48

STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2017-18)

SIXTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

[Action Taken by the Government on the Observations / Recommendations contained in the Forty Third Report of the Standing Committee on Chemicals and Fertilizers (Sixteenth Lok Sabha) on 'Demands for Grants 2018-19' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)

FORTY EIGHTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

JULY, 2018 /ASHADHA, 1940 (SAKA)

CC&F.No.48

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(SIXTEENTH LOK SABHA)

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Presented to Lok Sabha on 19 July, 2018

Laid in Rajya Sabha on 19 July 2018

LOK SABHA SECRETARIAT
NEW DELHI
JULY, 2018 /ASHADHA, 1940 (SAKA)

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Shri Anandrao Adsul - Chairperson

MEMBERS

LOK SABHA

2.	Shri George Baker
3.	Smt. Anju Bala
4.	Shri B.N. Chandrappa
5.	Shri Pankaj Chaudhary
6.	Shri Sankar Prasad Datta
7.	Dr. Ratna De Nag
8.	Smt. Veena Devi
9.	Shri R.Dhruvanarayana
10.	Shri Innocent
11.	Prof. A Seetaram Naik #
12.	Shri K. Ashok Kumar
13.	Shri Chhedi Paswan
14.	Smt. Kamla Devi Patle
15.	Shri Rajendran S.
16.	Dr. Kulamani Samal
17.	Dr. Uma Saren
18.	Dr. Krishna Pratap Singh
19.	Shri Kirti Vardhan Singh
20.	Smt. Rekha Arun Verma
21	Shri Sarfaraz Alam*

RAJYA SABHA

22.	Shri Biswajit Daimary
23.	Shri Prem Chand Gupta
24.	Shri B.K. Hariprasad
25.	Shri Vijay Pal Singh Tomar@
26.	Shri Ranvijay Singh Judev
27.	Dr. Sanjay Sinh
28.	Shri Abdul Wahab
29.	Shri Sanjay Dattatraya Kakade
30.	Vacant^
31.	Vacant^

SECRETARIAT

1.	Shri Vinod Kumar Tripathi	Joint Secretary
2.	Shri A. K. Srivastava	Director
3.	Shri U. C. Bharadwaj	Deputy Secretary

 # Prof. A. Seetaram Naik MP, (LS) has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 3.11.2017 vice Shri Kotha Prabhakar Reddy MP, (LS) who ceased to be a Member of the Committee on Chemicals and Fertilizers w.e.f. 3.11.2017

**Shri Sarfaraz Alam has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 27.04.2018*

@Shri Vijay Pal Singh Tomar has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 02.06.2018

^Vacant vice Dr. Bhusan Lal Jangade due to his retirement from Rajya Sabha on 02.04.2018.

^Vacant vice Shri K. Parasaran due to his retirement from Rajya Sabha on 28.06.2018.

INTRODUCTION

I, the Chairperson, Standing Committee on Chemicals and Fertilizers (2017-2018) having been authorised by the Committee to present the Report on their behalf, present this Forty-eighth Report (Sixteenth Lok Sabha) on Action Taken by the Government on the observations/ recommendations contained in the Forty-third Report (Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2017-18) on 'Demands for Grants 2018-19' pertaining to the Ministry of Chemicals and Fertilizers (Department of Fertilizers)

2. The Forty-third Report (Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on **13.03.2018**. The Action Taken replies of Government to all observations / recommendations contained in the Report were received on 19.06.2018 The Standing Committee on Chemicals and Fertilizers (2017-2018) considered and adopted this Report at their sitting held on 13.07.2018.

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

4. For facility of reference and convenience, the Comments of the Committee have been printed in bold letters in the body of the Report. **- Chapter-I**

New Delhi;
18 July, 2018
27 Ashadha 1940 (Saka)

ANANDRAO ADSUL
Chairperson
Standing Committee on
Chemicals and Fertilizers

REPORT

CHAPTER I

This Report of the Standing Committee on Chemicals and Fertilizers deals with the action taken by the Government on the Observations/Recommendations contained in the Forty Third Report (Sixteenth Lok Sabha) of the Committee on the Demands for Grants 2018-19 of the Ministry of Chemicals & Fertilizers (Department of Fertilizers) which was presented to Lok Sabha on 13.03.2018. In all, the Committee made 8 Observations / Recommendations in the Report.

1.2 Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the Observations / Recommendations contained in the Forty Third Report within three months from the date of presentation of the Report, i.e., by 12.06.2018. The Action Taken Replies of the Government in respect of all the 8 Observations/ Recommendations contained in the Report have been received from the Ministry of Chemicals and Fertilizers (Department of Fertilizers) vide their O.M. No. 14(1)/2017-Fin.I Vol. II dated 19.06.2018. These Replies have been categorized as follows:-

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

Sl. Nos. 4 (Total=1)

These may be included in Chapter II of the Draft Report.

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

Sl. No. 1,5 and 6 (Total = 3)

This may be included in Chapter III of the Draft Report.

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

Sl. No. 2,3,7 and, 8 (Total = 4)

This may be included in Chapter IV of the Draft Report.

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

Sl. Nos. Nil (Total =Nil)

This may be included in Chapter V of the Draft Report.

1.3 The Committee desire that the Action Taken Notes on the Observations / Recommendations contained in Chapter-I of this Report should be furnished expeditiously.

1.4. The Committee will now deal with action taken by the Government on all the Observations/Recommendations which still require reiteration or merit comments.

A. Budgetary estimates for the year 2018-19

Recommendation (Sl. No.2)

1.5 While stressing for judicious planning for real time budgetary requirement, the Committee had recommended as under:-

"The budgetary allocations for the Department of Fertilizers mainly consist of fertilizer subsidy for both Urea and P&K fertilizers. This subsidy is given for indigenous and imported fertilizers. However, its mode of distribution is different in both the cases. For the year 2018-19, a total budgetary provision of Rs. 73483.34 crores including Rs. 34.99 crores for Secretariat expenditure has been made/estimated. This estimated expenditure for the year 2018-19 has been made against the revised estimates of Rs. 69264.70 crores likely to be incurred during the year 2017-18. However, if supplementary provision of Rs. 20532.50 in the budgetary provision of the year 2017-18 to waive of loans and interest of PSUs is taken into account the total budgetary provision for fertilizers subsidy under the year 2017-18 comes to Rs 89797.21 crores which is already reflected in detailed Demand No. 6 of consolidated DFG 2018-19 document of Ministry of Finance presented to the Lok Sabha along with other Budget documents on 01.02.2018. This shows the Budgetary estimates for the Year 2018-19 are substantially short to the tune of approximately Rs. 20000 crores. No doubt this waiving of loans and interest will not involve cash flow but will go a long way in improving the Balance Sheet of such PSUs by reducing their overall liabilities. The Committee think that the expenditure on this account though notional in nature but in bookkeeping records it will always be reflected as expenditure and hence warrants debit entry at source i.e. the Ministry of Finance.

The Committee are of the view that the Government superficially resorted to showing less expenditure of Rs. 69264.71 for the year 2017-18 at revised stage instead of Rs. 89797.21 crore as shown by the Ministry of Finance in their records. This shows that the budgetary provisions for the year 2018-19 are comparatively on lower side by almost Rs. 20000 crore. The Committee think that the pattern of making estimates and actual spending as being resorted to during the last 2-3 years has not been adhered to the strictest principles of financial propriety wherein every new year budgetary proposals have to be assessed at zero-based budgeting concept. This strengthens the belief that the lot of changes are resorted after the proposals are voted in the parliament by way of re-appropriation, waiving of loans/interest/capital subsidy etc. The Committee are quite apprehensive that the growth of fertilizers and their availability may be adversely hit causing chaos and reducing the agriculture production. The Committee, therefore, cannot help but recommend that judicious planning is a must and paramount requirement to assess the real time budgetary requirement by resorting to due diligence. They further urge that there must not be any substantial changes at the Revised Stage of 2018-19. They are of the considered view that resorting to such tendencies may kill the real policy initiative and give way to ad-hocism".

REPLY OF THE GOVERNMENT

1.6 In pursuance to Cabinet decision, Department of Fertilizers had received Rs.20532.50 Crore in the 2nd Batch of Supplementary Demands to write off the equal amount of outstanding loan and interest in respect of Brahmaputra Valley Fertilizer Corporation of India Limited (BVFCL), Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) from the books of account of the PAO. This did not involve any cash out go from the public exchequer, hence, it had no effect on the over all cash budget available to the department for expenditure. Thus, the effective RE allocation for the Department (Demand No.7) for 2017-18 is Rs. 69264.71 Crore only.

The Budget Allocation for 2018-19 for the Department of Fertilizers is Rs.73485.39 Crore, which includes a provision of Rs.73450.35 Crore for Subsidy Expenditure. In the subsidy expenditure, the allocation for Nutrient Based Subsidy Scheme and Urea Subsidy has been kept as Rs.25090.35 Crore and Rs.48360.00 Crore, respectively in accordance with projections for the schemes.

Comments of the Committee

1.7 **The Committee in their Report noticed that the total likely expenditure at the Revised Stage (RE) for the year 2017-18 was shown Rs. 69,264.71 crore whereas it was Rs. 89797.21 crore including Rs. 20532.50 crore which were received by the nodal Department/Ministry in the 2nd batch of Supplementary Demands to write off the equal amount of outstanding loans and interest in respect of some PSUs. The Ministry/ Department have taken the analogy that since it did not involve any cash outgo from the public exchequer and had no effect over the cash budget available to the Department and as such the (BE) Rs. 73485.39 crore earmarked for the year 2018-19 is on the higher side vis-a-vis likely expenditure of Rs. 69264.71 crore for the preceding year 2017-18.**

The Committee do not find the above reasoning of the Ministry/Department tenable. As no doubt the nodal Ministry/Department did not receive cash during Supplementary Grant but the national Exchequer Account had to be reconciled/settled showing receipt/ recouping of loan and interest amount Rs. 20532.50 crore, which was having entry of loan and accumulated interest. So, there is no free lunch in economics and the Committee are absolutely affirmative in accepting this reality. They, therefore, are of the considered view that the

allocation (BE) for the year 2018-19 has not been enhanced with respect to the likely expenditure during the preceding year 2017-18.

(RECOMMENDATION NO. 3)

B. Carry over liabilities

1.8 Impressing upon the Government to clear all the outstanding dues of fertilizers company on account of payment of fertilizer subsidy, the Committee had recommended as under:-

> "The carry over liability discharged as on 01.04.2017 stands out to be Rs. 29091.46 crores out of the total carryover liability of Rs. 39057.11 crores acured due to delayed payment of fertilizers subsidy to the fertilizers producing/importing companies. The remaining carryover liability of Rs. 9965.65 crores as assessed on 01.04.2017 has been still pending to be cleared/discharged. It is also pertinent to mention that some more liability on this account might have been accrued/accumulated after 01.04.2017 due to further delay in payment. The Committee appreciate the efforts of the Ministry in clearing the carryover liability to the tune of 74.48% of the total pending liability as on 01.04.2017 but at the same time would like to know the exact quantum of carryover liability after 01.04.2017 and the efforts being made by the Ministry to clear this carryover liability after 01.04.2017. The Committee are quite apprehensive of the dwindling financial health of fertilizers producing and importing companies and are of the considered view that any undesirable delay in clearing the over accumulated carryover liabilities may hamper the production/import of fertilizers ultimately heralding adverse impact on agriculture production in the country.
>
> Apart from this the Committee are also seized of the higher cost of working capital of these fertilizers producing/importing companies. They notice that most of the companies have not reached their Break-in-Point and as a result their substantial portion of profit margin is consumed in recouping their Fixed Cost. They are of the considered view that fertilizers industry being capital intensive industry once closed will never be able to restart and no new investment could be mobilized in view of the fact of delayed payment and thin

margin of profit and comparatively higher cost of capital both fixed and variable. In view of this, the Committee strongly recommend to clear all the over delayed outstanding dues of the fertilizers companies on account of payment of fertilizers subsidy. They also urge the Ministry to apprise the committee on quarterly basis about progress made on this account".

REPLY OF THE GOVERNMENT

1.9 Details of Carryover liabilities as on 01.04.2017 and 01.04.2018 are detailed below:-

(Rs. in Crores)

Scheme	Carryover liabilities as on 31.03.2017	Carryover liabilities as on 31.03.2018
Imported P&K	7482.42	6,539.12
Indigenous P&K	11,671.40	9,482.81
City Compost	3.58	12.18
Imported Urea	399.71	354.69
Indigenous Urea	19,500.00	9,794.00
Total	**39,057.11**	**26,182.80**

Out of total carry over liabilities of Rs.39057.11 Crore as on 31.03.2017, the liabilities to the tune of Rs.31381.86 Crore have been discharged by the Department, leaving a balance of Rs.7675.25 Crore. The total carry over liabilities as on 31.03.2018 are 26182.80 Crore including the carry forward of balance liabilities of previous year.

All efforts are being made to clear the pending liabilities during the current financial year 2018-19.

Comments of the Committee

1.10 The Committee are satisfied that the Ministry have cleared the pending claims to the tune of Rs. 31381.86 crore out of the total carryover liability of Rs.

39057.11 crore as on 31.03.2017 leaving a balance of Rs.7675.25 crore. However, they are still concerned over the further ongoing increased carryover liability of Rs. 26182.80 crore as on 31.03.2018 including the carry forward balance liabilities of the previous year 2017-18. Though the Committee have assured to clear the pending liabilities during the current financial year 2018-19 itself, the Committee are not convinced with the assurance as further liabilities are allowed to accumulate on the higher side, which ultimately affect adversely the efficiency, productivity, economy and profitability of the fertilizers companies. the Committee are of the strong view that accumulation of liabilities must not be allowed at any cost and therefore, reiterate their earlier recommendation to clear all outstanding bills and apprise the Committee on quarterly basis about the progress made on this account.

Recommendation (Sl. No.7)

C. Production of Urea & P&K Fertilizers

1.11 Having noticed no substantial improvement in the production of Urea after the implementation of New Urea Policy-2015, the Committee had recommended as under:-

> "The Committee note that the total installed capacity of 30 Urea manufacturing is around 207.54 LMT whereas the requirement of urea ranges between 290-320 LMT approximately depending upon the monsoon season. The gap between the demand and supply is met through imports. To bridge this gap, the Government launched New Investment Policy (NIP - 2012) - 2012 to facilitate fresh investment in urea sector to make India self-reliant. In the backdrop of this policy two projects one in Greenfield by Matix at Panagarh, West Bengal with installed capacity of 1.3 MMT (13 LMT) per annum was set up and the other one in the brown-field by Chambal Fertilizers & Chemicals Limited (CFCL) with installed capacity of 1.34 MMT (13.4 LMT) at Gadepan, Rajasthan

was set up, which will start commercial production by January, 2019. To Boost the urea production further, the Government have decided to revive closed units namely Gorakhpur, Sindri, Talcher and Ramagundam units of (FCIL) and Baroni unit of Hindustan Fertilizers Corporation Limited (HFCL) by setting up 12.7 LMT per annum urea plant at these units which are likely to become operational by December, 2020. In addition to this, the Government have decided to install a new Urea Plant of 8.646 LMT by replacing the existing Namrup II (capacity 2.40 LMT) and Namrup III (Capacity 2.70 LMT) in the existing premises of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL). These new projects are likely to add 93.45 LMT to the indigenous production capacity by 2022.

The Committee further notice that the total installed capacity of P&K fertilizers is 146 LMT against the average sale of 202.22 LMT. However, due to non-availability of raw material in the country, the indigenous industry could not utilize the full installed. Capacity. India is 100% dependent on imports in Potash and 90% in case of Phosphate. They were also apprised that the total production of urea has been 244.75 LMT and 242.01 LMT respectively during 2015-16 and 2016-17.

The Committee are constrained to not that installed capacity of Urea i.e. 207.54 LMT is being over utilized to the tune of 244.75 LMT in 2015-16 and whereas the installed capacity of P&K fertilizers which 146 LMT is underutilized due to non-availability of raw material which has to be imported between 90-100 %. They further note with concern that there has been slight volatility in the planning of requirement of fertilizers and strategy to ensure availability of the same in adequate quantum throughout the county. They attribute the cause of this dilemma to the dilly-dally policy and approach of the Government while dealing with the challenges of production and availability of fertilizers in the country. This ad-hocism and delay in implementation of the policy decision not only hamper the production of fertilizers but also pose serious challenge of food security in the county. The Committee are of the considered view that the indecisiveness and procrastination of the Department warrant immediate attention to address the matters which are almost threatening the survival of the fertilizers industry and sustainability of the agriculture growth and productivity. The Committee are dismayed to note that even the agreements signed between fertilizers making units/Department of Fertilizes and raw material suppliers like OIL/ONGC/GAIL etc are not being honored despite the latter being all Government Companies/Entities. This can lead to total chaos and apathy towards the cause of food security in the country.

They feel disappointed over the fact that even after introduction of New Urea Policy 2015 there has been no substantial increase in Urea Production except in the year 2015-16. Taking a holistic view of the entire situation of fertilizers industry, production, availability etc, the Committee strongly recommend to revisit the entire spectrum of policy to address the constraints as early as possible and apprise the Committee in this regard within three months about the progress made on this regard".

REPLY OF THE GOVERNMENT

1.12 The total installed capacity of P&K fertilizers is 146 LMT against the total average sale of 202.22 LMT during last three years. However, due to non availability of raw material in the country, the indigenous industry is not able to utilize the full installed capacity. India is 100% dependent on imports in Potash and to the extent of 90% in case of Phosphate sector in terms of either finished fertilizers, raw materials and intermediaries. The gap is being filled by imports. Keeping in mind the scarcity of fertilizer raw material/intermediaries in the country, the Government has been encouraging Indian companies to establish Joint Ventures abroad in countries which are rich in fertilizer resources for production facilities with buyback arrangements and to enter into long term off-take agreement for fertilizer raw materials and intermediaries.

Vide notification dated 25th May, 2015, Department of Fertilizers has notified New Urea Policy -2005 (NUP-2015) effective from 1st June, 2015, with the objectives of maximizing indigenous urea production, production, promoting energy efficiency in urea production, and rationalizing subsidy burden on the government. As a result, the production of urea during the year 2015-16, 2016-17 and 2017-18 was 244. 75 LMT, and 240.23 LMT i.e. an increase in production of around 20 LMT, 18 LMT and 16 LMT As compared to the urea production of 225 LMT during 2014-15

Comments of the Committee

1.13 **The Committee in their original Report had noted that the New Urea Policy-2015 which was made effective from 1st June, 2015 promised a growth of 17 lakh Million Tonnes (LMT) annually in urea production. However, there has been no substantial growth in subsequent years. The Urea production during the years 2015-16, 2016-17 and 2017-18 has been 244.75 LMT, 242.01 LMT and 240.23 LMT respectively. The Ministry has compared this production with respect to the urea production of 225 LMT of the year 2014-15. The Committee appreciate that a quantum jump of 19.75 LMT was recorded in the implementing year 2015-16 with respect to the urea production of the preceding year 2014-15. However, they failed to understand the reasons why the same pace of growth momentum was not maintained and finally the growth started immediate decline to 242.01 LMT in the year 2016-17 and 240.23 LMT in the year 2017-18. The reasons are best known to the nodal Ministry. The Committee are of the considered opinion that either the issues plaguing the Urea Sector had not been properly addressed by the New Urea Policy-2015 or the Policy was not implemented in letter and spirit. They further consider that the major issues like energy norms, non-clearance of subsidy dues both fertilizers and freight, importing of urea etc. were not properly addressed by the nodal Ministry and as a result the requisite production as promised by the NUP-2015 could not be harnessed in letter and spirit of the Policy. The Committee, therefore, strongly reiterate their earlier recommendation to the Government to make all out efforts to address the Policy constraints at the**

earliest to add more credibility, predictability, efficiency and transparency in the system.

Recommendation (Sl. No. 8)

D. Promotion of City Compost

1.14 Keeping into account the cause of sustainable agriculture and disposal of solid waste originating from metros and urbanised areas, the Committee had recommended as under:-

> "The Central Government has been giving due importance to the model of sustainable development like promotion of non conventional and environment friendly measures such as solar energy and wind energy for meeting out the energy requirement of the country. Similarly, the provision of promoting organic fertilizers such as city compost is also an alternative option available in this regard for giving impetus to organic farming for reducing dependence on chemical fertilizers. In the wake of rapid urbanization the country is facing the problem of disposal of solid waste originating from metro cities and urbanised areas. The city compost methods provide a viable option for sorting out this problem. The Committee is surprised to note that only Rs. 10 crore has been allocated for promotion of city compost for the year 2018-19 and it is contrary to the Government Policy for promotion of models of sustainable development as being initiated in other sectors. In Western countries there is a demand for agri-products harvested under organic farming and India could be a pioneering nation in making use of this opportunity by supplying organic food through method like city compost. But there is complete lack of interest on the part of Government in promoting the use of city compost. The chemical fertilizers affect the natural composition of the soil which in long run may be harmful. The Committee are of the opinion that there should be proper well defined policy of the Government for systematically increasing the use of city compost among Indian farmers. They are of the considered view that this can be done only with the close coordination with concerned state/UT Governments and local bodies/Corporations by ensuring a robust mechanism for that. This is both

economically and environmentally suitable for Indian needs. The Committee further do hope that the requisite policy shall be envisaged by the Government at the earliest and subsequent budgetary allocation for this be increased in future".

REPLY OF THE GOVERNMENT

1.15 The Government of India approved a policy on promotion of City Compost which has been notified by the Department of Fertilizers on 10.2.2016 wherein Market Development Assistance of Rs. 1500/-MT has been provided for scaling up production and consumption of fertilizers.

Operational guidelines for release of MDA on sale of City Compost have been issued on 03.06.2016. Revised operational guidelines have been issued to all concerned on 10.10.2016. Amendment in the guidelines dated 10.10.2016 has been made allowing manufacturing companies for bagged sale of city compost vide O.M. dated 7.9.2017. In order to increase the sale of city compost manufacturing companies have been allowed for direct sale of city compost to farmers. Guidelines for release of MDA on direct sale have also been issued on 09.01.2017. Amendment in guidelines dated 9.1.2017 has been made allowing marketing companies for bulk sale of city compost vide O.M. dated 7.9.2017. The guidelines have been suitably amended from time to time to make the policy more effective.

A separate budget head has been created for release of Market Development Assistance (MDA) on sale of City Compost. During the 2018-19, a provision of Rs. 10.00 crores has been made for release of MDA on the sale of city compost. Due to non utilization of budget of Rs. 15.00 crores allocated during 2017-18, budget allocation in 2018-19 has been reduced, however, based on the demands it may be increased at RE stage.

A Committee of Joint Secretaries of Department of Fertilizers, Ministry of Urban Development and Department of Agriculture has been set up for coordination. DAC& FW has been asked to carry out IEC campaign. Ministry of Urban Development has been asked to set up the compost plants across the country. For better coordination and promotion of city compost, States have been asked to constitute State level Steering Committee. The Department of Fertilizers had issued an O.M. dated 11.5.2016 for Constitution of State Level Steering Committee. As per the letters received from States/UT, 11 States/UT viz. Uttar Pradesh, Maharashtra, Mizoram, Nagaland, Odisha, Punjab, Tamil Nadu, Tripura, Chhattisgarh, Jammu & Kashmir and Andaman & Nicobar Islands have constituted State level Steering Committee for the promotion of City Compost. The Fertilizer companies have adopted 384 (210 in 2016-17 and 174 in 2017-18) villages for promoting the use of compost.

During 2017-18 (April, 2017 to March, 2018) the fertilizer marketing companies has co-marketed about 123569.87 MT of city compost which is more than sale of 96584 MT for the corresponding period of last year. During 2017-18 (April, 2017 to March, 2018) the compost manufacturers have sold about 54848.86 MT of city compost in bulk directly to the farmers.

Comments of the Committee

1.16 **Emphasizing the cause of sustainable development of agriculture, the Committee had observed that to preserve soil health and to address the problem of disposal of solid waste in big cities and metros, the Government would envisage a well defined policy on City Compost at the earliest with subsequent increased allocation in future to encourage farmers for use of city compost/organic fertilizers. The Committee had noted that Rs. 10 crore had been allocated for the promotion of City Compost during the year 2018-19. In the action taken replies, the Committee further noted that the allocation under the Head - City Compost i.e. Rs. 10 crore for the year 2018-19 has been done vis-a-vis Rs. 15 crore allocated for the same purpose during the preceding year 2017-18, which remained unutilised. This shows the callous attitude of the States in particular and Union Government in general for not promoting of City Compost Scheme. The Committee are anguished with the kind of seriousness/ priority is**

being accorded to the cause of sustainable growth of agriculture. They had pointed in their observation that City Compost is the only alternative option to give impetus to organic farming by reducing dependence on chemical fertilizers. Keeping into account the demand of organic agro-products in Western countries, the Committee had expressed their view that India could be pioneering country in making use of the available organic solid waste in cities for compost. They are not fully convinced with action taken reply of the Government and once again reiterate their earlier opinion/ view and desire that the Government must come up with new policy initiatives in this direction desiring healthy ratio of chemical-based fertilizers and organic fertilizers to address the cause of sustainable agriculture.

CHAPTER – II

OBSERVATIONS / RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation No. 4)

Direct Benefit Transfer Scheme

"The Direct Benefit Transfer Scheme was introduced with effect from October, 2016 to release 100% subsidy on various fertilizers grades to the fertilizers companies on the basis of actual sales made by the retailers to the beneficiaries through Point of Sales (PoS) devices installed at the retailers' shop. The beneficiaries of this scheme will be identified through Aadhar Card, Kishan Credit Card, Voter Identity Card etc. Initially this scheme was launched on pilot basis in 19 districts of the country. However, as on date 30 state/UTs have been brought under this DBT Framework by establishing the requisite paraphernalia alongwith necessary training sessions of 1.95 lakh retailers backed by a strong chain of PoS devices. The Committee have been apprised that this new DBT Scheme would enable Aadhar seeded data base of beneficiaries, facilitate more transparent and faster tracking of movement of fertilizers lead to optimal use of nutrients linking soil Health card data with DBT and finally create a robust channel for service delivery for other ministries as well in Rural India.

However, the Committee were also apprised of the fact that this DBT does not transfer subsidy directly into the pocket of beneficiary as in the case of LPG. The reasons inter-alia as cited by the Ministry is inadequate

purchasing power of the farmers due to extremely high cost of fertilizers and identification problem of real farmer.. They were further enlightened by the Secretary, Department of Fertilizers that a Committee at the level of NITI Aayog has been appointed to examine the possibility wherein the subsidy is actually transferred to the farmers. It would be appropriate to mention that a new scheme 'Nutrient Based Subsidy' was launched in respect of P&K fertilizes with effect from 01.04.2010 from a controlled regime to market driven scheme allowing market forces to determine the MRP of P&K fertilizers. This scheme was introduced with the objective of reducing subsidy burden and to ensure balanced use of fertilizers. However this scheme is not independent as it is dependent on imported raw material upto 90% in phosphate and 100% in potash. It has also been brought to notice of the Committee that after the introduction of NBS policy the subsidy burden has come down from Rs. 65554.79 crores in 2008-9 to Rs. 18985 Crores approximately in 2016-17. The Committee were further apprised that comparatively lower price of Urea vis-a-vis market driven MRP of P&K fertilizers is one of the reasons of imbalanced use of fertilizers in the country. Besides, the Committee were informed that the NBS was also to be extended to urea also in the 2nd phase, which could not be introduced due to various reasons. As a result of its non-implementation the gap between prices of P&K fertilizers and Urea widened and ultimately resulted in more preference to Urea by the farmers.

Having analysed the pros and cons of the existing system of transferring fertilizers subsidy directly to the Fertilizers Companies, through the extant DBT system, the Committee are of the strong view that the cause of

balanced use of fertilizers is a sacrosanct objective which cannot be compromised to sustain agriculture production and soil health. They also do not endorse the reason of the Government that the farmers would not be able to purchase the Urea in case DBT as in the case of LPG is used to directly transfer the fertilizers subsidy keeping in view of their limited purchasing power. The Committee think that the way can only be explored when there is will. They are of the strong conviction that such constraint may be addressed by way of giving advance credit over draft facility to farmers or by reducing packaging of the fertilizers below 45 Kg making viable for them to purchase the same. They are of the considered view that it will also go a long way contributing for balanced use of fertilizers on one hand and bringing down the subsidy burden on the other. The Committee, therefore, also urge that the matter may be taken up on priority basis with NITI Aayog for early finalisation of the Report of the Committee constituted in the Aayog for the purpose."

REPLY OF THE GOVERNMENT

The D/o Fertilizers has implemented Direct Benefit Transfer (DBT) system across all States/UTs. Under the proposed fertilizer DBT system, 100% subsidy on various fertilizer grades shall be released to the fertilizer companies on the basis of actual sales made by the retailer to the beneficiaries. Sale of all subsidized fertilizers to farmers/buyers will be made through Point of Sale (PoS) devices installed at each retailer shop and the beneficiaries will be identified through Aadhaar Card, Kisan Credit Card (KCC) and Voter Identity Card. The pilot DBT captures the details of retailer’s sales through PoS devices and the beneficiary/buyers details (as proposed in mFMS Phase-II).

Under the conventional DBT being implemented in other Government Welfare Schemes such as LPG, the subsidy amount is directly transferred to beneficiaries immediately after purchase of the subsidized product by the beneficiary. Implementation of DBT in fertilizers like other traditional DBT schemes is complex due to the following:

i. Beneficiary is not defined.
ii. Entitlement of the beneficiary is not defined.
iii. Subsidy amount is more than twice of subsidized price.
iv. Moving MRP to Market Price will cause huge burden on farmers as they would be required to pay the market price upfront.
v. Multiple products (Urea, Phosphatic and Potassic etc.) have varied subsidy amount. Subsidy component varies from company to company even for the same product.

The Department has requested NITI Aayog to set up a Joint Working Group to examine the various issues pertaining to implementation of DBT in fertilizers and suggest a model for direct benefit transfer of subsidy to the beneficiaries' account vide letter dated 11.09.2017.

NITI Aayog has constituted a Committee to analyze and suggest a mechanism to provide agriculture subsidy on area basis through DBT vide letter no. I-22/2/21/2017-P&E dated 06.02.2018. The Committee has already met three times and examining the various possibilities of providing agriculture subsidy on area basis through Direct Benefit Transfer through wide consultations involving various stakeholders from D/o Fertilizers, M/o Power, DAC&FW and State Governments (copy enclosed). The department is making all efforts to expedite finalization of the Report of the Committee constituted by NITI Aayog.

CHAPTER – III

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

RECOMMENDATION NO. 1

Review of budgetary provisions earmarked For the year 2017-18.

Against the actual expenditure of Rs. 70130.19 crores incurred in the year 2016-17, a total budgetary provision of Rs. 74264.71 crores was made for the year 2017-18, which was increased to Rs. 89797.21 crore at revised stage. However, after adjusting receipts of Rs. 20532.50 crores, the expenditure would amount to Rs. 69264.71 crores which is comparatively less than the expenditure of Rs. 70130.19 incurred during the year 2016-17. It indicate that the real level of expenditure has not increased instead it got decreased slightly. The reason, as has been stated by the Ministry, behind decreasing of allocations at Revised Stage, was surrender of funds to the tune of Rs. 5000 crore (Rs 3000 crores from Indigenous Urea Subsidy and Rs. 2000 crore from Imported Urea Subsidy Head). Apart from this, Rs. 2000/- crores have been re-appropriated from Indigenous Urea to Freight subsidy to clear the carry over liabilities in respect of Indigenous P&K fertilizers and Freight subsidy. This shows there would be a cut of Rs. 7000/- crore from the budgetary allocation made for Urea subsidy during 2017-18 as a whole bringing down Budgetary Estimates to Rs. 46980.00 crores from Rs. 54000 crores at the Revised stage whereas the BE earmarked Rs. 20232.00 crores for Nutrient Based Subsidy have been increased to Rs. 22251.80 crore at Revised stage.

The Committee are dismayed over the considerable cut of Rs. 7000 crores from the Urea Subsidy Head at the Revised stage. They are further surprised to see that after such a cut under Urea Subsidy Head, physical targets fixed for both Urea and P&K fertilizers have been kept unchanged. The physical outcomes in respect of Urea decreased from 329.49 LMT in 2015-16 to 296.82 LMT in 2016-17 and 227.67 LMT (as on 31.12.2017) in the year 2017-18. A similar trend has also been noticed in the outcomes achieved in respect of

Nutrient Based Subsidy regime. However, the actual picture of performance will emerge after 31st March, 2018. The Committee also notice that the net expenditure on fertilizers subsidy has been static over the last few years. The net expenditure for the years 2016-17 and 2017-18 under Fertilizers Subsidy has been Rs. 65054.23 crore and Rs. 65032.71 crore respectively after adjusting recoveries and receipts from the gross allocation. This trends show that the fertilizers growth has been static or little bit decelerating. The Committee further notice that even after the introduction of New Urea Policy - 2015 there has been no substantial increase in the growth of fertilizers except in year 2015-16 by margin of 2 LMT. The reasons may be either decreasing demand or the incapacity of the Government regarding progressive expenditure on this account. The Committee attribute this stagnation to the unscientific planning and execution of their policies without professional approach. They think that there is lack of synchronized efforts and proper coordination among all the stakeholders to pursue the cause of sustainable agriculture ameliorating not only the soil health, purchasing power of the peasantry and financial health of fertilizers industry. The Committee, therefore, recommend to the Government to make all out efforts to address the policy constraints at the earliest to add more credibility, predictability, efficiency and transparency in the system so that the latter can be enabled to such an extent that automation may take care of all odds.

REPLY OF THE GOVERNMENT

Vide notification dated 25th May, 2015, Department of Fertilizers has notified New Urea Policy – 2015 (NUP-2015) effective from 1st June, 2015, with the objectives of maximizing indigenous urea production; promoting energy efficiency in urea production; and rationalizing subsidy burden on the government. It was expected that the NUP – 2015 will lead to additional production of 17 LMT annually during the next three years, i.e. 2015-16, 2016-17 and 2017-18.

2. As a result, the production of urea during the year 2015-16, 2016-17 and 2017-18 was 244.75 LMT, 242.01 LMT and 240.23 LMT respectively, i.e. an increase in production of around 20 LMT, 18 LMT and 16 LMT in last three financial years with respect to the urea production of 225 LMT during 2014-15.

3. Further, vide notification dated 28th March, 2018, Department of Fertilizers has approved the following decisions with regard to Target Energy Norms given to all urea manufacturing units (except BVFCL):

(i) For 11 urea manufacturing units viz., YFIL, NFL-Vijaipur-II, GIL, CFCL-Gadepan-I & II, IFFCO-Aonla-II, RCF-Thal, IFFCO-Kalol, IFFCO-Aonla-I, IFFCO-Phulpur-I&II, the target energy consumption norms as mentioned in Para 3.2 of NUP-2015, will come into force w.e.f. 1st April, 2018.

(ii) The existing norms under New Urea Policy-2015 for remaining 14 urea manufacturing units viz., NFL Vijaippur-I, KRIBHCO-Hazira, KFL-Shahjahanpur, NFCL-Kakinada-I, NFCL-Kakinada-II, GNFC-Bharuchm GSFC-Vadodara, NFL-Bathinda, NFL-Nangal, NFL-Panipat, SFC-Kota, KFCL-Kanpur, RCF Trombay-V, ZACL-Goa are hereby extended for further period of 2 years i.e. till 31st March, 2020 with the following penalities:

(a) Penalty equivalent to 2% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the first year i.e. 2018-19.
(b) Penalty equivalent to 5% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the second year i.e. 2019-20.
(c) Urea manufacturing units must achieve Target Energy Norms during the extended period of 2018-19 to 2019-20 failing which additional penalties may be imposed on defaulting units in consultation with the Department of Expenditure.

(iii) The aforesaid target energy norms may be continued upto 31st March, 2025. Meanwhile, an expert body under NITI Aayog would be engaged to recommend the energy norms to be achieved from 01st April, 2025.

(iv) The three Naphtha based urea units viz., MFL, MCFL, SPIC are also allowed the existing energy norms under Para (2) of policy notification dated 17th June, 2015 for another two years i.e. till 31st March, 2020 or till these units get the gas pipeline connectivity, whichever is earlier. There will be no mopping up of energy efficiency for a fix period of 5 years from date of gas pipeline connectivity as per Para 3 (viii) and 5 (ii) of NPS-III policy dated 8th March, 2007.

Neem Coated Urea:- Vide notification dated 25th **May,2015** Department of Fertilizers has made it mandatory for all the domestic producers of urea to produce 100 as Neem Coated Urea. Entire quantity of indigenously produced urea and imported urea is being neem coated w.e.f 1st September, 2015 and 1st December, 2015 respectively. As per the interim report of study by DAC&FW, the use of Neem Coated is helpful in:-

- Improvement in soil health.
- Reduction in usage of plant protection chemicals
- Reduction in pest and disease attack
- An increase in yield of paddy, sugarcane, maize, soybean, Tur/Red Gram Diversion towards non-agricultural purposes negligible.
- Due to slow release of Nitrogen, Nitrogen Use Efficiency (NUE) of Neem Coated Urea increases resulting in reduced consumption of NCU as compared to Normal urea.

Introduction of 45 kg bag of urea: - Farmers mostly assess requirement of urea in terms of bag for agricultural purpose. Therefore, in order to ensure balanced use of fertilizers and reduce the consumption of urea, vide notification dated 4th September, 2017 Government of India has decided to introduce 45 kg bag of urea. Vide Gazette notification dated 1st March, 2018, DAC&FW has notified the MRP of 45 kg bag of urea. The packaging of urea in 45 kg bag has been implemented by urea manufacturing units w.e.f 1st May, 2018.

The aforesaid policies introduced by DoF will ensure timely availability of urea to the farmers.

RECOMMENDATION NO. 5

Energy Norms

"Energy performance has been a priority area to improve energy efficiency in fertilizers production. These energy norms were finalised under the New Urea Policy 2015 which was formulated in consultation with the fertilizers industry as stated by the Ministry. The entire Fertilizer industry was categorised in three groups. The first group has to achieve a level of 6.5 G.Cal, second group 6.2 G.Cal and third group a target of 5.5 G.Cal by 1st April, 2018 after which subsidy would be released as per the new targets. Indian fertilizers industry being comparatively not upgraded has not found it easy to update their technological infrastructure due to fear of not being allowed to recover their investment. An independent study by PDIL was conducted and submitted last year to the Government Department, which is under consideration of the Department.

The Committee further noticed that as per the submission made by the Fertilizers Association of India (FAI), the energy efficiency norms have been mopped four times without consulting the representatives of the fertilizers industry. The representatives of the FAI also apprised the Committee that additional capital cost required to meet the norms is not recognized under the existing policy. They further stressed upon the fact that the existing plants though may be old but are producing urea at a cost which is lower than either imported Urea or the cost at which new plants are producing urea. They urged the Committee that the total cost of production of urea should be taken into consideration instead of new energy norms and therefore, the existing energy norms be allowed to continue. The Committee, having taken into account the cause of survival of fertilizers industry and food security of the country are of the considered view that the fertilizers industry be accorded some breathing space after making a practical assessment of the new energy norms related problem."

REPLY OF THE GOVERNMENT

Vide notification dated 28th March, 2018, Department of Fertilizers has approved the following decisions with regard to Target Energy Norms given to all urea manufacturing units (except BVFCL):

(i) For 11 urea manufacturing units viz., YFIL, NFL-Vijaipur-II, GIL, CFCL Gadepan-I & II, IFFCO-Aonla-II, RCF-Thal, IFFCO-Kalol, IFFCO-Aonla-I, IFFCO-Phulpur-I & II, the target energy consumption norms as mentioned in Para 3.2 of NUP - 2015, will come into force w.e.f. 1 st April, 2018.

(ii) The existing norms under New Urea Policy-2015 for remaining 14 urea manufacturing units viz., NFL Vijaipur-I, KRIBHCO-Hazira, KFL-Shahjahanpur, NFCL- Kakinada-I, NFCL-Kakinada-II,GNFC-Bharuch, GSFC-Vadodara, NFL-Bathinda, NFL-Nangal, NFL-Panipat, SFC-Kota, KFCL-Kanpur, RCF Trombay-V, ZACL-Goa are hereby extended for further period of 2 years i.e. till 31stMarch, 2020 with the following penalties:

a. Penalty equivalent to 2% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the first year i.e. 2018-19.

b. Penalty equivalent to 5% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the second year i.e. 2019-20.

c. Urea manufacturing units must achieve Target Energy Norms during the extended period of 2018-19 to 2019-20 failing which additional penalties may be imposed on defaulting units in consultation with the Department of Expenditure.

(iii) The aforesaid target energy norms may be continued upto 31 st March, 2025. Meanwhile, an expert body under NITI Aayog would be engaged to recommend the energy norms to be achieved from 01 st April, 2025.

(iv) The three Naphtha based urea units viz., MFL, MCFL, SPIC are also allowed the existing energy norms under Para (2) of policy notification dated 17th

June, 2015 for another two years i.e. till 31St[t] March, 2020 or till these units get the gas pipeline connectivity, whichever is earlier. There will be no mopping up of energy efficiency for a fix period of 5 years from date of gas pipeline connectivity as per Para 3 (viii) and 5 (ii) of NPS-III policy dated 8th March, 2007.

RECOMMENDATION NO. 6

Freight Subsidy

"The Committee appreciate the initiative of the Department for merging the Freight Subsidy Head with the indigenous Urea Subsidy Head as per the earlier recommendation of the Committee and accordingly Rs. 34,989.50 Crores have been earmarked under this merged head for the year 2018-19. The Department has also informed that still claims of Rs. 1,504.17 crores are being pending upto February 2017 and onwards claims of approx Rs. 700-800 Crores per month are expected to be generated for the remaining period till date. It means carry forward liability on Freight Subsidy account shall stand roughly at Rs. 11,300-12,700 Crores on the closing of the financial year 2017-18 i.e. 31.03.2018. This shows that around Rs. 24000 crores will remain to be used for indigenous Urea Subsidy out of Rs 34989.50 Crores allocated for this purpose during the year 2018-19 at BE Stage. This amount is comparatively low as compared to indigenous Urea Subsidy allocation made in 2017-18 (Rs 37,000 Crore) and RE 2017-18 (Rs. 31000 Crore).

Though the Ministry has merged the two different Heads but proper planning for allocating made the funds collectively for Freight Subsidy and indigenous Subsidy has not been adequately addressed by them. This will again compel the Department for requesting funds again at Revised stage. Due to non-payment of subsidies timely, the Fertilizers PSUs have to borrow from Banks creating additional liability with interest payment on loans. This has become a common practice over the years. The Committee referring their study visit to Hyderabad in July 2017 has recommended to the Department for exploring the possibility for reimbursement of interest on loans raised by PSUs in this regard. Though the Department has given it assurance for looking into the matter, but no such financial provision have been provided in the BE 2018-19 by them. Taking a holistic view of the entire spectrum of Scheme, the Committee strongly recommend to extinguish the complete pending liability on account of fertilizers freight subsidy during this financial year 2018-19 only in close coordination with the stake holders by relaxing the procedural requirements, if any and possible.

REPLY OF THE GOVERNMENT

Freight subsidy is being paid to the Indigenous urea manufacturing units on ad-hoc basis at the state-wise notified rates of DoF since 01.04.2008 under Uniform Freight Policy. The district-wise rates for secondary movement and slab-wise rate for primary road movement of urea upto 500 KMs (as notified from time to time for 2008-09 onwards) have been implemented/paid to the urea units w.e.f. 01.12.2017 as the modified freight module was developed/stabilized in iFMS by NIC from that date. Further, the differential freight (difference between the actual and the ad-hoc) would also be paid to the urea units at the earliest.

During 2017-18, an amount of Rs.5000 Crore was released towards freight subsidy to indigenous urea units. Subsidy on freight upto the month of Feb, 2018 had been paid to almost all indigenous urea units and who had submitted their claims. As on date freight subsidy claims of Rs.203.64 Crore are under process and will be paid during the month of June, 2018.

CHAPTER IV

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

Recommendation No 2

Budgetary estimates for the year 2018-19

The budgetary allocations for the Department of Fertilizers mainly consist of fertilizer subsidy for both Urea and P&K fertilizers. This subsidy is given for indigenous and imported fertilizers. However, its mode of distribution is different in both the cases. For the year 2018-19, a total budgetary provision of Rs. 73483.34 crores including Rs. 34.99 crores for Secretariat expenditure has been made/estimated. This estimated expenditure for the year 2018-19 has been made against the revised estimates of Rs. 69264.70 crores likely to be incurred during the year 2017-18. However, if supplementary provision of Rs. 20532.50 in the budgetary provision of the year 2017-18 to waive of loans and interest of PSUs is taken into account the total budgetary provision for fertilizers subsidy under the year 2017-18 comes to Rs 89797.21 crores which is already reflected in detailed Demand No. 6 of consolidated DFG 2018-19 document of Ministry of Finance presented to the Lok Sabha along with other Budget documents on 01.02.2018. This shows the Budgetary estimates for the Year 2018-19 are substantially short to the tune of approximately Rs. 20000 crores. No doubt this waiving of loans and interest will not involve cash flow but will go a long way in improving the Balance Sheet of such PSUs by reducing their overall liabilities. The Committee think that the expenditure on this account though notional in nature but in bookkeeping records it will always be reflected as expenditure and hence warrants debit entry at source i.e. the Ministry of Finance.

The Committee are of the view that the Government superficially resorted to showing less expenditure of Rs. 69264.71 for the year 2017-18 at revised stage instead of Rs. 89797.21 crore as shown by the Ministry of Finance in their records. This shows that the budgetary provisions for the year 2018-19 are comparatively on lower side by almost Rs. 20000 crore. The Committee think that the pattern of making estimates and actual spending as being resorted to during the last 2-3 years has not been adhered to the strictest principles of financial propriety wherein every new year budgetary proposals have to be assessed at zero-based budgeting concept. This strengthens the belief that the lot of changes are resorted after the proposals are voted in the parliament by way of re-appropriation, waiving of loans/interest/capital subsidy etc. The Committee are quite apprehensive that the growth of fertilizers and their availability may be adversely hit causing chaos and reducing the agriculture production. The Committee, therefore, cannot help but recommend that judicious planning is a must and paramount requirement to assess the real time budgetary requirement by resorting to due diligence. They further urge that there must not be any substantial changes at the Revised Stage of 2018-19. They are of the considered view that resorting to such tendencies may kill the real policy initiative and give way to ad-hocism."

REPLY OF THE GOVERNMENT

In pursuance to Cabinet decision, Department of Fertilizers had received Rs.20532.50 Crore in the 2nd Batch of Supplementary Demands to write off the equal amount of outstanding loan and interest in respect of Brahmaputra Valley Fertilizer Corporation of India Limited (BVFCL), Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) from the books of account of the PAO. This did not involve any cash out go from the public exchequer, hence, it had no effect on the over all cash budget available to the department for expenditure. Thus, the effective RE allocation for the Department (Demand No.7) for 2017-18 is Rs. 69264.71 Crore only.

The Budget Allocation for 2018-19 for the Department of Fertilizers is Rs.73485.39 Crore, which includes a provision of Rs.73450.35 Crore for Subsidy Expenditure. In the subsidy expenditure, the allocation for Nutrient Based Subsidy Scheme and Urea Subsidy has been kept as Rs.25090.35 Crore and Rs.48360.00 Crore, respectively in accordance with projections for the schemes.

COMMENTS OF THE COMMITTEE

(PLEASE SEE PARA NO. 1.7 OF CHAPTER - I OF THE REPORT)

RECOMMENDATION NO. 3

Carry over liabilities

The carry over liability discharged as on 01.04.2017 stands out to be Rs. 29091.46 crores out of the total carryover liability of Rs. 39057.11 crores acured due to delayed payment of fertilizers subsidy to the fertilizers producing/importing companies. The remaining carryover liability of Rs. 9965.65 crores as assessed on 01.04.2017 has been still pending to be cleared/discharged. It is also pertinent to mention that some more liability on this account might have been accrued/accumulated after 01.04.2017 due to further delay in payment. The Committee appreciate the efforts of the Ministry in clearing the carryover liability to the tune of 74.48% of the total pending liability as on 01.04.2017 but at the same time would like to know the exact quantum of carryover liability after 01.04.2017 and the efforts being made by the Ministry to clear this carryover liability after 01.04.2017. The Committee are quite apprehensive of the dwindling financial health of fertilizers producing and importing companies and are of the considered view that any undesirable delay in clearing the over accumulated carryover liabilities may hamper the production/import of fertilizers ultimately heralding adverse impact on agriculture production in the country.

Apart from this the Committee are also seized of the higher cost of working capital of these fertilizers producing/importing companies. They notice that most of the companies have not reached their Break-in-Point and as a result their substantial portion of profit margin is consumed in recouping their Fixed Cost. They are of the considered view that fertilizers industry being capital intensive industry once closed will never be able to restart and no new investment could be mobilized in view of the fact of delayed payment and thin margin of profit and comparatively higher cost of capital both fixed and variable. In view of this, the Committee strongly recommend to clear all the over delayed outstanding dues of the fertilizers companies on account of payment of fertilizers subsidy. They also urge the Ministry to apprise the committee on quarterly basis about progress made on this account.

REPLY OF THE GOVERNMENT

Details of Carryover liabilities as on 01.04.2017 and 01.04.2018 are detailed below:-

(Rs. in Crores)

Scheme	Carryover liabilities as on 31.03.2017	Carryover liabilities as on 31.03.2018
Imported P&K	7482.42	6,539.12
Indigenous P&K	11,671.40	9,482.81
City Compost	3.58	12.18
Imported Urea	399.71	354.69
Indigenous Urea	19,500.00	9,794.00
Total	**39,057.11**	**26,182.80**

Out of total carry over liabilities of Rs.39057.11 Crore as on 31.03.2017, the liabilities to the tune of Rs.31381.86 Crore have been discharged by the Department, leaving a balance of Rs.7675.25 Crore. The total carry over liabilities as on 31.03.2018 are 26182.80 Crore including the carry forward of balance liabilities of previous year.

All efforts are being made to clear the pending liabilities during the current financial year 2018-19.

COMMENTS OF THE COMMITTEE

(PLEASE SEE PARA NO. 1.10 OF CHAPTER - I OF THE REPORT)

RECOMMENDATION NO. 7

Production of Urea & P&K Fertilizers

The Committee note that the total installed capacity of 30 Urea manufacturing is around 207.54 LMT whereas the requirement of urea ranges between 290-320 LMT approximately depending upon the monsoon season. The gap between the demand and supply is met through imports. To bridge this gap, the Government launched New Investment Policy (NIP - 2012) - 2012 to facilitate fresh investment in urea sector to make India self-reliant. In the backdrop of this policy two projects one in Greenfield by Matix at Panagarh, West Bengal with installed capacity of 1.3 MMT (13 LMT) per annum was set up and the other one in the brown-field by Chambal Fertilizers & Chemicals Limited (CFCL) with installed capacity of 1.34 MMT (13.4 LMT) at Gadepan, Rajasthan was set up, which will start commercial production by January, 2019. To Boost the urea production further, the Government have decided to revive closed units namely Gorakhpur, Sindri, Talcher and Ramagundam units of (FCIL) and Baroni unit of Hindustan Fertilizers Corporation Limited (HFCL) by setting up 12.7 LMT per annum urea plant at these units which are likely to become operational by December, 2020. In addition to this, the Government have decided to install a new Urea Plant of 8.646 LMT by replacing the existing Namrup II (capacity 2.40 LMT) and Namrup III (Capacity 2.70 LMT) in the existing premises of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL). These new projects are likely to add 93.45 LMT to the indigenous production capacity by 2022.

The Committee further notice that the total installed capacity of P&K fertilizers is 146 LMT against the average sale of 202.22 LMT. However, due to non-availability of raw material in the country, the indigenous industry could not utilize the full installed. Capacity. India is 100% dependent on imports in Potash and 90% in case of Phosphate. They were also apprised that the total production of urea has been 244.75 LMT and 242.01 LMT respectively during 2015-16 and 2016-17.

The Committee are constrained to not that installed capacity of Urea i.e. 207.54 LMT is being over utilized to the tune of 244.75 LMT in 2015-16 and whereas the installed capacity of P&K fertilizers which 146 LMT is underutilized due to non-availability of raw material which has to be imported between 90-100 %. They further note with concern that there has been slight volatility in the planning of requirement of fertilizers and strategy to ensure availability of the same in adequate quantum throughout the county. They attribute the cause of this dilemma to the dilly-dally policy and approach of the Government while dealing with the challenges of production and availability of fertilizers in the country. This ad-hocism and delay in implementation of the policy decision not only hamper the production of fertilizers but also pose serious challenge of food security in the county. The Committee are of the considered view that the indecisiveness and procrastination of the Department warrant immediate attention to address the matters which are almost threatening the survival of the fertilizers industry and sustainability of the agriculture growth and productivity. The Committee are dismayed to note that even the agreements signed between fertilizers making units/Department of Fertilizes and raw material suppliers like OIL/ONGC/GAIL etc are not being honored despite the latter being all Government Companies/Entities. This can lead to total chaos and apathy towards the cause of food security in the country.

They feel disappointed over the fact that even after introduction of New Urea Policy 2015 there has been no substantial increase in Urea Production except in the year 2015-16. Taking a holistic view of the entire situation of fertilizers industry, production, availability etc, the Committee strongly recommend to revisit the entire spectrum of policy to address the constraints as early as possible and apprise the Committee in this regard within three months about the progress made on this regard.

REPLY OF THE GOVERNMENT

The total installed capacity of P&K fertilizers is 146 LMT against the total average sale of 202.22 LMT during last three years. However, due to non availability of raw material in the country, the indigenous industry is not able to utilize the full installed capacity. India is 100% dependent on imports in Potash and to the extent of 90% in case of Phosphate sector in terms of either finished fertilizers, raw materials and intermediaries. The gap is being filled by imports. Keeping in mind the scarcity of fertilizer raw material/intermediaries in the country, the Government has been encouraging Indian companies to establish Joint Ventures abroad in countries which are rich in fertilizer resources for production facilities with buyback arrangements and to enter into long term off-take agreement for fertilizer raw materials and intermediaries.

Vide notification dated 25th May, 2015, Department of Fertilizers has notified New Urea Policy -2005 (NUP-2015) effective from 1st June, 2015, with the objectives of maximizing indigenous urea production, production, promoting energy efficiency in urea production, and rationalizing subsidy burden on the government. As a result, the production of urea during the year 2015-16, 2016-17 and 2017-18 was 244. 75 LMT, and 240.23 LMT i.e. an increase in production of around 20 LMT, 18 LMT and 16 LMT As compared to the urea production of 225 LMT during 2014-15"

COMMENTS OF THE COMMITTEE

(PLEASE SEE PARA NO. 1.16 OF CHAPTER - I OF THE REPORT)

RECOMMENDATION NO. 8

<u>Promotion of City Compost</u>

The Central Government has been giving due importance to the model of sustainable development like promotion of non conventional and environment friendly measures such as solar energy and wind energy for meeting out the energy requirement of the country. Similarly, the provision of promoting organic fertilizers such as city compost is also an alternative option available in this regard for giving impetus to organic farming for reducing dependence on chemical fertilizers. In the wake of rapid urbanization the country is facing the problem of disposal of solid waste originating from metro cities and urbanised areas. The city compost methods provide a viable option for sorting out this problem. The Committee is surprised to note that only Rs. 10 crore has been allocated for promotion of city compost for the year 2018-19 and it is contrary to the Government Policy for promotion of models of sustainable development as being initiated in other sectors. In Western countries there is a demand for agri-products harvested under organic farming and India could be a pioneering nation in making use of this opportunity by supplying organic food through method like city compost. But there is complete lack of interest on the part of Government in promoting the use of city compost. The chemical fertilizers affect the natural composition of the soil which in long run may be harmful. The Committee are of the opinion that there should be proper well defined policy of the Government for systematically increasing the use of city compost among Indian farmers. They are of the considered view that this can be done only with the close coordination with concerned state/UT Governments and local bodies/Corporations by ensuring a robust mechanism for that. This is both economically and environmentally suitable for Indian needs. The Committee further do hope that the requisite policy shall be envisaged by the Government at the earliest and subsequent budgetary allocation for this be increased in future."

REPLY OF THE GOVERNMENT

The Government of India approved a policy on promotion of City Compost which has been notified by the Department of Fertilizers on 10.2.2016 wherein Market Development Assistance of Rs. 1500/-MT has been provided for scaling up production and consumption of fertilizers.

Operational guidelines for release of MDA on sale of City Compost have been issued on 03.06.2016. Revised operational guidelines have been issued to all concerned on 10.10.2016. Amendment in the guidelines dated 10.10.2016 has been made allowing manufacturing companies for bagged sale of city compost vide O.M. dated 7.9.2017. In order to increase the sale of city compost manufacturing companies have been allowed for direct sale of city compost to farmers. Guidelines for release of MDA on direct sale have also been issued on 09.01.2017. Amendment in guidelines dated 9.1.2017 has been made allowing marketing companies for bulk sale of city compost vide O.M. dated 7.9.2017. The guidelines have been suitably amended from time to time to make the policy more effective.

A separate budget head has been created for release of Market Development Assistance (MDA) on sale of City Compost. During the 2018-19, a provision of Rs. 10.00 crores has been made for release of MDA on the sale of city compost. Due to non utilization of budget of Rs. 15.00 crores allocated during 2017-18, budget allocation in 2018-19 has been reduced, however, based on the demands it may be increased at RE stage.

A Committee of Joint Secretaries of Department of Fertilizers, Ministry of Urban Development and Department of Agriculture has been set up for coordination. DAC& FW has been asked to carry out IEC campaign. Ministry of Urban Development has been asked to set up the compost plants across the country. For better coordination and promotion of city compost, States have been asked to constitute State level Steering Committee. The Department of Fertilizers had issued an O.M. dated 11.5.2016 for Constitution of State Level Steering Committee. As per the letters received from States/UT, 11 States/UT viz. Uttar Pradesh, Maharashtra, Mizoram, Nagaland, Odisha, Punjab, Tamil Nadu, Tripura, Chhattisgarh, Jammu & Kashmir and Andaman & Nicobar Islands have constituted State level Steering Committee for the promotion of City Compost. The Fertilizer companies have adopted 384 (210 in 2016-17 and 174 in 2017-18) villages for promoting the use of compost.

During 2017-18 (April, 2017 to March, 2018) the fertilizer marketing companies has co-marketed about 123569.87 MT of city compost which is more than sale of 96584 MT for the corresponding period of last year. During 2017-18 (April, 2017 to March, 2018) the compost manufacturers have sold about 54848.86 MT of city compost in bulk directly to the farmers.

COMMENTS OF THE COMMITTEE

(PLEASE SEE PARA NO. 1.16 OF CHAPTER - I OF THE REPORT)

CHAPTER – V

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

NIL

New Delhi;

ANANDRAO ADSUL

18 July, 2018
27 Ashadha, 1940 (Saka)

Chairperson
Standing Committee on
Chemicals and Fertilizers

APPENDIX I

MINUTES OF THE THIRTEENTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS

(2017-18)

The Committee sat on Friday, the 13 July, 2018 from 1515 hrs. to 1545 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Anandrao Adsul - Chairperson

MEMBERS

LOK SABHA

2. Smt. Anju Bala
3. Shri R. Dhruvanarayana
4. Shri Chhedi Paswan
5. Dr. Kulamani Samal
6. Dr. Uma Saren
7. Dr. (Smt.) Ratna De (Nag)
8. Shri Sarfaraz Alam

RAJYA SABHA

9. Shri Prem Chand Gupta
10. Dr. Sanjay Sinh
11. Shri Vijay Pal Singh Tomar

SECRETARIAT

1. Shri Vinod Kumar Tripathi - Joint Secretary

2. Shri A. K. Srivastava - Director

3. Shri U. C. Bharadawaj - Deputy Secretary

2. At the outset, the Hon'ble Chairperson welcomed the Members of the Committee.

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

(i) Draft Report on the subject 'Promotion and Coordination of basic, applied and other research in areas related to the Pharmaceutical Sector' of the Ministry of Chemicals and Fertilizers (Department of Pharmaceuticals)

(ii) Draft Report on Action taken Replies by the Government on the Observations/ Recommendations contained in the Fortieth Report of the Standing Committee on Chemicals and Fertilizers (16 Lok Sabha) on the subject 'Implementation of New Urea Policy - 2015' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers); and

(iii) Draft Report on Action taken replies by the Government on the Observations/ Recommendations contained in the Forty third Report of the Standing Committee on Chemicals and Fertilizers (16th Lok Sabha) on 'Demand for Grants (2018-19)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

4. After deliberations the Draft Reports were adopted by the Committee. without any changes/amendments.

5. The Committee authorised the Chairperson to make consequential changes, if any, arising out of the factual verification of the Reports by the Department of Pharmaceuticals and Department of Fertilizers.

The Committee then adjourned.

Appendix – II

(*Vide* Para 3 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FORTY THIRD REPORT (SIXTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2017-18) ON THE 'DEMANDS FOR GRANTS 2018-19' OF THE MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS).'

I	Total No. of Recommendations	08
II	Observations / Recommendations which have been accepted by the Government: (*Vide* Recommendation Nos. 4)	1
	Percentage of Total	13%
III	Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply:- (*Vide* Recommendation Nos. 1,5 and 6)	3
	Percentage of Total	37%
IV	Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (*Vide* Recommendation No. 2,3,7 and 8)	4
	Percentage of Total	50%
V	Observations / Recommendations in respect of which final replies of the Government are still awaited: (*Vide* Recommendation Nos. nil)	0
	Percentage of Total	0%