.

(iii) The present annual cost on security is around Rs. 3.20 crore. At present full reimbursement of the security expenses is not made in the retention price. Full reimbursement of expenses on security should be made to the company.

(iv) The company urgently needs restructuring of manpower and necessary fund are required for this purpose.

(v) The company should be allowed to sale excess of the North-East Region supply to the manufacturers of complex fertilizers at import parity price. This will ensure better financial positions of the company.

(vi) The company possesses excess land and residential buildings. The company should be allowed to sale the excess land and houses to lower its overhead cost.

1.78 When the Committee asked whether the Department of Fertilizers has examined the above issues and if so, what is the response of the Government on each of these issues, it was stated in a note as under:-

> "All the issues highlighted were part of the discussion during the visit of the Committee in January,2006. As regards inadequate supply of gas to Namrup units, the Department has sought intervention of the Ministry of Petroleum & Natural Gas, and efforts are being made to ensure maximum supply of gas on a sustained basis. Besides, different options in the areas of recognition of energy levels in respect of Namrup-III and the pricing mechanism to be adopted in the case of Namrup-II are being examined by Department in consultation with FICC. As regards excess manpower, the company is seeking loan facility from financial institutions for meeting requirement of funds for VRS. Hence no request for funds in this regard has been made by the company from the Department.
>
> As regards remaining points no formal request/proposals from the company have been received in the Department so far."

B. <u>FERTILIZERS AND CHEMICALS TRAVANCORE LIMITED (FACT)</u>

1.79 A provision of Rs. 40.00 crore was made in BE and RE (2005-06) for FACT. Against this FACT has incurred an expenditure of Rs. 2.64 crore as on 31.01.2006. The provision has been reduced to a level of Rs. 30.00 crore in BE (2006-07).

1.80 When the Committee wanted to know about the reasons for non-utilization of funds during the 2005-06, the Department of Fertilizers stated as under:-

> "The schemes/projects proposed to be implemented by FACT against an allocation of Rs. 40 crores was first technically scrutinized in the Department which was followed by their verification at plant site. The funds were finally released after completion of this analysis. The company commenced implementing the projects/schemes after release of funds, since it was not in a position to deploy any funds for the purpose from its own resources."

1.81 Further, when the Committee pointed out that why provision for FACT has been reduced in BE (2006-07) over BE and RE (2005-06), the Department of Fertilizers stated as under:-

> "After technical scrutiny of the schemes submitted by the company only those items coming under Renewals and Replacements and for maintaining the continuous operation of the operating divisions were recommended which resulted in lower provision in BE 2006-07 over BE 2005-06."

1.82 During 2004-05, the Company produced 1.54 lakh tonnes of Nitrogen and 1.12 lakh tonnes of P_2O_5 as against the target of 2.13 lakh MT of Nitrogen and 1.65 lakh MT of P_2O_5, respectively. The production of caprolactam during the above period was 0.45 lakh MT against a target production of 0.50 lakh MT.

1.83 When the Committee asked about the reasons for not achieving the target in production of Nitrogen, P_2O_5 and caprolactum and steps being taken to achieve the target in production, the Department of Fertilizers stated as under:-

> "The liquidity crunch, consequent to the cash losses in the previous years, together with increase in prices of raw materials, adversely affected the availability of raw materials and the capacity utilization of the plants during 2004-05. Shortfall in the production of Nutrient Nitrogen & P_2O_5 was mainly due to the shortage of Sulphuric Acid & Phosphoric Acid required for Complex production. Even though the production of Sulphuric Acid & Phosphoric Acid achieved all time high values in Cochin division during the year, there were limitations in the availability of external supply of intermediates (Sulphuric Acid & P_2O_5).

In the case of Caprolactam, production depends on various intermediates (like SO_2 gas, syn gas, CO_2, Ammonia and Oleum) sourced from FACT's own units. Since the start-up of the fertilizer plants got delayed due to financial crunch, production of Caprolactam was also affected adversely. The financial crunch which FACT has been experiencing also resulted in limitations in the availability of Benzene and Furnace Oil. All these factors were responsible for FACT not being able to achieve the targets."

1.84 The Committee were informed that in order to ensure uninterrupted production in plants aiming at achieving the target, the following steps have been taken by the Company:

(i) Approached various banks for enhancement in credit limit to tide over the working capital crisis
(ii) Optimization of operations like production/outsourcing of intermediates and product movement based on relative economics.
(iii) The company has also implemented various cost savings measures like:

(a) Reduction in cost of transportation of ammonia from Udyogamandal Complex to Cochin Complex
(b) Rationalisation of manpower by 1339 employees in last 4 years through VRS
(c) Reduction of Overtime to zero level,
(d) Integration of Materials, Finance and Personnel Departments,
(e) Integration of area/regional offices and merger/closure of uneconomical depots,
(f) Tightening of trade terms & focusing on sales on cash & carry basis,
(g) Increase in rail head/ ex-factory sales and savings in handling and secondary transportation etc.

(iv) Based on the recommendations of BRPSE, a comprehensive restructuring proposal has been considered by the Committee of Secretaries. The recommendations of the COS are being processed for obtaining approval of the competent authority. Clearance of the proposal will help in cleaning up the balance sheet and improve creditworthiness which will lead to increased capacity utilization, lower cost of production and better returns.

1.85 Turnover of FACT Engineering and Design Organisation (FEDO) during 2004-05 was Rs. 3.49 crore as against Rs. 6.79 crore during 2003-04.

1.86 When the Committee asked why turnover of the FEDO was less in the year 2004-05 as compared to 2003-04, the Department of Fertilizers stated as under:-

> "During the year 2003-04, FEDO had a major Turn key assignment worth Rs 4 crore with NPOL. FEDO was not in a position to take up turn key jobs during 2004-05, inter-alia, due to the liquidity problems faced by FACT. All the projects undertaken during 2004-05 were of consultancy nature. In view of all this, the total turn over of FEDO in 2004-05 was lower as compared to that of 2003-04."

1.87 It was informed that the specific areas on which Research & Development activity is carried out are efficiency improvement studies, Bio-fertilizer production, Rock phosphate characterization, Development of Solid Cement-Phosphogypsum blocks etc.

1.88 On being asked by the Committee asked about the details of the Research and Development activity carried out by FACT, the Department of Fertilizers stated that the following research and development activities are carried out by FACT:

(a) Utilization of Phosphogypsum for manufacture of Cement Phosphogypsum solid blocks: FACT R&D Centre has developed cement phosphogypsum solid blocks which conform to IS :1077.

(b) Shelf life improvement of Biofertilisers : Studies were taken up to enhance the shelf life of biofertilisers produced in R&D incorporating Coir pith as an additive.

(c) Rock Phosphate (Egyptian Rock) studies: Chemical analysis and pilot plant study of Egyptian rock were carried out to study its suitability to produce phosphoric acid in FACT plant.

1.89 In 2004-05 the net working results of the Company show a loss of Rs. 167.96 crore as compared to loss of Rs. 167.22 crore during 2003-04.

1.90 When the Committee asked about the reasons for huge losses suffered by the Company and steps being taken to improve the viability, the Department of Fertilizers, stated as under:-

> "Due to a PIL filed in the 90s the company was compelled to set up a naphtha based ammonia plant to produce ammonia for its complex fertilizers instead of importing it as it was doing earlier. This, together with the spiraling costs of naphtha and furnace oil made the selling price of factumfos unremunerative in the light of the concession scheme for complexes. There were also major problems in the year 2001 in the urea plant which, together with the norms of the New Pricing Scheme, led to suspension of operations in the urea plant. All this progressively led to severe liquidity crunch and reduction in capacity utilization and resultant losses.
>
> Keeping in view the financial difficulties of the company, and based on a detailed study conducted by FACT through expert consultants, the BRPSE recommended a financial restructuring proposal which would, inter-alia, involve writing off of 50% of the Government loan and conversion of the balance into equity, and writing off the outstanding interest on the loan, which would substantially improve the balance sheet of the company and enable them to raise resources for optimum utilization of capacity. Action is underway to obtain the approval/decision of the competent authority on the proposal. Various other measures, such as partial import of ammonia to reduce its cost of production, import of naphtha and furnace oil, further rationalization of the company's manpower and organizational systems, etc. have also been recommended, and action on them initiated, to ensure the long term sustainability of the company. It is expected that by 2009-2010, LNG would also become available which would lead to a substantial improvement in the profitability of the company on account of the much lower cost of gas as compared to naphtha."

C. NATIONAL FERTILIZERS LIMITED (NFL)

1.91 Production and financing performance of NFL has been good with capacity utilization of about 100% with a profit of Rs. 160 crore during 2004-05. The anticipated production by N.F.L. during the Financial year 2005-06 is 33.44 lakh MT (103.5 % capacity utilization), as against production during the Financial Year 2004-05 which was 34.52 lakh MT (106.2 % capacity utilization).

1.92 The Profit after tax for the Financial year is estimated to be around Rs.108 crores during 2005-06 against the profit of Rs.160 crores during 2004-05.

1.93 The reasons for lower profit in 2005-06 are due to restriction of the production to 100% capacity utilization in the fuel oil based units in Nangal, Bhathinda and Panipat as the import parity price during 2005-06 being lower, imports are cheaper than the group concession price of fuel oil based units; during 2004-05 a sale of 0.80 lakhs from silos contributed to higher profit; NFL incurred expenditure during 2005-06 on Repair & Maintenance and Catalyst cost because of turnaround in Panipat, Bhathinda, Nangal and Vijaipur; there was increase in consumption of energy due to comparatively lower operation load; and there were higher tax liabilities during 2005-06 due to statutory adjustments.

1.94 On being enquired by the Committee as to which of the plants of NFL are producing Neem Coated Urea and what is the expansion programme for its production and marketing, the Department of Fertilizers stated in a note as under:-

> "Panipat, Bathinda and Vijaipur units of National Fertilizer Ltd. (NFL) are producing Neem Coated Urea. The actual production during the Financial Year 2005-06 (up to Feb – 2006) is as follows:

Unit	**Lakh M.T.**
Panipat	1.22
Bathinda	1.45
Vijaipur	1.74
Total:	4.41

> Ministry of Agriculture, Deptt. of Agriculture & Cooperation vide Order S.O.No.807 (E) dated 9th July,2004 have notified Neem Coated Urea under Clause 20 A of FCO, 1985 as provisional fertilizer for its commercial trials for a period of two years for its manufacturing by M/s Indo Gulf, M/s NFL & M/s Sri Ram Fertilizers.

> Results of the commercial trials of the season submitted by M/s NFL and M/s Indo Gulf are encouraging. However, the efficacy of Neem Coated Urea, and the extent of coating of the product is yet to be established. For this purpose Indian Council of Agriculture Research has sanctioned an adhoc project titled as "Standardization of Nitrification inhibitory principles in

Neem & Neem Coated Urea" to IARI. The outcome of the project is expected by 2006. The expansion programme for production and marketing of Neem Coated Urea will depend upon the outcome of ICAR project and subject to inclusion of Neem Coated Urea as regular product in schedule-1 Part A of FCO, 1985."

D. PROJECTS AND DEVELOPMENT (INDIA) LIMITED (PDIL)

1.95 PDIL is engaged in Design, Engineering, Procurement, Inspection, etc. of the fertilizer and chemical plants. The company earned a profit of Rs. 8.69 crore during 2003-04. The company has earned a profit of Rs. 10.06 crore during 2004-05 and has projected a profit of Rs. 9.45 crore during 2005-06. Presently a number of fertilizer projects are being handled by PDIL.

1.96 Further, when the Committee enquired whether the revival, modernization programmes and new plants in fertilizer sector are necessarily to be guided by PDIL, the Department of Fertilizers informed that no such directions have been issued by the Government of India.

E. RASHTRIYA CHEMICALS AND FERTILIZERS LIMITED (RCF)

1.97 At present, RCF has a total installed capacity of about 10.54 lakh tonnes of nitrogen and 1.17 lakh tonnes of P_2O_5 and 0.45 lakh tones of K_2O.

1.98 The production during 2004-05 was 9.21 lakh tonnes of nitrogen and 0.97 lakh tonnes of phosphate.

1.99 When the Committee asked why production of nitrogen and phosphate during 2004-05 was less than the installed capacity, the Department of Fertilizers stated as under:-

> "During the year 2004-05 the production of Nitrogen and P_2O_5 was 9.21 lakh MT and 0.97 lakh MT against the installed capacity of 10.45 lakh MT and 1.17 lakh MT respectively.

Due to persistent gas shortage, one urea plant at Trombay with 3.30 LMT capacity (1.52 LMT of Nitrogen) remained shut down throughout the year, resulting in lower production of Nitrogen compared to the installed capacity.

P_2O_5 production was less compared to the installed capacity for the year 2004-05 due to Ammonia and Steam limitation caused by gas shortage and due to equipment problems in Ammonium Nitrophosphate plant due to design deficiencies."

1.100 The Committee were informed that during the year 2004-05, the Company reported a net profit of Rs. 140.96 crore as compared to Rs. 167.79 crore profit during 2003-04.

1.101 During the year 2003-04, the company received a one-time payment of Rs.111.56 crores towards interest of income tax refund pertaining to earlier years. If this is excluded the performance for the year 2004-05 was better than the year 2003-04.

1.102 In the current financial year 2005-06 up to February, 2006, the Rashtriya Chemicals & Fertilizers Ltd. (RCF) achieved a profit before tax of Rs.154.64 crores. The company is expected to make a profit before tax of Rs.177 crores (approx.) in the current financial year.

1.103 When the Committee asked about the latest position in regard to completion of upgradation of Ammonia-V Plant with project cost of Rs. 249 crore, the Department of Fertilizers stated as under:-

"The upgradation of Trombay-V Ammonia plant with an estimated cost of Rs.249 crore is nearing completion. Most of the equipments are expected to arrive at site shortly.

The shutdown for hooking up of the modernization scheme has been planned on 10th April, 2006. The project is expected to be completed as per schedule."

1.104 On the question of whether the Government has approved the Thal Expansion Project-III, costing Rs.1841 crore, the Department of Fertilizers informed as under:-

> "A final proposal envisaging an estimated cost of Rs. 2239 crore and capacity addition of 11.55 Lakh Metric tonnes of urea per annum was received from the company in January, 2006 and is being examined in the Department. The company has also been asked to obtain approval of Board of Directors on the proposal."

F. MADRAS FERTILIZERS LIMITED (MFL)

1.105 A provision of Rs. 16.29 crore was made in BE (2005-06) for Madras Fertilizers Limited (MFL) which has been reduced to a level of Rs. 9.49 crore in RE (2005-06). The provision has been further reduced to a level of Rs. 9.00 crore in BE (2006-07).

1.106 When the Committee asked about the reasons for decrease in provision for MFL in RE (2005-06) over BE (2005-06) and further decrease in BE (2006-07), the Department of Fertilizers stated in a written reply as under:-

> "Initially an allocation for Rs. 16.29 crore was recommended for 2005-06 subject to technical scrutiny. After technical analysis of the schemes of MFL for the year 2005-06 by the Department only schemes worth Rs. 9.49 crore were recommended for undertaking renewals and replacements and for maintaining the continuous operation of the plants. Hence there was a decrease in Plan loans/investment in RE(2005-06) over BE (2005-06). For BE 2006-07 the company had proposed schemes worth Rs. 9.00 crores only."

1.107 The annual installed capacity of the MFL is as follows:

[Annual Capacity (MT)]

Product	Pre-revamp	Post-revamp
Ammonia	247,500	346,500
Urea	292,050	486,750
NPK	540,000	840,000

1.108 It was informed that during the year 2004-05, the company produced 4.73 lakh tonnes of urea and 3.34 lakh tonnes of NPK-Complex fertilizers as compared to 3.88 lakh tonnes of urea and 4.29 lakh tonnes of NPK-Complex fertilizers during 2003-04.

1.109 On being enquired by the Committee about the reasons for not achieving production targets in the years 2003-04 and 2004-05, the Department of Fertilizers, stated as under:-

> "Production of Complex fertilizers had to be curtailed due to acute liquidity problems and paucity of funds to procure Phosphoric Acid, MOP and Ammonium Sulphate. There were also practical difficulties and problems in the availability/procurement of phosphoric acid. This has resulted in under utilization of NPK plants production capacity
>
> In addition, the Company also took up major turnaround in the Ammonia-Urea complex between May 12 and July 7, 2003 during which more than 300 jobs were carried out. The major jobs inter alia included attending of Reformer Process Air Compressor, Refrigeration Compressor, 110 ATA Boiler, PC Boiler, Water Cooled Ammonia Condenser and Crusher Vessels Exchanger in Ammonia Plant. Similarly, Reactors A and B, High pressure CO_2 Compressor and Prill Tower were attended in Urea Plant."

1.110 The Committee were further informed that for the period April to October 2005 the company has reported a provisional loss of Rs. 49.68 crore mainly on account of Ammonia/Urea Plants shut down, implementation of Group Price Concession for Urea and Raw-material shortage. MFL is likely to post a loss of Rs. 58.13 crore for the year 2005-06.

1.111 Ammonia/urea plant was shut down for 93 days on account of the following reasons:

(i) Annual turn around from 5th July to 2nd August, 2005 for carrying out major repair jobs (28 days),
(ii) Shut down of ammonia plant for renewal of pre-reformer catalyst and sulphur absorbent vessel catalyst from 21st November to 12th December 2005 (21 days)' and

(iii) Shut down of ammonia plant in 20th December 2005 to 2nd February 2006 due to organic sulphur slip at the outlet of hydro desulphurisation section (44 days)

1.112 On the issue of the implementation of group price concession for urea, Department of Fertilizers informed that since the retention price of MFL was higher by more than 20% as compared to the group average, it was given a specific “outlier” benefit to the extent of 50% of the difference. MFL has been representing that this does not adequately compensate them for their higher cost of production. The matter is under consideration in the context of the financial restructuring proposal submitted by the company.

1.113 According to Department of Fertilizers, the major reason for shortage of raw-material is the Company’s inability to procure the same in time due to severe liquidity crisis, due to which it is not in a position to arrange L/C for imported raw materials like Phosphoric Acid, Potash etc.

1.114 On the question of the financial restructuring proposals of MFL, Department of Fertilizers has informed that these have been considered by the Board for Reconstruction of Public Sector Enterprises (BRPSE) on 17.3.2005. The BRPSE after considering the proposals had, inter-alia, recommended enhancement of the ‘outlier’ benefit by another 20% and grant of concession for the complex fertilizer produced by MFL on a differential formula till 31.3.2005 and write off of overdue interest. During inter-ministerial consultations, doubts were expressed about the sustainability of the proposal. After detailed discussions with the company, a revised proposal has been submitted for consideration of the Committee of Secretaries which will be considered on 22.3.2006.

COOPERATIVE SECTOR

KRISHAK BHARATI COOPERATIVE LIMITED (KRIBHCO)

1.115 An IEBR provision of Rs. 542.00 crore was made in BE (2005-06) for Krishak Bharati Cooperative Limited (KRIBHCO) which has been raised to a level of Rs. 593.79 crore in RE (2005-06). However, an IEBR provision of Rs. 586.00 crore has been made in BE (2006-07).

1.116 When the Committee asked what are the projects/plans being undertaken for which provision has been made during 2005-06 and 2006-07, the Department of Fertilizers stated as under:-

> "The project/scheme-wise details of Plan outlays in respect of M/s Krishak Bharati Cooperative Limited (KRIBHCO) for the year 2005-06 and 2006-07 are given as under:-

KRISHAK BHARATI COOPERATIVE LIMITED

STATEME`NT SHOWING PLAN OUTLAY FOR THE FINANCIAL YEARS 2005-2006 & 2006-2007. **(Rs. In Crore)**

		2005-06		**2006-07**
S.NO.	**Name of the Scheme/Project**	**Approved Outlay**	**Revised Estimates**	**Approved Outlay**
1.	3rd Stream Amm./Urea at Hazira	525.00	200.00	500.00
2.	Power Project	1.00	1.00	1.00
3.	JV. Iran Project (Equity Investment)	1.00	1.00	1.00
4.	Renewals & Replacements	10.00	11.79	18.00
5.	Argon Recovery	0.00	10.00	40.00
6.	Equity participation in KRIBHCO Shyam Fertilizers Ltd.	0.00	* 370.00	0.00
7.	Bi-Metallic Urea Strippers	5.00	0.00	26.00
	Total Plan Outlay	542.00	593.79	586.00

* M/s Shyam Basic Infrastructure Projects Private Ltd. (M/s Shyam) and KRIBHCO in Joint Venture has acquired the fertilizer plant at Shahjahanpur from OCFL with an annual capacity of 8.64 LMT of urea."

KRIBHCO SHYAM FERTILIZER LIMITED

1.117 During the study tour of the Committee to Ahmedabad in February 2006, the representatives of KRIBHCO informed the Committee that a joint venture company in the name of KRIBHCO Shyam Fertilizer Ltd. has been formed. The same has purchased for Rs. 1900 crore the running urea plant of Oswal Group at Shahjahanpur (U.P.). For this purpose KRIBHCO invested Rs. 420 crore and Shyam Basic Infrastructure Projects Pvt. Ltd. invested Rs. 280 crore and being the equity share of KRIBHCO and Shyam Basic Infrastructure in the ratio of 60% and 40% respectively, the rest of the money was raised from loans.

1.118 The Committee pointed out that the KRIBHCO was having huge reserves and sound financial position. Asked about the reasons for associating a private non-fertilizer unit that too with 40% partnership, KRIBHCO in a written note brought out the sequence of events in the matter as under:-

"(i) In the month of August 2005, KRIBHCO was approached by ICICI Bank as well as OCFL for acquisition of OCFL's DAP unit at Paradeep in Orissa State. KRIBHCO signed an MOU with OCFL for acquisition of OCFL's DAP Unit at Paradeep, Orissa.

(ii) While the technical, legal and financial due diligence was under progress as to the acquisition of problem ridden DAP unit at Paradeep, IFFCO another cooperative society overnight struck a deal with OCFL by offering a price of Rs. 2180 crore against Rs. 1600 crore being finalized by KRIBHCO.

(iii) Subsequently OCFL approached KRIBHCO for acquisition of its Ammonia Urea plant at Shahjahanpur, U.P.

(iv) However, due to past experience it was felt that direct negotiation by KRIBHCO would again deprive KRIBHCO of acquisition as had happened in case of DAP Unit where IFFCO offered much higher price for acquisition than what the Bankers or the Oswals had expected.

(v) In the month of October, 2005, KRIBHCO was approached by M/s Shyam Basic Infrastructure Projects Private Ltd. (M/s Shyam) for acquisition of Shahjahanpur plant as a going concern in a joint venture with them. M/s Shyam were already negotiating with M/s OCFL.

(vi) M/s Shyam approached KRIBHCO and offered to enter singly into a sale agreement of OCFL and pay the requisite advance provided KRIBHCO was willing to join hands and takes majority stake in a proposed Joint Venture alongwith complete management control of the Joint Venture.

(vii) M/s Shyam informed that the work of due diligence had been assigned to M/s Edelweiss Capital Ltd. who had given preliminary valuation already and detailed report was expected shortly. KRIBHCO had al necessary data of OCFL while studying their DAP Plant.

(viii) The Board of Directors of KRIBHCO approved the proposal on November 5, 2005 and further ratified on November 15, 2005. The Board recommended the Joint Venture Agreement under MSCS Act 2002 to the General Body for their approval for formation of Joint Venture Company on November 24, 2005. Special General Body meeting approved the proposal on November 24, 2005.

(ix) KRIBHCO Shyam Fertilizers Ltd. was registered on December 8, 2005.

(x) As per the price bids received for Hazira Expansion (10.56 Lakh MT) and after hard negotiations works out to Rs. 2090 crore for Ammonia/Urea and if the off site facility is included it will be more than Rs. 2500 crore. The Project cost for a green field plant would be around Rs. 3000 crore. On a prorata basis for 8.64 Lakh MT will be over Rs. 2500 crore.

(xi) In the present case KRIBHCO has followed all the provisions of Laws, rules and Bye-laws in a most transparent manner and reduced the investment amount of KRIBHCO by 40% while making its presence in U.P."

1.119 Elaborating the latest position in regard to running the plant, the DOF in a note stated:

"Management control of the plant was assumed by KSFL on December 23, 2005. Majority of payment due to Oswal have been made. Balance payment will be released after resolving a few outstanding issues.

KSFL has taken over Shahjahanpur plant on January 18, 2006. The plant is presently operating satisfactorily at 100% capacity utilization. Urea produced is being marketed by KRIBHCO."

1.120 During the evidence of the representatives of DOF, the Committee pointed out that the take over of the unit and formation of joint venture with a non-fertilizer private party lacked transparency and it was without prior approval of the Government. Justifying the formation of joint venture, M.D. KRIBHCO submitted as under:-

> "We had gone to acquire the DAP plant in Paradip but our competitor overnight paid Rs. 500 crore to Rs. 600 crore more and acquired it. Therefore, we found this route to acquire this plant. It is with proven technology and based on gas."

1.121 He further added:-

> "……..If I go for greenfield plant, it will be Rs. 3500 crore. If you scale down the production to 8.64 lakh which is the capacity of the plant of Oswal and discount all these things, it will not be less than Rs. 2400 crore. We have paid Rs. 1900 crore. The whole exercise was done by one of the world's leading consultants called Eidelweess who have evaluated this project. Based on that evaluation, we have acquired it. It is the best deal and the testimony of this is that the bankers are ready to finance this project. If it was not worth it, no bankers would have come forward."

1.122 Reportedly KRIBHCO has entered into a pact with Bajaj Allianz General Insurance Company Limited for 'Sankat Haran Bima Yojna Policy' for farmers. As per the policy, on the purchase of one bag of KRIBHCO Fertilizer, manufactured at Hazira unit, every farmer would have an accidental insurance cover of Rs. 4,000 per bag. The policy would be applicable in case of accident with any agriculture machinery or road mishap and the total maximum capital sum insured would be Rs. 1 lakh.

1.123 When the Committee asked about the cost of per bag of fertilizer and amount the farmer has to pay for insurance cover, the Department of Fertilizers stated in a written note as under:-

> "The cost per bag of KRIBHCO urea is Rs. 241.50 plus taxes/VAT as applicable in the concerned State. The insurance cover is free for the farmers and nothing is to be paid by them towards insurance, against purchase of KRIBHCO Urea bag being produced at Hazira Plant, Surat."

1.124 On being enquire by the Committee about the States covered under the scheme and the total estimated amount earmarked for the purpose by KRIBHCO for 2006-07, the Department of Fertilizers, in a written reply stated as under:-

> "At present, the insurance scheme covers the states of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh and Uttaranchal. The total budget of Sankat Haran Bima Yojana for the financial year 2006-07 is Rs. 2.55 crore."

VIII. <u>BIO-FERTILIZERS</u>

1.125 Bio-fertilizers have tremendous utility in promoting agricultural production as they are eco-friendly and cost-effective fertilizers.

1.126 Some of the Public Sector Undertakings like National Fertilizers Ltd. (NFL), Madras Fertilizers Ltd. (MFL), Rashtriya Chemicals & Fertilizers Ltd (RCF) and Fertilizers & Chemicals Travancore Ltd. (FACT) are producing bio-fertilizers. Besides these PSUs, two Cooperative Societies viz. IFFCO and KRIBHCO are also producing these fertilizers.

1.127 KRIBHCO has established a Bio-fertilizer plant at Hazira in the year 1995 with an installed capacity of 100 MT per annum. Encouraging response from the farming community prompted KRIBHCO to enhance the capacity to 250 MT per annum in the year 1998 and set up two more units, one each at Varanasi (U.P) and Lanjha (Ratnagiri, Maharashtra) of 100 MT capacity each. During the year 2004-05, the production of bio-fertilizers was 560 MT, and has sold 611 MT of bio-fertilizers comprising of Rhizobium, Azotobactor, Acetobactera, Azospirrilum and Phosphate Solubilising Micro organism (PSM) for phosphorus rich soils.

1.128 During Kharif 2005 KRIBHCO has sold 304 MT of Bio-fertilizers. The sales plan for the financial year 2005-06 was 625 MT.

1.129 For increasing awareness amongst the farming community about the use and benefits of Bio-fertilizers, KRIBHCO is conducting several promotional programmes such as Demonstrations, Farmers meeting, Crop Seminars, Kisan Melas, Exhibitions, Technology Melas and distribution of literature on Bio-fertilizers uses etc.

1.130 When the Committee asked about the Budget Provision for Bio-fertilizers, the Department in a written reply stated as follows:-

> "The production of bio-fertilizers is demand driven. The installed capacity of bio-fertilizer units in the country is about 18,200 MT per annum against which the production was 10,594.90 MT during 2004-05.
>
> In order to augment the production of bio-fertilizers in the country, the Deptt. of Agriculture & Cooperation had a scheme to provide financial assistance of Rs.20.00 lakh per unit for setting up of bio-fertilizers production units under "National Project on Development and Use of Bio-fertilizers" during IXth Plan and 2002-03. The scheme has now subsumed the scheme under a new Central Sector Scheme "National Project on Organic Farming" implemented of Agriculture & Cooperation with effect from October, 2004. Financial assistance for setting up of bio-fertilizer production units @ 25% of the project cost up to a maximum of Rs.20.00 lakh is being provided as credit linked back ended subsidy through National Bank for Agriculture & Rural Development (NABARD) & National Cooperative Development Corporation (NCDC)."

PART-II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

2.1 The Sixth Report of the Committee on Demands for Grants (DFG) of the Department of Fertilizers (DOF) for the year 2005-06 was presented to Parliament on 21st April, 2005. The Ninth Action Taken Report on action taken by the Government on the recommendations contained in 6th Report was presented to Lok Sabha on 13th December, 2005. Out of the total 16 recommendations, 12 recommendations (Sl. Nos. 1 to 8, 10, 11, 14 and 15) were accepted by the Government. In view of the Government's reply, recommendation at Sl. No. 9 was not pursued by the Committee. In respect of recommendation at Sl. No. 13, the reply of the Government was not accepted by the Committee. In regard to recommendation at Sl. Nos. 12 and 16, the replies of the Government were of interim nature. Subsequently, the Minister of Chemicals & Fertilizers made a Statement regarding the status of implementation of the recommendations contained in the Sixth Report of the Committee in Lok Sabha on 22nd December,2005 under Direction 73A of the Directions by the Speaker, Lok Sabha.

The Committee's analysis of implementation of recommendations by the Government has revealed that out of the total 16 recommendations, the Department of Fertilizers have implemented only 10 recommendations, so far. The recommendations (at Sl. Nos. 4, 9, 12, 13, 15 and 16) relating to regional imbalances in fertilizers consumption; direct subsidy to the farmers and containment of hoarding/black marketing of fertilizers; de-bottlenecking/ revamp/modernization of existing urea units; revival of the sick, loss making and closed fertilizer PSUs; Namrup-II revamp project and recovery of the balance amount from M/s. Karsan Limited have not been implemented so far. The Committee are dismayed at the slow pace of the implementation process of their recommendations. They trust that the Department of Fertilizers would take necessary steps to implement the recommendations in their totality expeditiously.

(Recommendation Sl. No. 1)

2.2 The Committee note that out of Rs. 5900 crore plan outlay for the fertilizer Public Sector Undertakings (PSUs) and for the departmental schemes in the 10th Five Year Plan period, the expenditure by the end of the year 2006-07 (terminal year of the Plan) is estimated to be only Rs. 3366 crore, which is about 56 per cent of the approved plan outlay. The Committee have been informed that the main reasons for the shortfall in utilization of plan funds are non-implementation of Hazira Expansion Project of KRIBHCO and Ammonia Urea Project at Thal of Rashtriya Chemicals & Fertilizers Ltd (RCF), exclusion of Indian Farmers Fertilizers Cooperative Ltd. (IFFCO) from the Department of Fertilizers' administrative control, closing of some of the PSUs like Fertilizer Corporation of India Limited (FCI) and Hindustan Fertilizer Corporation Limited (HFC), non-clearance of major projects of Fertilizers & Chemicals Travancore Ltd. (FACT) like new sulphuric acid plant at Cochin Division, railway siding at Udyogmandal and certain improvements in Phase-1 plant at Cochin Division, etc.

(Recommendation Sl. No. 2)

2.3 Keeping in view the fact that there is a gap of about Rs. 2534 crore in the allocation and anticipated utilization of the 10th Five Year Plan outlay of the Department of Fertilizers, the Committee are of the view that the present trend of utilization of plan funds will adversely affect the ongoing and the future fertilizer projects. It is not surprising that there is hardly any capacity addition in the 10th Plan in the fertilizer sector. The Committee do not approve such a lackadaisical approach on the part of the Government/PSUs in the important area of planning and execution of projects particularly under the Five Year Plans. The Committee are rather deeply concerned over the present level of stagnation in the production capacity of fertilizers in the country. They, therefore, strongly recommend that the entire process of project planning and implementation in the PSUs/Cooperative units under the administrative control of the Department of Fertilizers should be reviewed and streamlined. Needless to emphasize, the Department of Fertilizers should review the progress of all projects in a scientific manner on a regular basis.

(Recommendation Sl. No. 3)

2.4 Even though the current year viz. 2006-07 is the terminal year of the 10th Five Year Plan, the Committee are not very sure whether necessary planning has been done by the Department of Fertilizers for the 11th Five Year Plan. The Committee would, therefore, like the Department of Fertilizers to identify the projects and other related issues to be taken up in the 11th Five Year Plan and evolve suitable plan strategies for meeting the fertilizer requirements of the country.

(Recommendation Sl. No. 4)

2.5 The Committee's examination has revealed that there has been no increase in production capacity in respect of nitrogenous fertilizer. Even the increase in production capacity in respect of Phosphate during the 10th Plan has been only marginal. The Committee also find that the demand forecast of urea during the Eleventh Plan period, as per the Working Group on Fertilizers for the Tenth Plan is 281.24 lakh tonnes and demand forecast for phosphatic fertilizers, especially DAP is very high in comparison to the present trends of consumption. Considering these facts, the Committee recommend that concerted efforts should be made to enhance the production capacity of these fertilizers so as to reduce the dependence of

the country on import for making fertilizers available to the farmers particularly when the cost of indigenously produced urea is only about Rs. 9738 per tonne as compared to import cost of Rs. 12,264 per tonne.

(Recommendation Sl. No. 5)

2.6 The Committee note that the budgetary provisions of the Department of Fertilizers for the year 2006-07 are Rs. 18154.06 crore, out of which the Plan component is Rs. 98.81 crore and the Non-Plan component is Rs. 18055.25 crore. In the Revised Estimates of 2005-06, the Plan expenditure was pegged at Rs. 105.00 crore and Non-Plan at Rs. 18055.25 crore. This shows a reduction of Rs. 6.19 crore in 2006-07 in Plan Budget and no change in the Non-Plan Budget. The Committee also find that the Department are not satisfied with the budget allocations as these are inadequate to meet and discharge the responsibilities entrusted to the Department. The Committee would like the Department of Fertilizers to continue their efforts for getting requisite funds to implement the plans/projects as also to meet the subsidy bills which have even carried over liabilities of the year 2005-06.

(Recommendation Sl. No. 6)

2.7 The Committee note that there has been delay in the reimbursement of fertilizers subsidy to the fertilizer units. The Department have made 'on account' payment of subsidy claims upto September 2005 for DAP, MOP and complex fertilizers. In the case of SSP, 'on account' payment of subsidy claims upto December 2005 has been made. In the case of urea, bills upto the month of September 2005 have been settled. The Committee are given to understand that subsidy bills are being delayed due to paucity of funds. They find that the Department of Fertilizers were expected to clear the claims for the sale of fertilizers upto October, 2005, by the end of March, 2006, as a sum of Rs. 1200 crore was being allocated to the Department under the third batch of the Supplementary Demands for Grants, 2005-06. In this connection, the representative of the Department apprised the Committee during evidence that the subsidy bill of Rs. 5000 crore would be carried forward to the next year (2006-07) even after additional allocation of approximately of Rs. 2200 crore in the second and third batches of supplementaries. As the annual budget has already been passed, the Committee desire that all subsidy/concession bills should be settled expeditiously. As recommended elsewhere in

the Report, the Department of Fertilizers should vigorously pursue the matter with the Ministry of Finance and Planning Commission for increased allocation for fertilizers subsidy in the supplementary grants.

(Recommendation Sl. No. 7)

2.8 The Committee note that the Department of Fertilizers had constituted an Expert Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission, for benchmarking phosphoric acid price with the international price of DAP for purposes of determining the concession on DAP. The Department have examined the recommendations of the Expert Group and proposed the revised methodology for working out concession rates for DAP & Complex fertilizers. A draft note on the subject for the Cabinet Committee on Economic Affairs (CCEA) has been circulated for inter-Ministerial consultations. The Committee desire that this whole process should be expedited so that the concession policy relating to DAP and Complex Fertilizers come into place early. The Committee trust that the interests of the farming community would be a guiding factor. They also desire that the proposed policy should *inter-alia* include necessary incentives

for the fertilizer industry which is essential to create more production capacities to meet the future requirements of fertilizers in the country.

(Recommendation Sl. No. 8)

2.9 Even though the Department of Fertilizers claim that there is sufficient amount of fertilizers available in the market, there have been reports about shortages of fertilizers, particularly, urea in several parts of the country like Andhra Pradesh, Gujarat, Western U.P., Punjab, Haryana, etc. Regarding the distribution and availability of fertilizers, particularly urea, the Secretary, Department of Fertilizers, during his deposition before the Committee, also admitted that there have been complaints on this aspect and in some States there have been problems relating to movement and adequate supply of urea. He added that the Department of Fertilizers monitor such situations and whenever necessary corrective measures are taken. The Committee, therefore, recommend that all necessary steps should be taken to ensure timely and adequate availability of fertilizers, so that, the farmers are not left at the mercy of the hoarders and black- marketeers.

(Recommendation Sl. No. 9)

2.10 The Committee note that a New Pricing Scheme (NPS) for urea units has come into existence w.e.f. 01.04.2003 replacing the erstwhile Retention Pricing Scheme (RPS). NPS is being implemented in stages. Stage-I was of one year duration, from 01.04.2003 to 31.03.2004. Stage-II of NPS was for two years duration from 01.04.2004 to 31.03.2006. For reviewing the effectiveness of Stage-I and II of NPS and for formulating policy for urea units beyond Stage-II i.e. from 01.04.2006 onwards, the Department of Fertilizers had constituted a Working Group under the Chairmanship of Dr. Y.K. Alagh which submitted its report in December, 2005 and the report is under examination by the Department. Since Government were very well aware that Stage II of NPS would expire by 31.03.2006, the Committee feel that the process of formulating a policy for urea beyond 31.03.2006 should have been completed well in advance to avoid the prevailing uncertainty. The Committee desire that the Government should finalize the same without any further delay. The Committee would also like to be intimated on this account within a period of one month from presentation of the Report.

(Recommendation Sl. No. 10)

2.11 The Committee in their earlier Reports have recommended to explore the possibility of disbursing the subsidy on fertilizers directly to the farmers as all the poor and small/marginal farmers are not able to reap the benefits of subsidy/concession on fertilizers. In their response, the Department of Fertilizers had maintained that the payment of subsidy to the farmers directly is a gigantic task and would involve huge administrative expenditure and logistics and the country does not have the requisite infrastructure to support the administrative mechanism to provide subsidy to each farmer as a large percentage of the land holdings in the country is with small and medium farmers. In this context, the Committee note that the Planning Commission in their mid-term appraisal of the 10th Plan had *inter*-alia recommended the re-examination of the fertilizer subsidy scheme and also to target this more to small holdings, for example, through higher subsidy on fixed quantity per farmer. Further, the Working Group headed by Dr. Y. K. Alagh has recommended, inter alia, that a scheme for disbursal of subsidy directly to the farmers in three selected districts where reliable land records are available might be formulated on an experimental basis. Undoubtedly, all

these findings of the expert bodies reinforce the need for disbursement of subsidies on fertilizers directly to the farmers, as recommended by this Committee time and again, in the past. The Committee, accordingly, recommend that the recommendation of the Working Group on this score must be acted upon expeditiously to see the result and efficacy of the scheme with a view to implementing it throughout the country.

(Recommendation Sl. No. 11)

2.12 The Committee note that the Eastern India Rainfed Farming Project (EIRFP) started in 1995 with the financial and technical assistance of Department of International Development (DFID) and implemented by KRIBHCO, was completed on 31.03.2005. The main objective of the project was to improve the livelihood of the tribal and rural communities. Similarly, the Western India Rainfed Farming Project (WIRFP) is being implemented by Indian Farm Forestry Development Coop. Ltd. (IFFDC) supported by DFID, since 1st April 1999 with the same objectives and will come to an end in June 2007. The project cost under WIRFP is Rs. 81.88 crore and the expenditure incurred since 1st April, 1999 to December, 2005 is Rs. 59.56 crore. During the study tour of the

Committee to Ahmedabad in February, 2006, representatives of Krishak Bharati Cooperative Limited (KRIBHCO) informed that about 11 lakh tribal communities have been benefited from WIRFP. KRIBHCO has also adopted some villages to take up social activities. Taking note of the reported positive results of this project, the Committee recommend that the scope and quantum of this project should be enlarged substantially as this will help in enhancing the livelihood of the tribal and rural communities which will result in their economic empowerment and integration in the mainstream of the society.

(Recommendation Sl. No. 12)

2.13 The Committee note that the Department of Fertilizers have received proposals from various urea companies for de-bottlenecking and expansion since the announcement of the policy in January 2004 in this regard, which would result in additional capacity of about 50.8 LMT of urea. However, the Committee are dismayed to find that approval in principle has been given in respect of only two out of eleven proposals for creation of additional capacity of 5.342 LMTPA through de-bottlenecking. The remaining proposals are under examination of the Government. Considering the stagnated production

capacity in fertilizers, the Committee strongly recommend that examination of the proposals for debottlenecking and expansion of fertilizer units should be expedited.

(Recommendation Sl. No. 13)

2.14 The Committee have been informed that in line with the Common Minimum Programme of the Government, proposals for revival of Barauni and Durgapur units of HFC, and Gorakhpur and Sindri units of FCI for setting up 'Brown Field Fertilizer Plants' and a Coke Oven Complex including production of Fertilizers in respect of Ramagundam and Talcher units of the Fertilizer Corporation of India Limited (FCI) and for Haldia unit of Hindustan Fertilizer Corporation Limited (HFC) have been received and are under consideration of the Government. Similarly, possibility of reviving the Amjhore unit of Pyrites, Phosphates & Chemicals Limited (PPCL) by mining and selling the pyrite available at the unit direct as fertilizers is also being examined. The Committee desire that the whole process of examination of these proposals for revival of fertilizer units should be expedited and a time frame should be fixed for their completion.

(Recommendation Sl. No. 14)

2.15 The Committee have also been informed that setting up of new fertilizer plants is also linked with availability of gas including the import of gas from other countries like Iran. Secretary, Department of Fertilizers also informed the Committee that about 35% of the indigenous fertilizer capacity is based on Naphtha and fuel oil which takes away about 70% of the subsidy. The Department of Fertilizers have accordingly sought priority for allocation of gas to the fertilizer industry. The Committee reiterate the recommendation made in their Tenth Report (14th Lok Sabha) that like the energy sector, fertilizers sector should be given top priority in the allocation of gas.

(Recommendation Sl. No. 15)

2.16 The Committee note that KRIBHCO formed a joint venture with Shyam Basic Infrastructure Projects Pvt. Ltd. In November – December 2005 for taking over assets of a running plant at Shahjahanpur for Rs. 1900 crore with production capacity of 8.64 lakh metric tones (LMT) of urea per annum. KRIBHCO and Shyam Basic Infrastructure Projects Pvt. Ltd. have invested Rs. 420 crore and Rs. 270 crore respectively in the equity in the ratio of 60:40 and the rest of the money has

been raised through the loans. Admittedly, KRIBHCO had financial resources to take over the plant on their own. The Committee are not fully convinced of the argument adduced by KRIBHCO that had they gone for acquisition of the plant independently, their competitors could have acquired the plant by paying more money as was their experience in the case of acquisition of the Paradeep fertilizer plant. In the opinion of the Committee, the following related points require clarification/secrutiny:-

(i) whether prior approval of DOF for formation of joint venture for taking over the Oswal plant was obtained and given by DOF;

(ii) whether the Government owned institutions viz. PSUs/Cooperatives etc. can select any private party as business partner without going for competitive bids;

(iii) whether the Board meetings and General body meeting called for to ratify the deal were held as per the procedure, with requisite notice/agenda, etc.;

(iv) the role of the Government nominees in the Board meetings and General Body meetings;

(v) the role of the Government in the acquisition process.

Considering the vital nature of the above issues, the Committee would examine this matter in-depth separately.

(Recommendation Sl. No. 16)

2.17 The Committee have learnt that the KRIBHCO has entered into a pact with the Bajaj Allianz General Insurance Co. Ltd. for a scheme called 'Sankat Haran Bima Yojana Policy' for farmers. As per the policy, on the purchase of one bag of KRIBHCO fertilizer (costing Rs. 241.50 plus taxes/VAT as applicable in the concerned State), manufactured at the Hazira unit, every farmer would have an accidental insurance cover of Rs. 4,000 per bag. The policy would be applicable in case of accident with any agriculture machinery or road mishap and the total maximum capital sum insured would be Rs. 1.00 lakh per farmer. The Committee have also been informed that the insurance cover is free for the farmers and nothing is to be paid by them towards insurance, against purchase of KRIBHCO urea bag. At present, this insurance scheme covers the States of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh and Uttaranchal. The total budget of the scheme for the year 2006-07 is Rs. 2.55 crore. The Committee, while appreciating the scheme, urge the Department of Fertilizers to evaluate its success with a view to extending the same for the fertilizer industry as a whole, after incorporating necessary modifications, if necessary.

(Recommendation Sl. No. 17)

2.18 The Committee feel that due to their nutrient value and eco-friendliness, the role of application of bio-fertilizers in agriculture is going to increase day by day in comparison to the chemical fertilizers. This is also evident going by the present demand of these fertilizers. The Committee have been informed that in order to augment the production of bio-fertilizers in the country, the Department of Agriculture and Cooperation had a scheme to provide financial assistance of upto Rs. 20.00 lakh per unit for setting up of bio-fertilizers production units under "National Project on Development and use of Bio-fertilizers" during 9th Five Year Plan and 2002-03. This scheme has now subsumed under a new Central Sector scheme "National Project on Organic Farming" implemented by the Department of Agriculture and Cooperation with effect from October, 2004. Some financial assistance is being provided by NABARD and National Cooperative Development Corporation (NCDC) for setting up of bio-fertilizers units costing upto a maximum of Rs. 20.00 lakh. Against this backdrop, the Committee are of the opinion that the Department of Fertilizers should play a major role in production, promotion and publicity for maximum use of bio-fertilizers by the farmers in the country, particularly when all the fertilizer production units are under its administrative control.

(Recommendation Sl. No. 18)

2.19 From the facts placed before the Committee about the financial position of the PSUs/Cooperative under the administrative control of the Department of Fertilizers, the Committee find KRIBHCO, NFL, RCF and PDIL are profit earning units. The other PSUs viz. FACT, MFL, BVFCL are loss making units. Besides, FCI, HFC and PPCL are closed units. However, belatedly some initiatives have been taken to examine the feasibility to revive/set up new plants at the existing sites of these plants. The Committee would like the Department of Fertilizers to review and monitor the working of all PSUs on a regular basis to give suitable directions to these units for taking remedial measures. Needless to emphasize, the Government should provide requisite support and funds to bring the loss making companies out of the red as also to complete the ongoing projects well in time.

(Recommendation Sl. No. 19)

New Delhi
April 26, 2006
Vaisakha 06, 1928 (Saka)

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

ANNEXURE

(Vide Para No. 1.5 of Part-I)

CATEGORY-WISE ANALYSIS OF RECOMMENDATIONS CONTAINED IN THE SIXTH REPORT ON DEMANDS FOR GRANTS (2005-06)

I. Gist of the recommendations which were accepted by the Government:-

Rec. Sl. No.	Recommendation in brief	Implementation by Government
1	Non-utilization of budgetary allocations.	DOF assured that efforts will be made to achieve the target and to keep the expenditure within the sanctioned budget.
2	Operation of fertilizer companies at an optimum level of the installed capacity.	DOF stated that all efforts are being made to improve the situation.
3	Movement and availability of fertilizers to farmers.	Elaborating about the existing mechanism, DOF stated that a Grievance Cell has been constituted.
4	Regional imbalances in fertilizers consumption.	DOF is examining in consultation with Department of Agriculture and Cooperation, the basic approach and thrust areas.
5	Finalization of SSP package.	DOF stated that the Government has decided to increase the ad-hoc concession on SSP from Rs. 650 per MT to Rs. 975 per MT w.e.f. 01.09.2005 and has also requested State Governments to maintain the MRP of the SSP at the present level in their States.
6	Fertilizer education programme for creating awareness about balanced use of fertilizers.	DOF is promoting various schemes and activities for balanced use of fertilizers.
7	Setting up joint ventures for production of potassic fertilizers.	DOF stated that a communication is being sent to Fertilizer Association of India (FAI) and M/s Indian Potash Limited with a request to explore the possibilities.

8	OMIFCO Project.	DOF stated that OMIFCO project has already been started production.
10	Finalization of report by the Working Group under the Chairmanship of Dr. Y.K. Alagh.	DOF in a latest reply has informed that the Working Group has submitted the report and it is under consideration.
11	Preferential allocation of domestic natural gas and making available imported LNG to fertilizer units at reasonable prices.	The Tariff Commission has been requested to submit the final report expeditiously and the Government has decided that all available APM gas would be supplied to only the power and fertilizer sectors.
14	Proper utilization of funds allocated to Public Sector Undertakings.	DOF stated about the procedure followed to ensure timely implementation of project and avoid recurrence of deficiencies.
15	Namrup II revamp project.	DOF has stated that a thorough re-appraisal of Namrup II project would be done.

II. <u>Gist of the recommendation which was not pursued by the Committee in view of Government's reply</u>:-

Rec. Sl. No.	**Recommendation in brief**	**Implemented by Government**
9	Direct subsidy to the farmers and containment of hoarding/black marketing of fertilizers	DOF in their latest information has stated that a scheme for disbursal of subsidy directly to the farmers in three selected districts where reliable land records are available might be formulated on experimental basis. Further, necessary steps are being taken to contain hoarding/black marketing of fertilizers.

III. Gist of recommendation which was reiterated by the Committee in their 9th Report:-

Rec. Sl. No.	Recommendation in brief	Implemented by Government
13	Revival of the sick, loss making and closed fertilizer PSUs.	The Committee reiterated their recommendation and asked DOF to expedite finalization/approval of revival packages of all sick fertilizer units. In the final action taken reply, it has been stated that the proposals have been received from HFC for revival of its Barauni and Durgapur units and from FCI in respect of Gorakhpur and Sindri units.

IV. Gist of recommendations on which replies of the Government were interim in nature:-

Rec. Sl. No.	Recommendation in brief	Implemented by Government
12	De-bottlenecking/revamp/ modernization of existing urea units.	In the final action taken reply, it has been stated that eleven proposals for de-bottlenecking/revamp/modernization proposing capacity addition of 22.29 lakh metric tonnes per annum (LMTPA) have been received in this Department for approval. Two of the de-bottlenecking proposals from TATA Chemicals Limited (TCL), Babrala and Indo-Gulf fertilizers Limited (IGLFL), Jagdishpur have been approved in principle and the remaining are under consideration.
16	Recovery of the balance amount from M/s. Karsan Limited.	The Department of Fertilizers has stated in their action taken reply that recovery matters in Turkey, Geneva, Monaco and Bahrain are being pursued vigorously by NFL with the help of MEA and the cases are at an advance stage. The matter of recovery is also being monitored/reviewed regularly in the Department by holding meetings with the senior officers of NFL, Ministry of Externals Affairs and Central Bureau of Investigation.

Appendix-I

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2005-06)

NINTH SITTING

(28.03.2006)

The Committee sat from 1100 hrs. to 1245 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Prahlad Joshi
3. Shri Sunil Khan
4. Sardar Sukhdev Singh Libra
5. Shri Tek Lal Mahto
6. Shri Narsingrao H. Suryawanshi
7. Shri Bhanupratap Singh Verma
8. Shri Mansukhbhai D. Vasava

Rajya Sabha

9. Shri Vasant Chavan
10. Shri B. S. Gnanadesikan
11. Shri Raju Parmar
12. Shri Gireesh Kumar Sanghi

Secretariat

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

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

1.	Shri Madhukar Gupta	-	Secretary
2.	Ms. Swatantra Kaur Sekhon	-	Additional Secretary & Executive Director (FICC)
3.	Shri B. K. Sinha	-	Joint Secretary (F)
4.	Shri Vijay Chhibber	-	Joint Secretary (A&M)
5.	Shri Tejinder Singh Laschar	-	Economic Adviser (F)
6.	Shri S. Chandra	-	Joint Advisor (F)
7.	Shri Manoj Kumar	-	Director
8.	Shri A. P. Singh	-	Director
9.	Shri P. Randhir Reddy	-	Director (Movt.)
10.	Shri R. N. Dass	-	Director (Admn.)

Representatives of the Ministry of Commerce

1.	Shri R. Mitter	-	Additional Secretary
2.	Ms. Vandana Aggarwal	-	Director

Representatives of the Department of Agriculture and Cooperation

1.	Shri Satish Chander	-	Joint Secretary
2.	Smt. Anjali Prasad	-	Joint Secretary

Representatives of the Public Sector Undertakings (PSUs)

1.	Shri K.K. Roy	-	CMD, Projects & Development India Ltd. (PDIL)
2.	Shri Venkitakrishnan	-	ED(Fin.), Fertilizers & Chemicals Travancore Ltd. (FACT)
3.	Shri V.N. Rai	-	MD, Krishak Bharati Cooperative Ltd. (KRIBHCO)
4.	Shri Sundarraman	-	Director (F), Rashtriya Chemicals & Fertilizers Ltd. (RCF)
5.	Shri G. S. Mangat	-	CMD, National Fertilizers Ltd. (NFL)
6.	Shri Ajay Mankotia	-	CVO, National Fertilizers Ltd. (NFL)
7.	Shri Sukumar N. Oommen	-	CMD, Madras Fertilizers Ltd. (MFL)

2. At the outset, the Chairman welcomed the Members, representatives of the Department of Fertilizers, Ministry of Commerce, Department of Agriculture and Cooperation and public sector undertakings to the sitting.

3. Thereafter, the representatives introduced themselves and Secretary, Department of Fertilizers (DOF) made a brief presentation regarding the Demands for Grant of DOF for the year 2006-07.

4. During the course of evidence, the following issues came up for discussion:-

(i) Fertilizer subsidy/concession directly to farmers particularly small and marginal farmers.
(ii) New Pricing Scheme (NPS) and its implementation in the third phase.
(iii) Distribution and availability of fertilizers to farmers at affordable prices.
(iv) Inadequate allocation of fund to the Department of Fertilizers vis-a-vis requirement.
(v) Revival of public sector undertaking under the administrative control of DOF.
(vi) Revamp of Brahmaputra Valley Fertiliser Corporation Limited
(vii) Formation of KRIBHCO Shyam Fertilizer Ltd.
(viii) WTO provisions relating to subsidy on Agriculture.
(ix) Cost of different components in production of fertilizers and entry level subsidy/concession to fertilizers plants.
(x) De-bottlenecking/revamp/modernisation/expansion of fertilizer units.
(xi) Setting up of new fertilizer units.
(xii) Availability of natural gas/LNG on priority to fertilizer sector, etc.

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

The Committee, then, adjourned.

Appendix-II

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2005-06)

TENTH SITTING

(25.04.2006)

The Committee sat from 1600 hrs. to 1700 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members
Lok Sabha

2. Shri S. Bangarappa
3. Shri Sunil Khan
4. Sardar Sukhdev Singh Libra
5. Shri Tek Lal Mahto
6. Shri Punnulal Mohale
7. *Shri P. Rajendran
8. Shri A. Venkatarami Reddy
9. Shri V.K. Thummar
10. Shri Bhal Chandra Yadav

Rajya Sabha

11. Shri Vasant Chavan
12. Shri Raj Mohinder Singh Majitha
13. Shri Ajay Maroo
14. Shri T.R. Zeliang

Secretariat

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

* In the absence of the Chairman, the Committee chose Shri P. Rajendran to act as Chairman under rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha. Accordingly, Shri Rajendran was in the chair till 16.38 hrs when Hon'ble Chairman occupied the chair.

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

3. Thereafter, the Committee considered the draft Report on Demands for Grants (2006-07) of the Ministry of Chemicals & Fertilizers (Department of Fertilizers). After some discussion, the draft Report was adopted by the Committee with some amendments.

4. ** ** ** ** ** ** ** ** ** ** ** **
** ** ** ** ** ** ** ** ** ** ** **

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

The Committee then adjourned.

***** Matters not related to this Report***