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STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2005-06)

FOURTEENTH LOK SABHA

MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)

PRICING AND FEEDSTOCK POLICIES RELATING TO FERTILIZERS

[Action Taken by the Government on the recommendations contained in the Tenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on 'Pricing and Feedstock Policies relating to Fertilizers']

THIRTEENTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI
July, 2006/Sravana, 1928 (Saka)

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Presented to Lok Sabha on ***02.08.2006***

Laid in Rajya Sabha on ***02.08.2006***

LOK SABHA SECRETARIAT

NEW DELHI

July, 2006/Sravana, 1928 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS

(2005-06)

Shri Anant Gangaram Geete - Chairman

Members

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

Secretariat

1. Shri P. Sreedharan - *Joint Secretary*
2. Shri Brahm Dutt - *Director*
3. Shri S.C. Kaliraman - *Under Secretary*
4. 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).
$$ Shri Raju Parmar ceased to be Member of this Committee w.e.f. 2nd April 2006 after his retirement from Rajya Sabha.
$$$ Become vacant due to sudden demise of Shri Vasant Chavan, MP, Rajya Sabha on 11th July, 2006.

INTRODUCTION

I, the Chairman, Standing Committee on Chemicals & Fertilizers (2005-06) having been authorised by the Committee to submit the Report on their behalf, present this Thirteenth Report on Action Taken by the Government on the recommendations contained in the Tenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on 'Pricing and Feedstock Policies relating to Fertilizers'.

2. The Tenth Report of the Committee was presented to Lok Sabha on 22nd December, 2005. The replies of Government to all the recommendations contained in the Tenth Report were received on 29th March, 2006. The Standing Committee on Chemicals & Fertilizers (2005-06) considered the Action Taken Replies received from the Government and adopted the Draft Action Taken Report at their sitting held on 26th July, 2006.

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

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

NEW DELHI
31 July, 2006
9 Sravana, 1928 (Saka)

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

REPORT

CHAPTER – I

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Tenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on 'Pricing and Feedstock Policies relating to Fertilizers' pertaining to the Ministry of Chemicals & Fertilizers (Department of Fertilizers), which was presented to Lok Sabha on 22nd December, 2005.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the recommendations contained in the Tenth Report within three months from the presentation of the Report i.e. by 22nd March, 2006. The action taken replies of the Government in respect of all the 14 recommendations contained in the Report were received on 29th March, 2006. These have been categorised as follows:-

(i) Recommendations/observations which have been accepted by the Government:
Sl. Nos. 1, 2, 3, 6, 8, 10, 12 and 14.

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

(iii) Recommendation/observation in respect of which reply of the Government has not been accepted by the Committee:
Nil

(iv) Recommendations/observations in respect of which final replies of the Government are still awaited:
Sl. Nos. 4, 5, 7, 9, 11 and 13.

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been furnished by the Government should be furnished expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations in the ensuing paragraphs:

A. Stage-III of New Pricing Scheme (NPS)

Recommendation (Sl. No. 4)

5. In the context of the urea policy beyond 01.04.2006, i.e. to decide about the method of fixing selling price, movement decontrol, etc., the Government had constituted a Working Group under the Chairmanship of Dr. Y.K. Alagh. The Working Group was asked to review performance of Stage-I & Stage-II of NPS for urea units and formulation of policy for urea units for Stage-III commencing from 1.4.2006. The Working Group had further constituted six Sub-Committees with a view to examining in depth, issues like demand and supply of urea, movement and distribution of urea, subsidy given in other countries, pricing and availability of feedstock, etc. The Committee had also noted that the Report of the Working Group to decide about the policy beyond 01.04.2006 was under finalization. The Committee had desired that this should be expedited as hardly any time was left for the commencement of Stage-III of NPS. The Committee, however, had desired that the Government should take into consideration the following issues while finalizing the urea policy beyond 1.4.2006:-

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

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

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

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

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

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

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

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

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

6. In their Action Taken Reply, the Ministry have submitted as follows:-

> "The Working Group, constituted under the Chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage I & II of NPS and to formulate a policy for Stage-III of NPS, has submitted its report on 26.12.2005. The report of the Working Group has been examined in the Department with a view to formulate a policy for Stage-III of NPS commencing from 01.04.2006. In this context, Minister (Chemicals & Fertilizers) also held a meeting with representatives of fertilizer industry to elicit their views on the report. Based on these consultations and inter-departmental discussions, the Department of Fertilizers has circulated a Note for consideration of Cabinet Committee on Economic Affairs. The Department will also keep in view the suggestions made by the Standing Committee."

7. The Committee have been informed that the report submitted by the Working Group constituted to formulate a policy for Stage-III of New Pricing Scheme (NPS) has been examined by the Department. Based on the consultations by the Ministry of Chemicals & Fertilizers with the representatives of the fertilizer industry and also inter-departmental discussions, a comprehensive Note has been circulated for consideration of the Cabinet Committee on Economic Affairs. The Committee had also dealt with the matter in their 12th Report (14th Lok Sabha) presented to Lok Sabha on 19.05.2006 wherein they had desired that the Department of Fertilizers should finalize the policy expeditiously and apprise them on this account within a period of one month after presentation of the Report. The Committee express their unhappiness over the inordinate delay on the part of the Department of Fertilizers in formulating the policy for Stage-III of NPS which was to be commenced from 01.04.2006. The Committee, accordingly, once again urge the Department to take necessary steps to formulate the policy for Stage-III of NPS without any further delay.

B. Feedstock supply to fertilizer plants on priority basis

Recommendation (Sl. No. 6)

8. The Committee's examination of feedstock policy for fertilizer industry had revealed that gas feedstock is preferred over naphtha and coal on account of gas based plants being cost efficient and energy saving. For these reasons as per the Government decision taken in January, 2004, all new fertilizer plants as also the modernization/revival programmes for existing plants will be approved, only if those are gas/LNG based. Even though the Government has been giving fertilizer and power sectors priority over other sectors in terms of pricing and availability of gas, there are issues which need to be sorted out at the earliest in consultation/coordination with the Ministry of Petroleum & Natural Gas. As against the demand of the fertilizer sector for 33.32 million metric standard cubic metre per day (MMSCMD), the actual supply of gas during 2003-04 was 22.13 MMSCMD only. With the implementation of the policy decision of the Government to set up only gas based plants and to switch over the existing plants to gas, the demand of gas for fertilizer sector is likely to reach 68 MMSCMD. In this context, the Committee had asked the Government to take adequate steps to allocate requisite gas supply to fertilizer plants on priority basis.

9. In their Action Taken Reply, the Ministry have stated as follows:-

> "As a part of the recently formulated policy on natural gas allocation and prices, the Government has decided that all available APM gas would be supplied to only the power and fertilizer sectors against their existing allocations after meeting the requirements of specific end users committed under various court orders.
>
> Furthermore, with the commissioning of LNG terminal of Petronet LNG Ltd. and commencement of supplies of RLNG to consumers w.e.f. 1.4.2005, the gas based urea units along the HBJ pipeline have received 7.6142 MMSCMD of R-LNG during the period April-September, 2005 and the average actual supply of gas to urea units during April-September, 2005

increased to 28.4089 MMSCMD. The shortfall in supply of natural gas for units along HBJ pipeline has, therefore, been significantly reduced. However, the availability of gas in terms of the total requirement with reference to expansion, de-bottlenecking/revamp/modernization proposals and for conversion of naphtha and FO/LSHS based units continues to be a matter of concern. The total requirement of gas for fertilizer sector including the future requirement on account of conversion of non-gas based units to NG/LNG, expansion/de-bottlenecking proposals and revival of closed urea units is 68.6019 MMSCMD.

For meeting the requirements of the gas for the fertilizer sector, the Department of Fertilizers is in constant interaction with Ministry of Petroleum & Natural Gas, GAIL (India) Limited and other prospective suppliers of natural gas/LNG. The gas supply scenario is going to change in the years to come on account of new gas finds, coal bed methane, coal gasification technology, efforts to import LNG from gas rich countries and possibilities of importing gas through transnational pipelines. Indications are that by 2010-11, the availability of present APM gas supplied by ONGC may decline, the supply from domestic joint venture and private suppliers will rise, and the quantum of LNG import from supplies such as Qutar, Shell and Iran will increase substantially.

In this scenario, the Department is making efforts to ensure that a substantial portion of the additional NG/LNG is made available to its various fertilizer units located in all parts of the country in the years to come on a priority basis. Such fertilizer units include not only the present functional 29 urea units but also the additional urea capacity that is likely to come up in the future by way of greenfield and brownfield expansion, de-bottlenecking and revamp projects as well as revival of some of the closed units."

10. The Committee note that with the commissioning of LNG terminal of Petronet LNG Limited and commencement of supplies of RLNG to consumers w.e.f. 01.04.2005, the gas based urea units along the HBJ pipeline have received 7.6142 MMSCMD of R-LNG during the period April-September, 2005 and the average actual supply of gas to urea units during April-September, 2005 increased from 22.13 MMSCMD in 2003-04 to 28.4089 MMSCMD. The Committee have been informed that the Department of Fertilizers are in constant interaction with the Ministry of Petroleum and

Natural Gas, GAIL (India) Limited and other prospective suppliers of natural gas/LNG for meeting the requirements of the gas for the fertilizer sector. However, considering the total requirement of gas for fertilizer sector including the future requirement on account of conversion of non-gas based units to NG/LNG, expansion/de-bottlenecking proposals and revival of closed urea units at 68.6019 MMSCMD, the Committee find that there would be a shortfall of 40.00 MMSCMD. The Committee, therefore, once again would like to emphasise that the Government should take concrete steps to make all out efforts for adequate supply of gas to the fertilizer industry.

In regard to the gas supply, the Department have stated that the scenario is going to change in the years to come on account of new gas finds, coal bed methane, coal gasification technology, efforts to import LNG from gas rich countries and possibilities of importing gas through transnational pipelines. Considering the need to tap all sources of import of gas, the Committee desire that the Government in coordination with Ministry of Petroleum & Natural Gas should also explore the possibility for supply of NG/LNG through sea route and then by containers to the fertilizer units.

C. Pricing of gas for the fertilizer sector.

Recommendation (Sl. No. 7)

11. The Committee had noted that apart from the availability of gas, another important area having a bearing on the health and growth of the fertilizer industry is pricing of gas for the fertilizer sector. As per the present decision, the Tariff Commission fix the price for gas committed by ONGC and OIL (Rs.3200/MCM). However, gas from private/joint ventures is to be obtained at market price. The Fertilizer Association of India (FAI) on behalf of the fertilizer units pleaded before the Committee that the industry can afford a gas price upto US $3.0-3.5 MMBTU whereas joint ventures/imported gas was available at the rate of US$4.5-5 and this was affecting adversely the viability of fertilizer units. The proposed Regulatory Authority for the Petroleum Sector which would sort out these matters, is yet to be established. The Committee, therefore, had asked the Government to ensure that the natural gas is supplied in requisite quantity at reasonable price to the fertilizer industry which is serving the need of agriculture sector/farming community. Besides, the Committee had recommended that the Government should initiate necessary action to set up the Petroleum Regulatory Authority at the earliest.

12. The Ministry, in their reply, have replied as under:-

> "The issue of determination of producer price for gas produced by ONGC and OIL have been referred to Tariff Commission. Pending Government's decision on the report of the Tariff Commission, the consumer price of APM gas has been increased from Rs.2850/MCM to a fixed price of Rs.3200/MCM on an ad hoc basis w.e.f. 1.7.2005.
>
> The issue of determination of price of Petronet LNG Limited (PLL)'s R-LNG is under consideration of the Inter-Ministerial Group (IMG) constituted under the chairmanship of Finance Minister to examine issues related to supply of natural gas and LNG to fertilizer industry and to work out a framework which ensures preferential allocation of domestic natural gas to the fertilizer industry and making available imported LNG to fertilizer units, its pricing and related taxation issues.
>
> The issue of establishment of Petroleum & Natural Gas Regulatory Board is under examination of the Ministry of Petroleum & Natural Gas."

13. The Committee have been informed that pending Government's decision on the report of the Tariff Commission, the consumer price of APM gas has been increased from Rs. 2850/MCM to a fixed price of Rs. 3200/MCM on an ad-hoc basis w.e.f. 01.07.2005 and the issue of determination of price of Petronet LNG Limited (PLL)'s R-LNG is under consideration of the Inter-Ministerial Group (IMG). The Committee would like to reiterate that this should be sorted out by the Department of Fertilizers in consultation/coordination with the Ministry of Petroleum & Natural Gas so as to ensure supply of gas in requisite quantity at reasonable prices to the fertilizer industry.

D. <u>Payment of concession under Concession Scheme</u>

Recommendation (Sl. No. 10)

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

15. The Ministry, in their reply, have stated as under:-

> "Keeping in view a number of problems in the existing system for payment of concession under Concession Scheme, Department of Fertilizers has now devised an alternative mechanism for release of payment. Accordingly, on 26.1.2006, the Department has announced the launching of a web based online 'Fertilizer Monitoring System' for monitoring production, distribution and sales of decontrolled phosphatic and

potassic fertilizers in the country. This system aims to bring transparency in fertilizer distribution and provide an upto-date information to the public on the dispatches and receipts of phosphatic and potassic fertilizers to different destinations in the country on day to day basis. As per this system, the State Governments will exempt the manufacturers/importers from sales certification. The role of the State Governments in monitoring receipts of decontrolled fertilizers in their respective states and ensuring the supply of quality fertilizers as per FCO has been maintained. The implementation of the 'Fertilizer Monitoring System' is applicable to DAP, MOP and NPK concurrently with the present system w.e.f 1.1.2006. On satisfactory results, the present system of sale certification will be done away with at the earliest. Its application to SSP sales will be taken up subsequently."

16. The Committee note that a web based online 'Fertilizer Monitoring System' has been launched on 26.01.2006 for monitoring production, distribution and sales of decontrolled phosphatic and potassic fertilizers in the country. The Committee desire that the efficacy of this new system should be evaluated so that the uncertainty regarding the system of sales certification ends at the earliest.

E. Concessions on sale of P&K fertilizers

Recommendation (Sl. No. 11)

17. Regarding the announcement of the concessions on sale of P&K fertilizers, the Committee were informed that the scheme for the year 2005-06 had already been announced and for the future policy an Expert Group had been constituted to look into the matter. The Group was to give their Report by the end of July 2005. The Committee had desired to know about the recommendations of the Expert Group as also the follow-up action taken on the recommendations.

18. The Ministry, in their reply, have replied as under:

"The Expert Group has submitted its report to the Department of Fertilizers in December 2005. The recommendations of the Expert Group are as under: -

(i) 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: -

(a) The first component relates to the difference in the landed price of imported DAP and the MRP.

(b) 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's 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.

(c) The third component of subsidy will be payable only to domestic manufacturers. This is to offset disadvantage to the domestic manufactures of DAP vis-à-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%.

(ii) 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.

(iii) 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.

(iv) 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.

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

(vi) 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.

(vii) 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.

(viii) 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 rationalization is brought in the MRPs of other nutrients.

The Department of Fertilizers has examined the recommendations of the Expert Group and prepared a draft note for consideration of CCEA. The draft note has been circulated to the concerned departments for their comments. DOF will put up the proposal of CCEA after incorporating the comments of the concerned ministries."

19. The Committee note that the Department of Fertilizers have examined the recommendations of the Expert Group constituted to frame the future policy regarding the concessions on sale of P&K fertilizers and circulated a draft note to the concerned Ministries/Departments for comments on the subject to be incorporated in the proposal for Cabinet Committee on Economic Affairs (CCEA). The Committee have further emphasized the need to expedite the policy formulation in their 12th Report (14th Lok Sabha) presented to Lok Sabha in May, 2006. The Committee once again urge the Government to expedite finalization of future policy on concessions on sale of P&K fertilizers.

CHAPTER - II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1)

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

Reply of the Government

These are mere observations of the Standing Committee and no specific recommendation has been made. Therefore, no reply from Government is called for.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Recommendation (Sl. No 2)

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

Reply of the Government

These are mere observations of the Standing Committee and no specific recommendation has been made. Therefore, no reply from Government is called for.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Recommendation (Sl. No. 3)

Based on the report of the Fertilizer Prices Committee, the Government introduced the Retention Price Scheme (RPS) in 1977 mainly for urea. Under RPS, the difference between retention price (cost of production as assessed by the Government plus 12% post-tax return on net worth) and the MRP was paid as subsidy to the production units. According to the Government, this system helped to increase the investment in fertilizer sector resulting in setting up of big fertilizer plants. In the context of problems of foreign exchange outgo on account of fertilizer imports, in 1991 a Joint Parliamentary Committee on Fertilizer Pricing also examined the issue. Based on the recommendations of the JPC, phosphatic and potash fertilizers were decontrolled in 1992. Also, the price of urea was increased by 30 per cent. Given the importance of fertilizer pricing and subsidy management, a High Powered Fertilizer Pricing Committee (HPC) under the Chairmanship of Prof. C.H. Hanumantha Rao examined the matter in 1997-98. Subsequently, the Expenditure Reforms Commission (ERC) also examined the fertilizer related issues. Based on its recommendations, a New Pricing Scheme (NPS) was introduced w.e.f. 1.4.2003 replacing the RPS system. NPS is being implemented in two stages viz. Stage-I from 1.4.2003 to 31.3.2004 and Stage-II from 1.4.2004 to 31.3.2006. Under the system, existing fertilizer units have been divided into 6 groups based on vintage and feedstock for determining the group based concessions. Under this scheme phasing out of ECA allocation has been proposed.

Reply of the Government

These are mere observations of the Standing Committee and no specific recommendation has been made. Therefore, no reply from Government is called for.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Recommendation (Sl. No. 6)

The Committee's examination of feedstock policy for fertilizer industry has revealed that gas feedstock is preferred over naphtha and coal on account of gas based plants being cost efficient and energy saving. For these reasons as per the Government decision taken in January, 2004, all new fertilizer plants as also the modernization/revival programmes for existing plants will be approved, only if those are gas/LNG based. Even though the Government has been giving fertilizer and power sectors priority over other sectors in terms of pricing and availability of gas, there are issues which need to be sorted out at the earliest in consultation/coordination with the Ministry of Petroleum & Natural Gas. As against the demand of the fertilizer sector for 33.32 million metric standard cubic metre per day (MMSCMD), the actual supply of gas during 2003-04 was 22.13 MMSCMD only. With the implementation of the policy decision of the Government to set up only gas based plants and to switch over the existing plants to gas, the demand of gas for fertilizer sector is likely to reach 68 MMSCMD. The Government, accordingly, should take adequate steps to allocate requisite gas supply to fertilizer plants on priority basis.

Reply of the Government

As a part of the recently formulated policy on natural gas allocation and prices, the Government has decided that all available APM gas would be supplied to only the power and fertilizer sectors against their existing allocations after meeting the requirements of specific end users committed under various court orders.

Furthermore, with the commissioning of LNG terminal of Petronet LNG Ltd. and commencement of supplies of RLNG to consumers w.e.f. 1.4.2005, the gas based urea units along the HBJ pipeline have received 7.6142 MMSCMD of R-LNG during the period April-September, 2005 and the average actual supply of gas to urea units during April-September, 2005 increased to 28.4089 MMSCMD. The shortfall in supply of natural gas for units along HBJ pipeline has, therefore, been significantly reduced. However, the availability of gas in terms of the total requirement with reference to expansion, de-bottlenecking/revamp/modernization proposals and for conversion of naphtha and FO/LSHS based units continues to be a matter of concern. The total requirement of gas for fertilizer sector including the future requirement on account of conversion of non-gas based units to NG/LNG, expansion/de-bottlenecking proposals and revival of closed urea units is 68.6019 MMSCMD.

For meeting the requirements of the gas for the fertilizer sector, the Department of Fertilizers is in constant interaction with Ministry of Petroleum & Natural Gas, GAIL (India) Limited and other prospective suppliers of natural gas/LNG. The gas supply scenario is going to change in the years to come on account of new gas finds, coal bed methane, coal gasification technology, efforts to import LNG from gas rich countries and possibilities of importing gas through transnational pipelines. Indications are that by 2010-11, the availability of present APM gas supplied by ONGC may decline, the supply from domestic joint venture and private suppliers will rise, and the quantum of LNG import from supplies such as Qutar, Shell and Iran will increase substantially.

In this scenario, the Department is making efforts to ensure that a substantial portion of the additional NG/LNG is made available to its various fertilizer units located in all parts of the country in the years to come on a priority basis. Such fertilizer units include not only the present functional 29 urea units but also the additional urea capacity that is likely to come up in the future by way of greenfield and brownfield expansion, de-bottlenecking and revamp projects as well as revival of some of the closed units.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Comments of the Committee

(Please *see* Para No. 10 of Chapter-I of the Report)

Recommendation (Sl. No. 8)

Apart from urea (N), phosphatic and potassic fertilizers play an important role in agricultural production. Raw material for the manufacture of complexes of these fertilizers are imported. Even though these fertilizers were decontrolled in 1992, some ad-hoc concessions/subsidy are being given on these fertilizers. Similarly, concession is given on sale of imported decontrolled fertilizers. Budget provision for the year 2005-06 for sale of indigenously produced decontrolled fertilizers was Rs. 4000 crore, whereas provision for concessional sale of imported decontrolled fertilizer was Rs. 1200 crore. The quantum of concession is decided by the Tariff Commission which takes into consideration issues like comparative prices of N, P & K fertilizers, customs duty, exchange rates, etc. Considering the nutrient value and essentiality of P&K fertilizers for continuous food grains production and maintaining fertility of the soil, there is a compelling need to continue with the system so that costly fertilizers remain within the reach of small and marginal farmers. The Government should also help the fertilizer industry for securing long term agreements for imports of raw materials for P&K fertilizers/complexes.

Reply of the Government

Government accepts the recommendation of the Standing Committee. The import of fertilizer inputs is free and the P&K manufacturers are free to import fertilizers raw material/intermediates as per their commercial decision. However, Department of Fertilizers is also exploring ways to promote the setting up of more joint ventures abroad by the Indian P&K manufacturers to ensure uninterrupted supply of these vital inputs at long term reasonable prices.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Recommendation (Sl. No. 10)

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

Reply of the Government

Keeping in view a number of problems in the existing system for payment of concession under Concession Scheme, Department of Fertilizers has now devised an alternative mechanism for release of payment. Accordingly, on 26.1.2006, the Department has announced the launching of a web based online 'Fertilizer Monitoring System' for monitoring production, distribution and sales of decontrolled phosphatic and potassic fertilizers in the country. This system aims to bring transparency in fertilizer distribution and provide an upto-date information to the public on the dispatches and receipts of phosphatic and potassic fertilizers to different destinations in the country on day to day basis. As per this system, the State Governments will exempt the manufacturers/importers from sales certification. The role of the State Governments in monitoring receipts of decontrolled fertilizers in their respective states and ensuring the supply of quality fertilizers as per FCO has been maintained. The implementation of the 'Fertilizer Monitoring System' is applicable to DAP, MOP and NPK concurrently with the present system w.e.f 1.1.2006. On satisfactory results, the present system of sale certification will be done away with at the earliest. Its application to SSP sales will be taken up subsequently.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Comments of the Committee

(Please *see* Para No. 16 of Chapter-I of the Report)

Recommendation (Sl. No. 12)

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

Reply of the Government

Department of Fertilizers agrees with the recommendation of the Committee and will continue its efforts to promote use of SSP.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Recommendation (Sl. No. 14)

The Committee are happy to note that due to constraints in the availability of gas, which is the preferred feedstock for production of nitrogenous fertilizers and the near total dependence of the country on imported raw materials for production of phosphatic fertilizers, the Government has been encouraging Indian companies to establish joint venture production facilities with buy back arrangement, in other countries, which have rich reserves of natural gas and rock phosphate. It came out during the course of examination that a few joint venture fertilizer projects have been set up in Senegal, Jordan, Morocco and Oman. The Committee, however, find that these are mainly urea based plants. The Committee learn that by the end of the 10th Five year Plan and thereafter, there is likely to be significant demand-supply gap for fertilizer nutrients and additional production capacity, either in India or abroad, would be required to meet this gap. In the absence of any preferred and economic alternative feedstock, the Committee, strongly recommend that the government should take an active role in taking up joint venture projects abroad for producing phosphatic and potassic fertilizers. This step will help immensely in securing our future requirements.

Reply of the Government

Out of the four Joint ventures mentioned in the recommendation, the Joint Ventures at Senegal, Jordan and Morocco pertain to phosphatic fertilizers, have already given the Indian sponsors an assured source of supply of phosphoric acid, a vital input for manufacture of DAP and other phosphate and complex fertilizers.

The Department is trying to examine/facilitate the establishment of more such joint ventures in close coordination with the industry and the Ministry of External Affairs. MOUs for setting up the following joint ventures have been signed so far:

- Indian Farmers Fertilizer Cooperative Ltd (IFFCO and El Nasr Mining Co. (ENMC) have formed a Joint Venture Company, the 'Indo Egyptian Fertilizer Company on 15th November 2005 for setting up a phosphoric acid plant in Egypt. IFFCO will buy back the entire Phosphoric Acid production. The target date for commencement of construction is mid 2006. The project construction period is estimated to be 36 months and the plant is expected to achieve the commercial production by the year 2009.

- Gujarat State Fertilizers & Chemicals Ltd. (GSFC) and Coromandal Fertilizers Ltd. (CFL) alongwith Groupe Chimique Tunisien (GCT) & Compagnie Des Phosphates De Gafsa (CPG) are setting up a joint venture project in Tunisia for production of 3,30,000 MTS of Phosphoric Acid per annum. The JV will sell its full production to both the above Indian parties. An MOU to this effect was signed in October, 2005 between GSFC & GCT/CPG. The project is expected to be commissioned by June, 2008.

Besides, KRIBHCO is in discussions with Saudi Arabian Mining company MA'ADEN for possible equity participation in a new phosphate project/fertilizer complex of MA'ADEN at Ras AzZawr for exploiting and subsequently beneficiating phosphate deposits in Al Jalamid and transporting the same to Ras Az Zawr to produce phosphate concentrate. KRIBHCO's participation in the total equity of US $ 870 million is proposed at around US $ 80 million alongwith provisions for off take of part of the product (DAP), expertise/manpower for project construction, operation, maintenance and marketing of the product. While discussions are continuing, this Department in association with the Ministry of External Affairs continues to provide assistance for facilitating finalization of the Joint venture.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

CHAPTER – III

RECOMMENDATION WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

---------------- NIL -------------

CHAPTER-IV

RECOMMENDATION IN RESPECT OF WHICH REPLY OF THE GOVERNMENT HAS NOT BEEN ACCEPTED BY THE COMMITTEE

-------------------------- NIL ------------------------

CHAPTER – V

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

Recommendation (Sl. No. 4)

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

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

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

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

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

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

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

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

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

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

Reply of the Government

The Working Group, constituted under the Chairmanship of Dr. Y.K. Alagh to review the effectiveness of Stage I & II of NPS and to formulate a policy for Stage-III of NPS, has submitted its report on 26.12.2005. The report of the Working Group has been examined in the Department with a view to formulate 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 to elicit their views on the report. Based on these consultations and inter-departmental discussions, the Department of Fertilizers has circulated a Note for consideration of Cabinet Committee on Economic Affairs. The Department will also keep in view the suggestions made by the Standing Committee.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Comments of the Committee

(Please *see* Para No. 7 of Chapter-I of the Report)

Recommendation (Sl. No. 5)

The Committee note that the grant of fertilizer subsidy is the core issue for the Government as well as farmers of the country. Presently, Budget allocation for the subsidy/ad-hoc concessions is made under the Budget allocation for the Department of Fertilizers which is about Rs.16000 crore annually. The Fertilizers Association of India (FAI) pleaded before the Committee that the main objective of this subsidy to provide its benefits of subsidy to the poor and marginal farmers has not been achieved fully. The Committee in their earlier Reports have brought out this aspect of providing direct benefit of subsidy to poor farmers time and again. However, the response of the Department of Fertilizers has not been very encouraging. The Committee do not share the repeated contention of the Government stating that the payment of subsidy to the farmers directly is a gigantic task and it is not administratively and logistically feasible to implement such a scheme. They are of the view that the direct subsidy can be provided at least to the poor and marginal farmers by categorizing them separately from the big farmers on the lines of the scheme of providing foodgrains to people below poverty line (BPL), i.e., by purchasing fertilizers at higher cost and the supplying the same at lower rate directly to the category of poor and marginal farmers. The Committee trusts that the Government would examine this suggestion at the time of finalization of policy for Stage-III of NPS commencing from 1.4.2006.

Reply of the Government

According to 1995-96 Agriculture Census Data, there are 71.2 million marginal/operational holdings having less than one hectare land and 21.6 million small holdings of 1-2 hectare size. While the marginal holdings constitute 61.6% of the total number of the holdings in the country, small holdings constitute another 18.7. Thus, both categories of holdings account for more than 80% of the holdings. Provision of fertilizer subsidy directly to the small and marginal farmers, constituting four-fifth of the operational holdings in the country, may not be an economically viable proposition. The possibility of leakages due to poor economic wherewithal of these vulnerable rural population, will only lead to greater mis-management and corruption. This aspect was also examined by the Working Group constituted under the chairmanship of Dr. Y.K. Alagh and it has recommended 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. The recommendation is under examination with a view to determination of its feasibility and the possible modalities.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Recommendation (Sl. No. 7)

Apart from the availability of gas, another important area having a bearing on the health and growth of the fertilizer industry is pricing of gas for the fertilizer sector. As per the present decision, the Tariff Commission has fixed the price for gas which has been committed by ONGC and OIL (Rs.3200/MCM). However, gas from private/joint ventures is to be obtained at market price. The FAI on behalf of the fertilizer units pleaded before the Committee that the industry can afford a gas price upto US $3.0-3.5 MMBTU whereas joint ventures/imported gas was available at the rate of US$4.5-5 and this was affecting adversely the viability of fertilizer units. The proposed Regulatory Authority for the Petroleum Sector which would sort out these matters, is yet to be established. The Committee, therefore, would like the Government to ensure that the natural gas is supplied in requisite quantity at reasonable price to the fertilizer industry which is serving the need of agriculture sector/farming community. Needless to emphasize, the Government should initiate necessary action to set up the Petroleum Regulatory Authority at the earliest.

Reply of the Government

The issue of determination of producer price for gas produced by ONGC and OIL have been referred to Tariff Commission. Pending Government's decision on the report of the Tariff Commission, the consumer price of APM gas has been increased from Rs.2850/MCM to a fixed price of Rs.3200/MCM on an ad hoc basis w.e.f. 1.7.2005.

The issue of determination of price of Petronet LNG Limited (PLL)'s R-LNG is under consideration of the Inter-Ministerial Group (IMG) constituted under the chairmanship of Finance Minister to examine issues related to supply of natural gas and LNG to fertilizer industry and to work out a framework which ensures preferential allocation of domestic natural gas to the fertilizer industry and making available imported LNG to fertilizer units, its pricing and related taxation issues.

The issue of establishment of Petroleum & Natural Gas Regulatory Board is under examination of the Ministry of Petroleum & Natural Gas.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Comments of the Committee

(Please *see* Para No. 13 of Chapter-I of the Report)

Recommendation (Sl. No. 9)

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

Reply of the Government

Payment of concession on the sales of decontrolled phosphatic & potassic fertilizers for the period 1997-98 onwards are being released on receipt of sales certification by the States. However, the record pertaining to the period prior to it has not been received from the Department of Agriculture & Co-operation. In the absence of that record, Department could not settle the claims of concession in respect of the sales during that period. This matter has been taken up with Department of Agriculture & Co-operation for transfer of the record. In the wake of this recommendation of the Standing Committee, Department of Agriculture & Co-operation has been once again impressed upon to expedite the process.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Recommendation (Sl. No. 11)

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

Reply of the Government

The Expert Group has submitted its report to the Department of Fertilizers in December 2005. The recommendations of the Expert Group are as under: -

(i) 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: -

(a) The first component relates to the difference in the landed price of imported DAP and the MRP.

(b) 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's 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.

(c) The third component of subsidy will be payable only to domestic manufacturers. This is to offset disadvantage to the domestic manufactures of DAP vis-à-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%.

(ii) 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.

(iii) 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.

(iv) 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.

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

(vi) 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.

(vii) 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.

(viii) 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 rationalization is brought in the MRPs of other nutrients.

The Department of Fertilizers has examined the recommendations of the Expert Group and prepared a draft note for consideration of CCEA. The draft note has been circulated to the concerned departments for their comments. DOF will put up the proposal of CCEA after incorporating the comments of the concerned ministries.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

Comments of the Committee

(Please *see* Para No. 19 of Chapter-I of the Report)

Recommendation (Sl. No. 13)

Another area having a bearing on the fertilizer policy is the setting up of new fertilizer plants and also taking up modernization/renovation programmes of the existing plants. Building of more capacities is essential to meet the ever growing requirements. In the context of delay in clearing some modernization proposals of the fertilizer units like Tata Chemicals Limited (TCL), Babrala, Indo Gulf Fertilizers Limited (IGFL), Jagdishpur and Indian Farmers fertilizers Cooperative Limited (IFFCO), the representatives of the Department of Fertilizers assured the Committee that these would be cleared soon. According to the DOF, the main reason for delay in approvals has been the long time taken in sorting out gas related issues as all new projects are to be gas based plants only. As recommended elsewhere in the Report, the Committee desire that the Department of Fertilizers should sort out this vital issue in consultation with the Ministry of Petroleum & Natural Gas.

Reply of the Government

Eleven proposals for de-bottlenecking/revamp /modernization and three proposals for expansion projects of existing urea units have been received in this Department for approval. While two of the de-bottlenecking proposals namely Tata Chemicals Limited (TCL), Babrala and Indo Gulf Fertilizers Limited (IGFL), Jagdishpur have been approved, the remaining are under consideration. On this, these units have raised some issues which are under examination. As regards expansion projects, two of them have been sent to the respective managements of the companies requesting to come up with firmed up cost/detailed project reports and the third one is under consideration.

On the issue of making available gas for the fertilizer sector to meet the shortfall being faced by the existing gas based units and future requirement of gas on account of conversion of non-gas based units to NG/LNG, de-bottlenecking projects, expansion projects and revival of closed urea units, the Department is in constant interaction with the Ministry of Natural Gas, GAIL and ONGC. A series of meetings has been held with the officials of the Ministry of P&NG, ONGC and GAIL. Present demand and availability projections reveal that any significant additional quantities of natural gas/LNG may not become available before 2009.

[M/o Chemicals & Fertilizers (Department of Fertilizers)
OM No.12015/3/2003-FPP dated 29.03.2006]

NEW DELHI
31 July, 2006
9 Sravana, 1928 (Saka)

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

Appendix-I

MINUTES

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2005-06)

TWELFTH SITTING
(26.07.2006)

The Committee sat from 1500 hrs. to 1530 hrs.

Present

Shri Anant Gangaram Geete - Chairman

Members

Lok Sabha

2. Shri Sunil Khan
3. Shri P. Rajendran
4. Shri A. Venkatarami Reddy
5. Shri Narsingrao H. Suryawanshi
6. Shri V.K. Thummar
7. Shri Bhanupratap Singh Verma

Rajya Sabha

8. Shri Ajay Maroo
9. Shri R. Shunmugasundaram
10. Shri Shreegopal Vyas

Secretariat

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

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

3. ** ** ** ** ** ** ** ** ** ** **

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

4. The Committee then considered the Draft Report on Action Taken by the Government on the recommendations contained in the Tenth Report of the Committee on 'Pricing and Feedstock Policies relating to Fertilizers' pertaining to the Ministry of Chemicals & Fertilizers (Department of Fertilizers). After a brief discussion, the draft Report was adopted by the Committee with minor amendment.

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

The Committee, then, adjourned.

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

Appendix – II

(Vide Para 3 of the Introduction)

Analysis of Action Taken by the Government on the recommendations contained in the Tenth Report (Fourteenth Lok Sabha) of the Standing Committee on Chemicals & Fertilizers (2005-06) on 'Pricing and Feedstock Policies relating to Fertilizers.'

I	Total No. of Recommendations	14
II	Recommendations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 2, 3, 6, 8, 10,12 and 14)	8
	Percentage to Total	57.14%
III	Recommendation which the Committee do not desire to pursue in view of Government's Reply	Nil
	Percentage of Total	Nil
IV	Recommendation in respect of which reply of the Government has not been accepted by the Committee	Nil
	Percentage of Total	Nil
V	Recommendations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos. 4, 5, 7, 9, 11 and 13)	6
	Percentage of Total	42.86%