

Chapter 1 - Introduction

1.1 Background

Government of India (GoI) decontrolled Phosphatic (P) and Potassic (K) fertilizers with effect from 25 August 1992. After decontrol, prices of these fertilizers registered a sharp increase compared to Urea, which led to decrease in demand and consumption of P&K fertilizers. It, in turn, led to fear of imbalance in the usage of Nitrogen (N), P and K nutrients in the soil, with adverse effect on agricultural productivity.

In order to cushion the impact of increase in prices of decontrolled P&K fertilizers and promote balanced usage of NPK nutrients, GoI introduced (October 1992) a ‘Concession Scheme’ for decontrolled P&K fertilizers. The scheme, which was introduced on adhoc basis, covered Di-Ammonium Phosphate (DAP), Muriate of Potash (MOP) and 11 grades of NPK complex fertilizers. Later on, Single Super Phosphate (SSP) was included in the scheme during 1993-94. The Concession Scheme for P&K fertilizers continued upto 31 March 2010.

The objective of the ‘Concession Scheme’ was to make decontrolled P&K fertilizers available to farmers at affordable prices and ensure reasonable rate of return on investment made by entrepreneurs in fertilizer sector. Maximum Retail Prices (MRPs) of fertilizers were fixed by the Department of Fertilizers (DoF), Ministry of Chemicals and Fertilizers in GoI. The difference between the total delivered cost of the fertilizer at the farm gate¹ and MRP payable by the farmer was reimbursed to manufacturers/importers in the form of subsidy.

During the implementation of the ‘Concession Scheme’, DoF experienced that:

- No investment had taken place in the Fertilizer Sector in the last decade i.e 2000-01 to 2009-10.
- Subsidy outgo increased exponentially by 530 per cent during 2004 to 2009 with about 90 per cent of the increase due to rise in the international prices of fertilizers and inputs.
- Increase in agricultural productivity was not commensurate with increase in subsidy bill.

To address the above issues, a new Scheme called ‘Nutrient Based Subsidy (NBS) Policy for decontrolled P&K fertilizers’ was launched (April 2010), in the place of the ‘Concession Scheme’.

1.2 Types of P&K fertilizers

P&K fertilizers are grouped as under:

¹ The price (including tax) at which fertilizer is available to the end user i.e. Farmers.

- **Phosphatic (P) fertilizers-** Di-Ammonium Phosphate (DAP), Single Super Phosphate (SSP), Mono-Ammonium Phosphate (MAP) and Triple Super Phosphate (TSP) are the main fertilizers of this group.
- **Potassic (K) fertilizers-** Muriate of Potash (MOP) is the main potassic fertilizer.
- **Complex and other fertilizers-** These include different grades of complex fertilizers (termed as NPK complexes) which provide all three nutrients in varying proportions (e.g. 15-15-15, 17-17-17, 14-28-28, 12-32-16² etc.) as well as other fertilizers like Ammonium Sulphate (AS), Nitro Phosphate etc.

1.3 Nutrient Based Subsidy (NBS) Policy

The intent of GoI behind introducing NBS Policy in fertilizer sector was announced by the Finance Minister in Budget Speech 2009 as follows:

“In the context of the nation’s food security, the declining response of agricultural productivity to increased fertilizer usage in the country is a matter of concern. To ensure balanced application of fertilizers, the Government intends to move towards a nutrient based subsidy regime instead of the current product pricing regime. It will lead to availability of innovative fertilizer products in the market at reasonable prices. This unshackling of the fertilizer manufacturing sector is expected to attract fresh investments in this sector. In due course, it is also intended to move to a system of direct transfer of subsidy to the farmers.”

A Group of Ministers (GoM) was constituted (July 2009) to look into the proposed NBS Policy and make appropriate recommendations to GoI. GoM, in its first meeting held on 20 January 2010, considered NBS Policy and made the following recommendations for rationalization of the then existing fertilizer subsidy regime:

- The first phase of proposed NBS Policy can be implemented with effect from 1 April 2010. NBS should be released through the Industry during first phase.
- An Inter-Ministerial Committee (IMC) should be constituted under the Chairmanship of Secretary (Fertilizers). Subsidies on N, P, K & S should be recommended by IMC and various scenarios in this respect should be submitted before CCEA for its decision.

Considering the issues relating to improving agricultural productivity, ensuring balanced use of fertilizers, growth of indigenous fertilizer industry and to contain the subsidy bill, a new Policy called ‘Nutrient Based Subsidy’ (NBS) was introduced w.e.f. 1 April 2010 by DoF.

The main features of the Policy were as under:

- i. MRP of P&K fertilizers would be left open and manufacturers/importers/marketers would be allowed to fix MRP of P&K fertilizers at a reasonable level.

² These figures denote the proportions of N-P-K.

- ii. NBS to be paid on each nutrient namely 'N', 'P', 'K' & 'Sulphur'(S) would be decided (per kg) annually by GoI. NBS, so decided by GoI, would be converted into subsidy per tonne for each subsidized fertilizer.
- iii. DoF would also provide separate/additional subsidy to indigenous manufacturers of complex fertilizer using Naphtha based captive ammonia to compensate for the higher cost of production of 'N' subject to final recommendation of the Tariff Commission. This compensation was allowed for two years (1 April 2010 to 31 March 2012) during which the manufacturing units would have to convert to gas or use imported Ammonia.
- iv. NBS would be applicable for DAP, MOP, MAP, TSP, 12 grades of complex fertilizers and AS³.

Along with the introduction of NBS Policy, an IMC was constituted with Secretary (Fertilizers) as Chairperson and Joint Secretary level representatives of Department of Agriculture & Cooperation (DAC), Department of Expenditure (DOE), Planning Commission and Department of Agricultural Research and Education (DARE). IMC recommends per nutrient subsidy for 'N', 'P', 'K' and 'S' before the start of each financial year for decision by DoF. IMC also recommends a per tonne additional subsidy on fortified subsidized fertilizers carrying secondary (other than 'S') and micronutrients. It considers and recommends inclusion of new fertilizers under the subsidy regime based on application of manufacturers/ importers and its need appraisal by the Indian Council for Agricultural Research (ICAR), for decision by DoF.

A list of fertilizers covered under NBS Policy is provided in **Annexure I**.

1.4 Types of Subsidy given under NBS Policy

a) Fertilizer subsidy

This is the subsidy which is passed on to farmers in the form of subsidized MRP, which are lower than the delivered cost of these fertilizers at the farm gate level. Under NBS Policy, GoI announces fixed rate of subsidy (in terms of ₹ per kg) on each nutrient of subsidized P&K fertilizers on annual basis taking into account relevant factors such as international prices, exchange rate, inventory level and prevailing maximum retail prices of P&K fertilizers. The per kg subsidy rates are converted into per tonne subsidy on various P&K fertilizers covered under NBS Policy. An illustration on how NBS is calculated is provided in **Annexure-II**.

b) Additional Subsidy

- Additional subsidy was to be provided to indigenous manufacturers [namely Fertilizers and Chemicals Travancore Ltd (FACT); Madras Fertilizers Ltd. (MFL) and Gujarat Narmada Valley Fertilizers Company Ltd. (GNVFC)] producing complex

³ Caprolactum grade by Gujarat State Fertilizers & Chemicals Ltd (GSFC) and Fertilizers And Chemicals Travancore Ltd (FACT).

fertilizers using Naphtha based captive Ammonia to compensate for the higher cost of production of ‘N’ for a period of two years i.e. from 1 April 2010 to 31 March 2012. During this period, these units were expected to convert to gas based production or use imported Ammonia.

However, only FACT could convert its feedstock to gas and MFL and GNVFC were yet to convert (November 2014).

- Secondary and micro-nutrients (except ‘S’) such as Boron (Bn) and Zinc (Zn) would attract a separate per tonne subsidy to encourage their application along with primary nutrients. Any variant of P&K fertilizers covered under NBS Policy coated/fortified with secondary and micronutrients (except Sulphur), would also, thus be eligible for subsidy.

c) Freight Subsidy

- **Primary Freight Subsidy**

Freight on account of primary movement⁴ of P&K fertilizers (except SSP) by rail is reimbursed to fertilizer companies as per actuals on the basis of railway receipts. Freight reimbursement on account of direct road movement of P&K fertilizers (except SSP) is done as per actuals subject to maximum of equivalent rail freight. Maximum allowable distance under direct road movement is 500 km⁵.

- **Secondary Freight Subsidy**

Initially, DoF also provided freight on account of secondary movement⁶ of all P&K fertilizers. Details of secondary freight admissible under NBS Policy for decontrolled P&K fertilizers from 1 April 2010 to 1 April 2012 onwards are given in Table 1:-

Table 1 : Key events relating to secondary freight subsidy

Period	Policy
1 April 2010 – 31 December 2010	Secondary freight ranging from ₹104 to ₹339 per metric tonne (PMT) was inbuilt/included in NBS rates of different P&K fertilizers.
1 January 2011 - 31 March 2012	Secondary freight for P&K fertilizers (except SSP) would be paid in line with Uniform Freight Subsidy (UFS) Policy ⁷ applicable for Urea. For SSP, a lump sum freight of ₹200 PMT was provided ⁸ .
1 April 2012 onwards	Secondary freight for all P&K fertilizers was dispensed with ⁹ .

⁴ Movement by rail from the plant or the port to various rake points.

⁵ This was increased to 700 kms during the period 1 January 2011 to 31 March 2011.

⁶ Movement by road from the nearest rake points to the block headquarters in the district.

⁷ Notified by DoF in July 2008. As per this policy, reimbursement for secondary freight would be made on the basis of average lead distance of nearest rake point to block headquarters and per km rate as adopted by FICC.

⁸ The lump sum secondary freight subsidy was paid to SSP for eight months only (January-August 2011).

⁹ Notified by DoF in March 2012.

1.5 Fertilizer Monitoring System (FMS)

Fertilizer Monitoring System (FMS), an IT system, was launched by DoF in January 2007 to monitor the movement of different fertilizers at various stages in their value chain. It was expected to monitor production, dispatch, receipt and sale of Urea and P&K fertilizers (indigenous and imported) including SSP. FMS was also to facilitate processing of subsidy/concession payments (on the basis of receipt) of Urea and P&K fertilizers including SSP and reduce the processing time.

1.6 Subsidy Payments

DoF had disbursed a total subsidy ₹137611 crore during the period 2010-11 to 2013-14 under NBS Policy to the fertilizer companies for providing decontrolled P&K fertilizers. Details of company-wise payment of subsidy are given in Table 2:-

Table 2 : Recipients of subsidy on decontrolled P&K fertilizers

(₹ in crore)

S. No.	Importers/ Manufacturers	Year-wise subsidy given				
		2010-11	2011-12	2012-13	2013-14	Total
Importers						
1.	Indian Potash Limited, New Delhi (Private)	9929	7688	5039	5319	27975
2.	Indian Farmers Fertilizer Co-operative Ltd, New Delhi, (Co-operative)	2962	2105	1999	342	7408
3.	Zuari Industries Ltd, Gurgaon, Haryana (Private)	1706	1396	1143	1087	5332
4.	Chambal Fertilizer and Chemicals Ltd, New Delhi (Private)	835	781	855	1317	3788
5.	Nagarjuna Fertilizer & Chemicals Ltd, Hyderabad, Andhra Pradesh (Private)	383	814	810	876	2883
6.	Mosaic India Pvt. Ltd., Gurgaon, Haryana (Private)	904	734	339	625	2602
7.	Tata Chemicals Ltd (HLL), Noida, Uttar Pradesh (Private)	796	533	582	591	2502
8.	Rashtriya Chemicals and Fertilizers Ltd., Mumbai, Maharashtra (Government)	608	264	625	363	1860
9.	Coromandel International Ltd, Secunderabad, Andhra Pradesh (Private)	439	536	487	553	2015
10.	Krishak Bharti Co-operative Ltd, Noida, Uttar Pradesh (Co-operative)	640	371	534	387	1932
11.	Other Importers ¹⁰	1648	943	2163	2467	7221
TOTAL IMPORTERS		20850	16165	14576	13927	65518

¹⁰ Deepak Fertilizers and Petrochemicals Corporation Ltd., Fertilizers and Chemicals Travancore Ltd., Gujarat Narmada Valley Fertilizers Co. Ltd., Madras Fertilizers Ltd., National Fertilizers Ltd., Paradeep Phosphates Ltd. etc.

S. No.	Importers/ Manufacturers	Year-wise subsidy given				
		2010-11	2011-12	2012-13	2013-14	Total
	Manufacturers					
1.	Indian Farmers Fertilizers Co-operative Ltd., New Delhi (Co-operative)	5935	5968	4490	4975	21368
2.	Coromandel International Ltd., Secunderabad, Andhra Pradesh (Private)	3978	3270	2555	2547	12350
3.	Paradeep Phosphates Ltd., Bhubaneswar, Orissa (Private)	1861	1345	1218	1279	5703
4.	Gujarat State Fertilizers & Chemicals Ltd. Vadodara, Gujarat (Government)	1943	1419	753	1215	5330
5.	Fertilizers and Chemicals Travancore Ltd., Cochin, Kerala (Government)	1185	1085	826	761	3857
6.	Zuari Industries Ltd., Gurgaon, Haryana (Private)	1191	869	592	433	3085
7.	Tata Chemicals Ltd.(HLL), Noida, Uttar Pradesh (Private)	1024	994	598	814	3430
8.	Rashtriya Chemicals and Fertilizers Ltd, Mumbai, Maharashtra (Government)	717	625	706	560	2608
9.	Gujarat Narmada Valley Fertilizers Company Ltd., Bharuch, Gujarat (Government)	180	248	199	197	824
10	Other Manufacturers ¹¹	2636	4120	4063	2719	13538
TOTAL MANUFACTURERS		20650	19943	16000	15500	72093
TOTAL		41500	36108	30576	29427	137611

¹¹ Deepak Fertilizers and Petrochemicals Corporation Ltd., Godavari Fertilizers and Chemicals Ltd., Green Star Fertilizers Ltd., Hindalco Industries Ltd., Mangalore Chemicals and Fertilizers Ltd., Madras Fertilizers Ltd. etc.

Chapter 2 - Audit Approach and Previous Audit Findings

2.1 Audit Objectives

The main objectives of the Performance Audit were to ascertain whether:

- GoI could achieve the objectives of NBS Policy especially those relating to containing the total subsidy bill in comparison with the earlier scheme, ensuring balanced use of nutrients and growth of indigenous fertilizer industry;
- subsidy was disbursed as per NBS Policy;
- companies took undue advantage of the differential in subsidy between successive years on closing balance of fertilizers; and
- MRP fixed by the companies was based on cost of raw material/other inputs and was reasonable.

2.2 Audit Criteria

Performance Audit was carried out with reference to:

- Policy guidelines/instructions/circulars/orders issued by DoF governing the grant of subsidy under NBS Policy for P&K fertilizers;
- Policy files relating to fixation of annual subsidy; and
- Records relating to production/import of fertilizer of the selected fertilizer producing/importing companies.

2.3 Audit Coverage

The Performance Audit covered the period April 2010 (since inception of NBS Policy) to March 2014 involving subsidy payment of ₹137611 crore. Initially a sample of eight¹² companies, out of 34 fertilizer companies, which had received subsidy exceeding ₹500 crore in each year, was selected for Audit. However, during the Entry Conference with DoF, it was decided to restrict the audit of companies to only five¹³ out of the eight companies as DoF assured that all the data required by Audit from the companies would be provided by them. Of these selected five companies, 3 were Private companies, 1 was a Central Public Sector Enterprise (CPSE) and 1 was a Co-operative Society.

¹² Chambal Fertilizers and Chemicals Ltd (CFCL), New Delhi (Private), Coromandel International Ltd (CIL), Secunderabad, Andhra Pradesh (Private), Indian Potash Limited (IPL), New Delhi (Private), Zuari Industries Ltd (ZIL), Gurgaon, Haryana (Private), Indian Farmers Fertilizer Co-operative Ltd (IFFCO, New Delhi, (Co-operative), Fertilizers and Chemicals Travancore Ltd (FACT), Cochin, Kerala (Government), Gujarat State Fertilizers & Chemicals Ltd. (GSFC) Vadodara, Gujarat (Government) and Rashtriya Chemicals and Fertilizers Ltd (RCF), Mumbai, Maharashtra (Government).

¹³ IFFCO, FACT, ZIL, IPL and CFCL.

In spite of the assurance provided by DoF, the cost data for companies was furnished (October 2014) only after completion of field audit. Further, this cost data was not supported with any documentary evidence. Audit, therefore, could not verify the accuracy of cost data.

2.4 Audit Methodology

The Performance Audit commenced with an Entry Conference with DoF on 26 July 2013 wherein the audit methodology, audit objectives, scope and criteria were explained. Records of DoF relating to fixation of subsidy and records of fertilizer companies relating to fixation of MRP, claims and receipt of subsidy from DoF, closing stock, sale of fertilizers etc. were also examined in selected five P&K fertilizer producing/importing companies.

The Draft Audit Report was issued to DoF on 15 September 2014 with the request to send their response by 24 October 2014. Audit received response from DoF on 3 November 2014. An Exit Conference was held on 24 November 2014 to provide an opportunity to DoF to discuss the audit findings and present their views. The Draft Final Report was issued to DoF on 27 February 2015 with the request to send their response within two weeks of the receipt of same; response to which was received from DoF on 13 March 2015. Response of DoF to the Draft Audit Report, views expressed by them during Exit Conference and response to the Draft Final Report have been duly considered and suitably incorporated in the Report.

2.5 Previous Audit Findings

Performance Audit of Fertilizer Subsidy, which appeared in the CAG's Audit Report No. 8 of 2011-12 (Civil) covered the period from 2003-04 to 2008-09 and dealt with issues relating to both Urea and P&K fertilizers under the erstwhile Concession Scheme. The main audit findings relating to P&K fertilizers were as follows:

- With regard to Phosphatic fertilizers, the production capacity nearly doubled from 1998-99 to 2008-09, actual production of DAP and NPK complexes increased by only 30 per cent. In fact, the production of DAP came down substantially. However, indigenous production of Phosphatic fertilizers was largely based on imported raw materials/intermediates. Increase in consumption of DAP/MAP/NPK complexes was met primarily through imports at very high prices, which led to multi-fold increase in the subsidy burden.
- The country's requirement for Potassic fertilizers was met fully through imports. Instead of curbing further imports and drawing down on available stock as of March 2008, the Ministry imported an additional 57 lakh MT of MOP (43 lakh MT as per expenditure figures), with an avoidable addition to the subsidy burden of about ₹10000 crore.
- The requirement of certification of sales of decontrolled fertilizers for agricultural purposes in Proforma 'B' by the State Governments, notwithstanding the inadequacies in the certification process, was the only major control over end-use of fertilizers. Linking certification with release of balance payment of 10/15 per cent (with the penal clause providing for bank guarantee for 100 per cent of unadjusted concession)

provided clear incentives/disincentives for ensuring timely submission of Proforma 'B'. With the removal of such a linkage from June 2007, there was no incentive to ensure certification by the competent authorities of end-use of decontrolled fertilizers for agricultural purposes. This resulted in accumulation of outstanding Proforma 'B' valuing ₹50587 crore, pertaining to the years 2007-08 to 2009-10.

- Audit found certain irregularities in import of DAP by Indian Potash Limited (IPL), as well as certain discrepancies between its imports and corresponding supply.

The Public Accounts Committee (PAC) (2012-13) had selected the Report No. 8 of 2011-12 for detailed examination. Observations/ recommendations of PAC are contained in its 81st Report laid in Parliament on 30 April 2013. Status of action taken by DoF on recommendations of PAC for P&K fertilizers, has been incorporated as **Annexure III**.