

**NUTRIENT BASED SUBSIDY POLICY FOR
DECONTROLLED PHOSPHATIC & POTASSIC
FERTILIZERS**

[Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Sixty Fifth Report (16th Lok Sabha)]

MINISTRY OF CHEMICALS AND FERTILIZERS

**PUBLIC ACCOUNTS COMMITTEE
(2018-19)**

ONE HUNDRED AND ELEVENTH

SIXTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

PAC NO.2145

ONE HUNDRED AND ELEVENTH REPORT

PUBLIC ACCOUNTS COMMITTEE (2018-19)

(SIXTEENTH LOK SABHA)

NUTRIENT BASED SUBSIDY POLICY FOR DECONTROLLED PHOSPHATIC & POTASSIC FERTILIZERS

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MINISTRY OF CHEMICALS AND FERTILIZERS



Presented to Lok Sabha on:

Laid in Rajya Sabha on:

**LOK SABHA SECRETARIAT
NEW DELHI**

August, 2018 /Shravana, 1940 (Saka)

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2018-19)

Shri Mallikarjun Kharge - **Chairperson**

M E M B E R S

L O K S A B H A

2. Shri Subhash Chandra Baheria
3. Shri Sudip Bandyopadhyay
4. Shri Prem Singh Chandumajra
5. Shri Gajanan Chandrakant Kirtikar
6. Shri Bhartruhari Mahtab
7. Smt. Riti Pathak
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Janardan Singh Sigriwal
10. Shri Abhishek Singh
11. Shri Gopal Shetty
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar Chanabasappa Udasi
15. Dr. Ponnusamy Venugopal

R A J Y A S A B H A

16. Prof. M. V. Rajeev Gowda
17. Shri Bhubaneswar Kalita
18. Shri Shwait Malik
19. Shri Narayan Lal Panchariya
20. Shri Sukhendu Sekhar Roy
21. Vacant
22. Vacant

SECRETARIAT

1. Shri A.K. Singh - Additional Secretary
2. Shri Sanjeev Sharma - Additional Director
3. Shri Ashikho Alema - Sr. Committee Assistant

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2018-19), having been authorised by the Committee, do present this One Hundred and Eleventh Report (Sixteenth Lok Sabha) on Action Taken by the Government on the Observation/ Recommendations contained in the 65th Report (16th Lok Sabha) on “**Nutrient Based Subsidy Policy For Decontrolled Phosphatic & Potassic Fertilizers**” relating to the Ministry of Chemicals and Fertilizers.

2. The 65th was presented to Lok Sabha and laid in Rajya Sabha on 17.03.2017. Replies of the Government to all the observations/ Recommendations contained in the Report were received. The Public Accounts Committee considered and adopted the One Hundred and Eleventh Report at their sitting held on 7 August, 2018. Minutes of the sitting are given at Appendix-I

3. For facility of reference and convenience, the Observations/Recommendations of the Committee have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

5. An analysis of the action taken by the Government on the Observations/Recommendations contained in the Sixty Fifth Report (16th Lok Sabha) is given at Appendix-II

NEW DELHI;
7 August, 2018
16 Shravana, 1940 (Saka)

MALLIKARJUN KHARGE
Chairperson,
Public Accounts Committee

REPORT

PART – I

INTRODUCTORY

This Report of the Public Accounts Committee deals with the Action Taken by the Government on the Observations and Recommendations of the Committee contained in their Sixty Fifth Report (16th Lok Sabha) on the subject “**Nutrient Based Subsidy Policy For Decontrolled Phosphatic & Potassic Fertilizers**” based on the C&AG Report No. 16 of 2015 relating to the Ministry of Chemicals and Fertilizers.

2. The Sixty Fifth Report (16th Lok Sabha), which was presented to Lok Sabha and laid in Rajya Sabha on 17th March, 2017 contained 11 Observations and Recommendations. Action Taken Notes in respect of all the Observations and Recommendations have been received from the Ministry of Chemicals & Fertilizers and are broadly categorized as under:

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

Para Nos. 1-3, 5-11

**Total: 10
Chapter - II**

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:

Para Nos. Nil

**Total: Nil
Chapter - III**

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

Para Nos. Nil

**Total: Nil
Chapter - IV**

(iv) Observations/Recommendations in respect of which Government have furnished interim replies:

Para Nos. 4

**Total: 01
Chapter – V**

3. The detailed examination of the subject by the Committee revealed the steep rise in the use of Urea, which has Nitrogen (N) as its primary nutrient, leading to imbalance use of

nutrients, decline in the production of indigenous fertilizers and deterioration of soil health. The Committee also found irregularities like avoidable payment of subsidy, excess payment on lump sum freight subsidy for Single Super Phosphate (SSP), non recovery of gains from Phosphate & Potassium (P&K) manufacturing companies for using cheaper domestic/APM gases, Sales of SSP without assessing requirement, unreasonable loading of cost component on MRP, unjustified fixation of MRP etc. The Committee had accordingly given the observations/recommendations in their Sixty Fifth Report.

4. The Action Taken Notes furnished by the Ministry of Chemicals & Fertilizers in respect of all Observations and Recommendations of the Committee have been reproduced in the relevant Chapters of this Report. The Committee will now deal with the Action Taken by the Government on the Observations and Recommendations made in the Original Report which either need reiteration or merit comments.

(Recommendation Para No. 1)

TARGET ORIENTED APPROACH

5. The Committee did note that 'Nutrient Based Subsidy' (NBS) Policy was introduced in April, 2010, with the objectives to improve agriculture productivity, ensure balanced use of fertilizers, promote growth of indigenous fertilizers industry and to reduce the burden of subsidy. The Committee observed that the Policy had not made any significant progress towards achieving these objectives. The Committee viewed that for the successful implementation of any scheme or Policy of the Government which will have far reaching consequences on the welfare of the people, particularly, farmer and peasant community, there should be well-defined road-map for achieving the stated objectives of the policy which may, inter-alia, indicate quantifiable derivable and specific timeline for achieving the objectives. To their utter surprise, the committee found that neither was there any clear road map nor any timeline indicated towards implementation of the said scheme. The Committee, therefore, recommended that the Department need to adopt a target oriented approach without any further delay and set specific timelines with a strong and in-built monitoring mechanism for achievement of each of the objectives and ensure overall success of the policy. The Committee desired to be apprised of the steps taken in this regard be intimated them.

6. The Ministry in their Action Taken Note have stated as under:

“In order to ensure food security in the country by increasing productivity, Urea and P&K fertilizers are provided to farmers at subsidized rates under different subsidy schemes at different periods. The Concession Scheme on decontrolled Phosphatic and Potassic (P&K) fertilizers was under implementation

w.e.f 1st April 2008. Under Concession Scheme, the prices of P&K fertilizers were fixed by Govt. and the difference between the normated delivered price (different cost factors are based on certain norms and not based on actual expenses reported by companies) of fertilizers and the statutory MRP was being paid as concession to the fertilizer companies. During implementation of the Concession Scheme, certain drawbacks such as high subsidy implication; marginal response of agricultural productivity to additional fertilizer usage, near stagnation of indigenous industry etc., were observed.

In order to overcome the shortcomings of concession scheme and with the main objectives of reducing subsidy burden, to improve agriculture productivity, to ensure balanced use of fertilizers and promote growth of indigenous fertilizers industry, the subsidy scheme for P&K fertilizers has been modified w.e.f. 1.4.2010 from a controlled regime to market driven scheme allowing the market forces to determine the MRP of P&K fertilizers, while maintaining subsidy rates unchanged for one year. The revised scheme was named NBS Scheme as the subsidy was provided on each grade of P&K fertilizers based on their nutrient content.

The freedom allowed to fertilizer companies in the NBS Scheme to fix MRP of P&K fertilizers based on market dynamics was expected to promote competition leading to efficiencies in production and import. In the long run, the policy is expected to stabilise demand and supply situation and also contain the subsidy outgo, besides promoting balanced fertilization of soil.

However, the success of NBS Scheme is not independent in itself as it is dependent on international prices of fertilizer raw materials/intermediaries/ finished fertilizers. Our country has no known source of potash and is dependent on imports for 90% requirement of Phosphate. Even the P&K fertilizer industry is dependent more than 90% on imports for its nitrogen requirement. Thus, the indigenous P&K fertilizer industry is almost dependent on imported raw materials/intermediaries for its survival and growth. At the time of introduction of NBS Scheme, availability of domestic gas was not an issue as the KG D6 gas was expected to be available for fertilizer industry. Even the three indigenous P&K fertilizer industries, MFL, FACT & GNFC were asked to convert their Naphtha based feedstock plant to gas based feedstock plant. However, domestic gas production in the country came down and the supply of gas to fertilizer industry reduced post NBS Policy. Domestic gas provided to three P&K fertilizer companies, RCF, GSFC & DFPCL, was either diverted for urea production or

discontinued. This has affected the existing production of P&K fertilizers in the country.

Post NBS Policy, the Government could not facilitate acquiring of fertilizer raw material abroad due to unfavourable terms & conditions, commercial decision of fertilizer companies and internal policies of the resource rich countries to promote their own industry instead of selling raw materials abroad and keeping the prices of finished products lower than that of raw materials. This also affected the growth of indigenous industry.

The other factors, which affected growth of indigenous industry are delay in payment of subsidy to fertilizer companies and various controls at different levels. The funds allocated under different heads of account for payment of subsidy were never adequate resulting in delay in payment of subsidy and extra financial cost to fertilizer companies.

In view of the foregoing, the NBS policy in itself cannot ensure growth of indigenous fertilizer industry. However, number of indigenous SSP industries and production of SSP have registered an increase after NBS Scheme.

After introduction of NBS Policy, the subsidy burden has come down considerably achieving one of the objectives of the Scheme. The actual subsidy disbursed during last ten years as given below confirms this:

Year	Subsidy on P&K Ferts. (Rs. In crore)	Year	Subsidy on P&K Ferts. (Rs. In crore)
2005-06	6596.19	2011-12	36107.94
2006-07	10298.12	2012-13	30576.10
2007-08	16933.80	2013-14	29426.86
2008-09	65554.79	2014-15	20667.30
2009-10	39452.06	2015-16	21937.56
2010-11	41500.00	2016-17	18985.01 + 15 (City Compost)

In respect of balanced use of fertilizers as one of the objectives of NBS Policy it is stated that balanced use of fertilizers refers to use of proper combination of various nutrients, N, P, K and S besides other micro-nutrients. Balanced use of fertilizers is a wider issue involving other factors such as price of urea, farmers' active participation and level of awareness about balanced use of fertilizers, active involvement of State Governments in implementation by way of effective agro-extension services, soil condition and its health, awareness amongst farmers etc. While controlling of urea prices is within the administrative ambit of the Department of fertilizers, Department of Agriculture, Cooperation

and Farmers Welfare is concerned with promotion of balanced use of fertilizers through various awareness programmes and schemes, involving the state agriculture departments etc. In this regard, the DAC&FW has launched the Soil Health Card Scheme in February 2015. Under the scheme, about 14 crore farmers will be issued soil cards, which will carry crop-wise recommendations of nutrients and fertilisers required for the individual farms to help them to improve productivity through judicious use of inputs.

One of the reasons for imbalanced use of nutrients is the comparatively lower price of Urea. While the Urea price is fixed statutorily by Govt., the MRPs of P&K fertilizers are determined by market forces. Any change in the international prices of P&K fertilizers and distortion in the exchange rate has a bearing on the domestic prices of P&K fertilizers. Due to devaluation of Indian rupee against USD after NBS Scheme (Rs.46/USD in 2010 to Rs.68.565/USD in 2016-17) and increase in the international prices of P&K fertilizers during the initial years of NBS Policy, there was an increase in the domestic prices of P&K fertilizers. Delay in payment of subsidy also had a bearing on the prices as finance cost due to delayed subsidy payments gets added up to the MRP. During introduction of NBS Scheme, the idea was to bring Urea also into the NBS Scheme in the 2nd phase. However, non-implementation of NBS Scheme in urea due to various reasons resulted in the widening of the prices of P&K fertilizers and Urea and ultimately affecting the preference of farmers for Urea. However, since last one year, the international prices of P&K fertilizers have come down and the Government instead of reducing subsidy in line with falling international prices, kept the subsidy rates same, resulting in fall in domestic prices of P&K fertilizers. It is expected that the reduced prices of P&K fertilizers and the awareness programmes initiated by DAC&FW will encourage farmers for balanced use of fertilizers.”

7. Audit in their vetting comments stated as under:-

“IMG constituted in Nov 2008 recommended implementing NBS regime where in farm gate prices are decontrolled and subsidy fixed for each fertilizer based on nutrient content. Accordingly, NBS regime has been extended to P&K fertilizer in April 2010. The Urea was required to taken be in the NBS in 2nd Phase within three years from April 2010. However, the urea was not extended to the NBS regime despite lapse of seven years. Steps taken to bring the urea in NBS regime may be appraised to PAC.”

8. The Ministry in their updated Action Taken Notes have stated as under:

“The GOM in 2011 decided to constitute an Inter-Ministerial Committee under the Chairmanship of Shri Saumitra Chaudhuri, Member Planning Commission to examine the proposal for introduction of Nutrient Based Subsidy in urea sector. The said Committee evaluated various alternatives on nutrient based subsidy regime in urea sector and gave recommendations based on which Department of Fertilizers (DoF) made a proposal to be placed before GOM. The draft Agenda Note including Committee Report was perused by the then Minister of Chemicals & Fertilizers (MCF). The then Minister of Chemicals & Fertilizers (MCF) made certain observations on the Committee report, which were forwarded to Chairman of the Committee.

The Agenda note for GOM was circulated to various Departments for their views, if any. While recognizing certain gains proposed in the report of Committee, DOE expressed their concerns on certain areas of the report. The key concerns included (i) Chances of runaway price increase in the domestic market; (ii) gauging the ‘reasonableness’ of price increase, without resorting to cost estimations, and therefore, reverting to old cost plus mechanism; (iii) with gas prices already ruling considerably above the base price taken into account, if the increase in MRP for the year is limited to 10% as per the proposal, the burden on GOI shall be significantly more than what has been envisaged in the report; and (iv) without drastic improvement in the availability of urea at farm gate level, removing the restrictions on fortified urea completely may not be appropriate and cost of such add-ons could push up retail prices by another.

The note dated 13th July, 2011 containing the proposal on NBS for urea as recommended by the Committee along with proposals as suggested by DoF and the observations of the then MCF, were placed before the GoM. GoM, however, decided that the proposal on Nutrient based Subsidy (NBS) for urea be placed before the CCEA for consideration; and while placing the above proposal before CCEA, the observations of Minister of Chemicals and Fertilizers be clearly spelt out and direction of the CCEA sought.

The matter was placed before CCEA twice and CCEA directed that the proposal be reformulated and be placed before the GoM constituted to review the fertilizers policy and re-circulate the note for inter-ministerial consultation. Since the GoM referred in the decision of the CCEA was subsequently not re-constituted, therefore, Department of Fertilizers submitted a new proposal for consideration of CCEA on 23rd November 2012.

Meanwhile, with the approval of Prime Minister, a new GoM was constituted to look into all aspects relating to formulation of policy for the existing urea units beyond Stage-III of NPS in January, 2013. Based on the recommendations of GOM, a CCEA Note was submitted for seeking the approval on the proposal regarding Modified NPS-III for existing urea units. After the approval of the CCEA, Modified NPS-III for the existing urea units was issued by the Department on 2nd April, 2014.

In the meantime, NBS was introduced in P&K Fertilizers wherein the Nutrient based subsidy is fixed and paid on each nutrient including Nitrogen and MRP is decided by the Fertilizers Companies themselves based on demand supply dynamics. Though the availability of fertilizers improved and the subsidy burden reduced with the implementation of NBS in P&K Fertilizers, however, the demand of P&K fertilizers vis-a-vis urea decreased due to increase in prices of P&K fertilizers. This has resulted in skewed NPK ratio and caused imbalance use of fertilization

Subsequently, the urea policy was revisited afresh in 2015 and after due consultation, a proposal to formulate New Urea Policy was approved by CCEA. Alongwith, a proposal of gas pooling policy was also approved by CCEA. As per the decision of CCEA, Department of Fertilizers notified New Urea Policy-2015 on 25th May 2015 for existing 25 gas based urea units with the objectives of maximizing indigenous urea production; promoting energy efficiency in urea production; and rationalizing subsidy burden on the Government.

Department of Fertilizers is following various strategies/mechanisms to promote balanced use of Fertilizers in association with DAC&FW.

With the objective of encouraging balanced use of fertilizers, 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 w.e.f 1st December, 2015 respectively.

Vide notification dated 4th September, 2017, Government of India has decided to introduce 45 kg bag of urea in place of existing 50 kg bag and a period of six months have been given to urea units as lead time to ensure smooth implementation of the policy. However, MRP of such bag will be notified by Ministry of Agriculture & Farmers Welfare.

9. The Committee desired to know the latest position in regard to rationalising the size of urea bag and whether the MRP of such bag had been notified by the Ministry of

Agriculture and Farmers Welfare or not. The Department of Fertilizers accordingly intimated that the approval of the Government to introduce 45 kg bag replacing the existing 50 kg bag had been conveyed and also the MRP of 45kg bag had been notified on 1st March, 2018.

10. The Committee are happy to note that the Department of Fertilizers had notified a New Urea Policy, 2015 for the existing 25 gas based urea units with the objectives of maximizing indigenous urea production, promoting energy efficiency in urea production and rationalizing subsidy burden on the Government. To encourage balanced use of fertilizers, the Department had also made it mandatory for all domestic producers of urea to produce 100% Neem Coated Urea and consequently the entire quantity of indigenously produced urea and imported urea was neem coated w.e.f 1st September, 2015 and w.e.f 1st December, 2015 respectively. The Committee see this development as a way forward in effecting the new urea policy. Nevertheless, the Committee desire to be apprised of the impact of the new urea policy on indigenous urea production and the subsidy burden of the Government. The Committee are also happy to note that the MRP for the 45 kg bag has since been fixed which will eventually benefit the farmers. However, a close scrutiny of the updated information supplied by the Committee does not categorise the reasons for truncating the size of urea bag from 50 kg to 45 kg. The Committee in this regard desire that they be apprised of such a change.

(Recommendation Para No.3)

PROMOTION OF INDIGENOUS FERTILIZERS INDUSTRY

11. The committee noted that despite the stated objective of NBS Policy to improve growth of indigenous fertilizers industry, production of P&K Fertilizers by the indigenous fertilizers industry declined. Since 2003-04, the number of indigenous plants and their capacities remained static. Though the number of plants remained the same even in 2013-14, installed capacity increased marginally. The Committee were distressed to find that in a span of ten years, no significant achievement had been made in the growth of distressing fertilizers plants and their production level. This was even more distressing to note that although NBS policy was announced in 2010, the result had been very pathetic as production of P&K fertilizers by the indigenous fertilizers industry declined i.e. a phenomenon which is just opposite to one of the objective of NBS Policy. The Committee also noted that in order to ensure long term availability of raw material/intermediaries, Indian companies are encouraged to enter long-term off-take contracts at concessional rates, Joint Ventures to acquire mines in resource rich countries. The Committee also took note of the fact that under the NBS Policy number

of Single Super Phosphate (SSP) units had increased from 73 in 2008-09 to 100 in 2014-15 and the production of SSP had also increased. While appreciating the efforts of the Department to promote indigenous production of fertilizer, the Committee found it inadequate. The Committee, therefore, recommended that the Department take proactive measure to encourage/enhance investment in the fertilizers sector in close co-ordination with MoF and introduce target oriented implementation of NBS Policy in an effort to increase the domestic production of fertilizers and SSP units.

12. The Ministry in their Action Taken Note have stated as under:

“Growth of indigenous industry depends on availability of raw material in the country and in case of non-availability or less availability in the country, easy availability of raw materials in the international market. Import/tariff policy also contribute to the growth of indigenous industry. In case of India, we have neither gas to produce Ammonia nor Potash mines to source ‘K’ required for P&K fertilizers. Similarly, more than 90% of phosphate requirement is also imported in the form of either raw material/intermediaries or finished products.

Post NBS Scheme, the Government could not facilitate acquiring of fertilizer raw material from abroad due to unfavourable terms & conditions, commercial decision of fertilizer companies and internal policies of the resource rich countries to promote their own industry instead of selling raw materials abroad and keeping the prices of finished products lower than that of raw materials. The recent fall in prices of Potash in the international market has led to wait and watch decisions by the fertilizer companies to enter into any agreement with foreign suppliers for long term purchase agreements. All these factors affected the growth of indigenous industry.

Another factor, which affected growth of indigenous industry is the present import tariff rates on various raw materials and finished fertilizers. At present, raw material and finished fertilizers produced with the said raw material attract same customs duty. For encouraging fertilizer companies to import raw materials and increase production, the Department has been requesting the Ministry of Finance to reduce customs duty on raw materials and intermediaries for the last 3-4 years. But, the proposal has not yet been approved. This is encouraging fertilizer companies to depend on import of finished fertilizers rather than importing raw materials to produce indigenously.

However, the recent fall in gas prices in the international market has led to increase in import of RLNG. It is expected that easy availability of RLNG to fertilizer plants will encourage establishment of new fertilizer units.”

13. The Committee took note of the fact through the submission of the Department that growth of indigenous fertilizer industry depends on availability of raw material in the country and in case of non-availability or less availability, on easy availability of raw materials in the international market. The Committee also learnt through the reply that import/tariff policy also contribute to the growth of indigenous industry. Due to limited resources and raw material in the country, the fertilizer industry is heavily dependent on imports of raw materials and intermediaries. The Committee appreciate the fact that the Department of Fertilizers has been requesting the Ministry of Finance to reduce customs duty on raw materials and intermediaries for the last 3-4 years to encourage fertilizer companies to import raw materials and increase production. Noting that the proposal for reduction of customs duty has not been approved so far, the Committee wish to be apprised of the reasons given by the Department of Finance for not approving the proposal of the Department of Fertilizers. The Committee, therefore, recommend that the Department may also seek the advice of the Department of Finance in exploring other options like granting certain incentives to attract investors/companies to import raw materials for indigenous production.

(Recommendation Para No.4)

TIME BOUND CLEARANCE OF PENDING PROFORMA-B

14. The Committee in their original Report did note that the outstanding amount of Rs.50,587 crore of Performa-B for the period 2007-08 to 2009-10 has been brought down to Rs.427.85 crores as on 05.01.2016. Further, the amount of outstanding Performa-B for the period from 2007-08 to 2015-16 is Rs.23,570.80 crore as compared to outstanding Proforma-B of Rs. 50,587 crore for the period from 2007-08 to 2009-10. The Committee however, find that there is no specific mechanism is place to ensure that States furnish Performa-B certificates in time. The Department of Fertilizers had stated that the responsibility to issue the Quantity certificate lied with the state Governments. Department of fertilizers had no other option but to pursue the matter with state Governments regularly and make efforts to clear the pendency of Performa-B. Though the DoF had claimed to have taken a number of measures towards reducing the pendency of Performa-B, the Committee Feel that the progress made was not satisfactory especially in view of advances in IT which in this case appear to have not

been leveraged. The Committee therefore, recommended that a time-bound action plan may be put in place to clear pendency of proforma-B. The Committee suggested that the monitoring mechanism of pendency of Proforma-B need to be strengthened and penalty be imposed on states, in the form of reduced subsidy grant, for any delay in the submission of quantity certificates.

15. The Ministry in their Action Taken Notes have stated as under:

“The Department of Fertilizer has already issued a notification regarding the procedure for release of subsidy vide No.D(FA)/CCEAI2011 dated 25.10.2012 and according to this notification, the State Governments are required to send Proforma B 1 (for quantity) and Proforma B2 (for quality) for all the Companies. Proforma B 1 (Quantity) is to be certified online on Fertilizer Monitoring System (FMS) (Now iFMS) within 30 days. If the same is not received within 30 days from the State Government, it shall be deemed to have been received. Further, Proforma B2, certifying the quality, is required to be sent within six months and is mandatory for settlement of balance subsidy claim/bills of the fertilizer Companies. Now as per O.M. No.23011/20/2014-MPR dated 25th June, 2015, the Proforma B-2 is deemed to have been received if not received within 180 days from the date of receipt of the fertilizers in the district for which the subsidy claims pertain. Thus the subsidy claims in respect of P & K Fertilizers and Urea would be processed without quality certificates from the State Governments. But, as and when the State Government intimates the sub-standard quantity or short receipt, the subsidy amount along with penal interest is being recovered accordingly. The status of State-wise pendency of proforma B1 up to the year 2015-16 is Rs. 12745.64 Crore whereas B2 pendency up to the year 2016 is Rs. 22670.89 Crore.

The submission of Proforma B1 & B2 is being monitored through the Web based fertilizer monitoring system (FMS) now iFMS by the Department of Fertilizers regularly. However, the responsibility to issue the quantity/quality certificate lies with the State Government. Department of Fertilizers is regularly pursuing the matter with the Agriculture departments of the respective State Governments and making efforts to clear the pendency of Proforma B 1 & B2 and on the basis of reports generated through FMS now (iFMS).

The department of Fertilizers is making all efforts to reduce the pendency of proforma B1 and B2 by taking up the matter with state Governments at all levels.”

16. The Committee note that the Department of Fertilizers monitors the submission of Proforma ‘B’ by the States through a web based fertilizer

monitoring system (iFMS) for quantity (B1) and quality (B2) checks. Proforma B is the basic reconciliation tool for cross verification of information pertaining to quantity and quality of fertilizers supplied by fertilizer companies with information provided in the mobile Fertilizer Monitoring System (FMS) by the State Government. The Committee also note the Department had issued notification to all State Governments for submission of Proforma B1 & B2 within 30 and 180 days respectively and Proforma B1 & B2 would be deemed to have been received if the same were not submitted by the State Governments within the stipulated period and subsidy claims in respect of P&K fertilizers and Urea would be processed without quality certificates from the State Governments. However, notwithstanding the fact that in spite of all procedures/arrangements in place, the processing of subsidy claims without obtaining actual quality certificate from the States is unreasonable and illogical. Taking serious note of the huge pendency of Proforma B, the Committee recommend that the Department take necessary and stringent measures to ensure submission of Proforma B by all concerned States within a timeframe for settlement or recovery of subsidy from the fertilizer companies for distribution of sub-standard quality or short quantity of fertilizers as the case may be. This would not only help the Ministry in achieving its policy objectives deftly but would also do the due justification to the farming community, *per se*.

(Recommendation Para No.6)

STATUS OF RECOVERY OF UNDUE BENEFIT DUE TO USE OF CHEAPER DOMESTIC GAS

17. The Committee noted that the Empowered Group of Ministry (EGoM) had directed (February 2012) the Department of Fertilizers to finalize guidelines for effecting recovery of undue benefits that had accrued to P&K manufacturing fertilizers companies which used cheaper domestic gas. Further, pending finalization of guidelines, Minister of State for Chemicals & Fertilizers had also directed (November 2013) the Department to initiate 'adhoc' recovery. The Committee were dismayed that the Department of Fertilizers had neither finalized the guidelines to effect recovery nor made 'adhoc' recoveries from fertilizer companies for use of cheaper domestic gas till date. The Committee noted that the Department had been withholding subsidies in the case of RCF from each monthly subsidy bill, stopped subsidy payment since 10.10.2014 in respect of DFPCL. In respect of GSFC no recoveries were made due to court order restraining the Department not to take any coercive action due to the ad-hoc recovery order. The committee found that the measures taken by the Department so far for recovery of undue benefits were highly unsatisfactory. The Committee, therefore, recommended that guidelines for recovery of undue benefits accrued due to use of

cheaper domestic gas may be formulated without any further delay. Moreover, the Committee viewed that recoveries should be effected from the date of implementation of NBS Policy i.e 1 April 2010. The Committee also desired to be apprised of the action taken in this regards

18. The Ministry in their Action Taken Notes have stated as under:

“The IMC, constituted for the above purpose, gave its recommendations after the deliberation of the matter in its 8th meeting. The recommendations of the IMC were sent to the Competent Authority for approval. However, the Competent Authority has raised some observations on the recommendations of the IMC and directed the IMC for further deliberation on the matter. As per the observations of the Competent Authority, 9th meeting of the IMC has been convened.”

19. Audit in their vetting comments stated as under:-

“In the 7th IMC meeting held on 24 April 2016, it has been decided that for recovery of undue benefits to the companies based on the normative cost of imported ammonia (monthly weighted average cost of ammonia imported by all P&K fertilizers submitted of DoF). The recovery would be the difference between the cost of total quantity of ammonia/Nitrogen used in the production of the P&K fertilizers by using the APM gas and the above normated cost of the quantity of ammonia/nitrogen on monthly basis w.e.f. 01.04.2010. The total recovery would be subject to adjustment of benefits passed on by the companies in the form of lower MRPs to the farmers and taxes/dividends paid to governments.

In the 8th IMC meeting held on 1 August 2016, decided that since the MOP&NG has already issued orders revising gas price to non-urea producing manufacturers from 01.04.2010 onwards and also made a reference to this in the Supreme court, the Ministry of P&NG may initiate recovery proceeding as per the letter dated 16.12.2015 except that MoP&NG should charge market price instead of higher rate of RLNG used for production of urea during the concerned period for the quantity of APM gas used by fertilizer units for manufacturing of products other than urea after notification of new domestic gas pricing guidelines i.e. 01.11.2014 onwards.

In the 9th IMC meeting held in 14 July 2017, it has been advised that CMD RCF to calculate the recovery amount based on various scenario viz APM vs highest of RLNG, APM vs market determined price, APM vs Market price and

APM vs PMT after taking consideration tax/dividend paid and gains passed on to farmers in term of lower MRP.

Once the decision regarding recovery of undue benefit due to use of cheaper domestic gas from the companies has been taken in the IMC held on 24 April 2016, the reasons for bringing the matter again and again to IMC and changing the decision may be intimated to PAC. It is noteworthy that DoF has made the recovery from IFFCO on account of undue gain due to use of cheaper Ammonia at the rate of difference between cost of imported Ammonia used by other Companies and Cost of Cheaper Ammonia used by IFFCO.”

20. The Ministry in their updated Action Taken Notes have stated as under:

“The 8th IMC was held as MoP&NG has conveyed the Department that the views of MoP&NG was not brought out clearly in the minutes of the 7th IMC meeting whereas the 9th IMC was convened on observation raised by the Hon’ble Minister (C&F) on the proposal.

As far as the recovery of IFFCO is concerned, the formula of difference between cost of Ammonia imported by IFFCO and Cost of Ammonia imported by IFFCO under AOTA with OMIFCO during a month has been adopted as IFFCO had used imported ammonia as feedstock for the production of P&K fertilizers. But in the instant matter, all the three companies used Domestic gas for production of Ammonia and finally P&K fertilizers. Therefore, both the cases are different and shouldn’t be compared.”

21. The Committee note that despite the decision taken during the 7th meeting of the Inter Ministerial Committee (IMC) on 24th April, 2016 for recovery of undue benefits to the companies based on the normative cost of imported ammonia (monthly weighted average cost of ammonia imported by all P&K fertilizers), the Department of Fertilizers have not done any recovery or ‘ad hoc’ recovery of undue benefit for the use of cheaper domestic gas by the companies. The Committee also note that during the 8th meeting held on 1 August 2016, it was decided that since the Ministry of Petroleum & Natural Gas had already issued orders revising gas price to non-urea producing manufacturers from 01.04.2010 onwards and made a reference to the same in the Supreme Court, the Ministry of P&NG may initiate recovery proceeding as per the letter dated 16.12.2015 except that MoP&NG should charge market price instead of higher rate of RLNG used for production of urea during the concerned period for the quantity of Administered Pricing Mechanism (APM) gas used by fertilizer units for manufacturing of products other than urea after notification of new domestic gas pricing guidelines

i.e. 01.11.2014 onwards. The Committee also observe that during the 9th meeting of IMC held on 14 July, 2017, the CMD, Rashtriya Chemicals & Fertilizers (RCF) was advised to calculate the recovery amount based on various scenario viz APM vs highest of RLNG, APM vs market determined price, APM vs Market price and APM vs PMT after taking consideration tax/dividend paid and gains passed on to farmers in term of lower MRP. The Committee are, however, dismayed to note that even after the lapse of 12 months no recovery or ‘ad hoc’ recovery proceedings have been initiated. The Committee desire to be apprised of the reason behind the prolonged delay in determining the recoverable amount and categorically recommend that immediate action be taken to determine the recoverable amount and set a deadline for complete recovery. The Committee would like to be apprised once the issue reaches finality.

(Recommendation Para No.9)

NEED FOR MORE FQCLs AND LABs

22. The Committee noted that there were 78 FQCLs and 4 laboratories across the country. The Committee viewed that the current number of labs is insufficient to provide proper/adequate fertilizers quality monitoring and cater to the demands of an agrarian country like India. The Committee also found that information regarding measures taken to improve fertilizer and formulation of proposals for revamping the mechanism to enforce quality of fertilizer was awaited from the Department of agriculture, Cooperation and family Welfare (DAC&FW). The Committee, therefore, recommended that the Department of Fertilizers assume a more proactive role and pursue DAC&FW to finalize the proposals for the revamping the mechanism for fertilizer quality control without much delay. The Committee also desired that the Department of Fertilizers undertake a survey and research on the requirement of FQCLs based on which additional FQCLs may be established wherever necessary to facilitate adequate fertilizer quality control and monitoring.

23. The Ministry in their Action Taken Note have stated as under:

“Recommendations of the Public Accounts Committee have been noted and the State Governments have been advised to submit details regarding available infrastructure, targets/analytical capacity of FQCLs, future requirement etc. to this Department for further necessary action. The Central Government will continue to persuade States with inadequate facilities to set up new laboratories/strengthen existing laboratories.”

24. Having gleaned through the Action Taken Notes of the Ministry, the Committee espouse the urgent need for adequate and up-to-date Fertilizer Quality Control Laboratories (FQCLs) and laboratories in the country. The Committee note that the Department of Fertilizers have advised the State Governments to submit details on available infrastructures, targets/analytical capacity of FQCLs, their future requirements etc. to the Department for further necessary action. The Committee are of the view that rather than merely advising the States to furnish details of FQCLs, its capacity and future requirement, it would be prudent for the Department to take a more proactive role in obtaining the required details from the States. The Committee recommend and expect the Ministry to set a timeframe for the States to furnish the details and based on the details, to mull necessary measures to ensure setting up of FQCLs and laboratories wherever required. The Committee also reiterate their earlier recommendation on undertaking a survey and research to gauge the requirement of FQCLs across the country.

NEW DELHI;
7 August, 2018
16 Shravana, 1940 (Saka)

MALLIKARJUN KHARGE
Chairperson,
Public Accounts Committee