Executive Summary

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1. Introduction

The Government of India (GoI) had introduced a 'Concession Scheme for decontrolled Phosphatic and Potassic (P&K) fertilizers' in 1992 which continued up to 31 March 2010. The basic objective of the Concession Scheme was to provide P&K fertilizers to farmers at affordable prices. The Maximum Retail Price (MRP) of P&K fertilizers was fixed by GoI at a level lower than the actual cost and the difference between the actual cost and MRP was reimbursed by GoI to manufacturers/importers in the form of subsidy.

The Department of Fertilizers (DoF) notified a new scheme i.e. "Nutrient Based Subsidy" (NBS) w.e.f. 1 April 2010 in order to improve agriculture productivity, ensure balanced use of fertilizers, promote growth of indigenous fertilizer industry and to reduce the burden of subsidy. Under NBS Policy, MRP of P&K fertilizers has been left open and the manufacturers/importers/marketers are allowed to fix MRP of P&K fertilizers at 'reasonable level'. Subsidy is determined on the basis of the nutrient contained in the fertilizers i.e. 'N' (Nitrogen), 'P' (Phosphate), 'K' (Potassium), and 'S' (Sulphur). NBS to be paid on each nutrient is decided annually by GoI.

State Governments intimate their requirements of fertilizers to the Department of Agriculture and Cooperation (DAC), which is conveyed to DoF for arranging supplies by fertilizer companies to the States. Distribution and movement of fertilizers are monitored by DoF through the online web based Fertilizer Monitoring System (FMS).

2. Main Audit findings

Achievement of objectives of NBS Policy

- DoF records did not reveal a clear road-map or timelines or monitoring mechanism for implementation of NBS Policy with respect to achievement of laid down objectives.

(*Para 3.1*)

- Preferred proportion of usage of NPK nutrients is 4:2:1. 'N' which was at 4.3 in 2009-10, jumped to 8.2 in 2012-13, as farmers preferred Urea, containing 'N', because it was cheaper than P&K fertilizers. Such a practice had an adverse effect on soil fertility. Thus, NBS Policy did not promote balanced fertilization.

(Para 3.2)

- Despite stated objective of NBS Policy to improve growth of indigenous fertilizer industry, production of P&K Fertilizers by the indigenous fertilizer industry declined.

(Para 3.3)

- There was a need for a critical review of the utilization of 78 Fertilizer Quality Control Laboratories (FQCLs) in the country as capacity of some FQCLs was overutilized while some remained underutilized.

(Para 3.5)

Implementation of the Policy by DoF

- Benchmark price considered for fixation of subsidy on DAP for 2011-12 in November 2010, was lower than the prevailing import/procurement rates because of which the fertilizer companies were not able to finalize contracts with international fertilizer suppliers. The landed price for DAP rose and the benchmark price was finally fixed at US$ 612 per metric tonne (PMT) in May 2011, which was 35 per cent higher than the benchmark price fixed in November 2010. By not fixing the benchmark price at reasonable level in November 2010, GoI lost an opportunity of saving subsidy of ₹5555 crore. Fixation of benchmark price at a reasonable level needs to be ensured by DoF which would allow fertilizer companies to finalize contracts with international suppliers timely.

(Para 4.1)

- There was huge pendency of Proformae 'B', which was 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 FMS by the State Government. 4112 Proformae 'B' were pending in respect of P&K fertilizers, pertaining to the period 2007-08 to 2013-14, as of 31 October 2014. Out of these, 3899 related to the period when NBS Policy was in force. Thus, there was a need for DoF to frame a time-bound action plan to clear the pendency.

(Para 4.2)

- On the recommendation of Inter Ministerial Committee (November 2010), subsidy on Single Super Phosphate (SSP) was reduced by ₹104 PMT as secondary freight element was withdrawn and lump sum freight of ₹200 PMT was allowed as compensation for this withdrawal. This resulted in additional financial burden of ₹25.74 crore on DoF.

(Para 4.3)

- Cost of production of Ammonia (using domestic/APM gas) was cheaper as compared to use of imported Ammonia for production of complex fertilizers. The Empowered Group of Ministers (EGoM) directed (February 2012) DoF to finalize guidelines for effecting recovery of undue benefits that had accrued to P&K manufacturing fertilizer companies which used domestic gas. Further, Minister of State for Chemicals & Fertilizers directed (November 2013) that pending finalization of guidelines, DoF should initiate 'adhoc' recovery which was notified in January 2014. However, DoF neither finalized the guidelines to effect such recovery from fertilizer companies nor made 'adhoc' recoveries even after expiry of two years from the direction of EGoM. Financial impact on account of this non-recovery could not be worked out by Audit due to non-availability of data on use of Ammonia for production of Urea vis-à-vis P&K fertilizers.

(Para 4.4)

- Monthly Supply Plan (MSP) in respect of decontrolled P&K Fertilizers, as issued to fertilizer companies as well as to States, was not based on realistic assessment of requirements. Quantity actually supplied by the companies was being regularized without any link with the quantity mentioned in MSP. Further, no MSP was being prepared for SSP.

(Para 4.5 and 4.7)

- DoF decided (8 February 2012) that DAP (MAP/TSP/DAP Lite), NPK (all grades) and MOP Fertilizers except Urea arriving in February 2012 and March 2012 would not be dispatched from ports to any State till further orders. DoF, however, reversed (28 February 2012) the decision despite the fact that the month's requirements could have been met through indigenous production and the stock carried over from the previous month. As substantial reduction in the rate for NBS of DAP was recommended by IMC for 2012-13 (7 February 2012), the decision of DoF to resume supply of imported DAP enabled fertilizer companies to dispatch the imported DAP to district level and claim subsidy at higher rates of 2011-12. Resultantly, DoF had to bear avoidable burden of ₹653 crore on additional quantity of imported fertilizers, despite there being no immediate requirement.

(Para 4.6)

Implementation of the Policy by the companies

DoF had not laid down any guidelines for assessing and enforcing the reasonableness of MRPs fixed by the fertilizer companies. Audit observed the following instances of unreasonable loading costs in MRP:

- IFFCO added ₹142 PMT as 'loss on sale of fertilizer bond' as a component of cost for fixing MRP of DAP (imported) during 23 September 2011 to 30 May 2012. Financial impact of above loading was ₹9.89 crore.

(Para 5.1.1.1)

- Increased subsidy on opening stock of imported DAP as on 1 April 2011, amounting to ₹4.41 lakh, was recovered by DoF from IFFCO which in turn, added ₹40 PMT as 'loss on mopping up of subsidy' as a cost component for fixing MRP of imported DAP. This resulted in undue profit of ₹2.59 crore to the Company.

(Para 5.1.1.2)

- Purchase cost of DAP by some companies was less than the benchmark price of US$ 500 PMT considered by DoF for fixation of subsidy for the year 2010-11. In the absence of any cost sheet of the calculation of MRPs for such products and no separate verification mechanism in DoF, Audit could not verify whether the benefit of such lower cost of purchase was passed on to farmers through a reduction in MRP.

(Para 5.1.2)

- Partial modification in NBS Policy for payment of secondary freight subsidy in line with 'Uniform Freight' w.e.f 1 January 2011, resulted in withdrawal of inbuilt freight subsidy by ₹300 PMT in the case of DAP. It was, however, observed that subsequent to the said notification, Chambal Fertilizer and Chemicals Ltd. (CFCL), Indian Potash Limited (IPL) and IFFCO increased their MRP for DAP by ₹800 PMT. Though no specific reasons were available for such increase of MRP by IFFCO and IPL, CFCL had cited withdrawal of inbuilt secondary freight subsidy as the reason.

(Para 5.1.3.1)

Recommendations

Some of the major recommendations are given below:

- A well-defined road-map for achieving each objective of the Policy, which may, inter alia, indicate quantifiable deliverables and specific timelines for achieving the objectives, needs to be laid down.

(Recommendation 1 – Chapter 3)

- DoF may put in place specific well coordinated measures including a critical review of pricing of Urea and extending to farmers the benefits of balanced usage of fertilizers through a dedicated strategy of publicity.

(Recommendation 2 – Chapter 3)

- DoF may factor in the impact of movement of international prices, while fixing benchmark price before start of financial year, which would enable fertilizer companies to enter into contracts with international suppliers for timely procurement of their requirements.

(Recommendation 5 – Chapter 4)

- DoF may establish a mechanism to ensure that requirement of fertilizers is assessed in advance based on month-wise and State-wise demand of fertilizers projected by DAC and co-ordinate the arrangements for supplying the required quantities of fertilizers. Necessity for having an MSP for SSP and modalities for same may also be worked out by DoF in close co-ordination with DAC.

(Recommendation 7 and 8 – Chapter 4)

- As NBS Policy left MRPs open for being fixed by fertilizer companies at a reasonable level, DoF may critically review adequacy of measures to assure itself that prices are actually fixed by companies at a reasonable level. For this, cost accounting firms already appointed by DoF may be instructed to submit their reports in a timely manner, so that action could be taken by DoF against fertilizer companies loading their cost with irrelevant components. Further, DoF may also consider extending verification of cost data of fertilizer companies from April 2010 onwards i.e. with effect from the date of introduction of NBS Policy instead of getting cost data examined only from 2012-13.

(Recommendation 9 – Chapter 5)