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Report of the Comptroller and Auditor General of India on Nutrient Based Subsidy Policy for decontrolled Phosphatic & Potassic Fertilizers

for the year ended 31 March 2014



Union Government
(Department of Fertilizers)
Ministry of Chemicals & Fertilizers
Report No. 16 of 2015
(Performance Audit)

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Preface

This Report of the Comptroller & Auditor General of India has been prepared for submission to the President of India under Article 151 of the Constitution for being laid before the Parliament.

The Report contains the result of the Performance Audit on 'Nutrient Based Subsidy Policy for decontrolled Phosphatic and Potassic Fertilizers' covering four years period from 2010-11 to 2013-14.

In April 2010, the Government of India, Ministry of Chemicals and Fertilizers, Department of Fertilizers launched the Nutrient Based Subsidy (NBS) Policy for decontrolled P&K Fertilizers to address the issues that plagued the erstwhile 'Concession Scheme'.

The transition from one scheme to another, with a view to address the issues adversely impacting the previous scheme, the burgeoning subsidy bill and the significance of fertilizer industry in the Indian economy, made this an important scheme. The Performance Audit was undertaken to get an assurance that objectives of the scheme were achieved.

Executive Summary

Executive Summary

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)

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 gate[1] 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:

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[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, 12-32-16[2] 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 AS[3].

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 movement[4] 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 km[5].

- **Secondary Freight Subsidy**

  Initially, DoF also provided freight on account of secondary movement[6] 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., Bhubaneshwar, 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 eight[12] 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 five[13] 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.

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[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.

Inspite 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**.

Audit Findings

Chapter 3 - Achievement of objectives of NBS Policy

Nutrient Based Subsidy (NBS) Policy implied that subsidy would be fixed for each nutrient contained in the fertilizers. With the subsidy remaining fixed, selling price of fertilizers at farm gate level was decontrolled and left to be determined by market forces. Though farm gate prices were dependent upon international prices and subsidy levels, it was expected that competition would not only regulate farm gate prices but also encourage fertilizer industry to focus more on farmers through development of new innovative fertilizer products customized to their requirement, farm extension services, brand building, product differentiation etc. Further, it was also expected that the basket of subsidized fertilizers would also be gradually broadened to cover new fertilizers containing secondary and micronutrients with a view to achieving twin objectives of balanced fertilization through better fertilizer products and growth of indigenous industry based on buoyant demand of fertilizer in the country.

NBS Policy was introduced with the following major objectives:

- to ensure balanced application of fertilizers;
- to improve growth of indigenous fertilizer industry;
- to contain the subsidy bill; and
- to leave open MRP to be fixed by fertilizer manufacturer/importer at a reasonable level.

3.1 Non-existence of road-map for achieving objectives of NBS Policy

Records of DoF produced to Audit did not reveal a clear road-map for implementation of NBS Policy for achievement of laid down objectives.

DoF stated (November 2014) during the Exit Conference that fertilizer production and regulation of subsidy are complex issues. Further, two different policies for Urea and P&K Fertilizers and the objectives of the two policies with common goals had become a great challenge for DoF to draw a road-map and timelines for achievement of goals. After introduction of NBS Scheme, DoF has brought down the subsidy budget of GoI to a large extent. DoF has also resolved the larger issue of non-availability of P&K fertilizers to farmers and has ensured availability of P&K fertilizers in time throughout the year. Corrective action has also been initiated for few aberrations noticed during implementation of the scheme. DoF also stated that guidelines for achieving the objectives were available in the approved Cabinet Note (February 2010) for introduction of NBS. DoF further replied (March 2015) that the objectives of NBS Policy were permanent in nature and dependent on other factors for achievement. Hence, a road-map or timelines for achievement cannot be laid down.

An examination of Cabinet Note referred to by DoF revealed that Annexure-IX of the Cabinet Note contained implementation plan for NBS along with the illustration for fixation of nutrient subsidy for various nutrients across the subsidized fertilizer products. It discussed the fixation of per nutrient subsidy, freight equalization, administrative issues like release of subsidy to industry and expected impact of NBS scheme on production and distribution etc. However, it neither envisaged any monitoring mechanism nor were any timelines defined for achieving the laid down objectives of the Scheme. Further, the contention of DoF that a road-map and timelines for achievements of the Policy cannot be laid down is not tenable as a well defined road-map and timelines for achieving the Policy objectives are a pre-requisite for implementation of any major scheme/programme.

Recommendation 1: 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.

3.2 Imbalanced use of nutrients

While finalizing NBS Policy in February 2010, it was brought out in the Cabinet Note that the aggregated application of 'N', 'P', & 'K' nutrients in Indian agriculture was 5.3:2.2:1 as against the preferred ratio of 4:2:1. As per the Report of Inter Ministerial Group (discussed in the meeting of Committee of Secretaries in July 2009) on rationalization of Fertilizer Subsidy, the highly subsidized price of Urea (which contains 'N' as compared to that of DAP, which contains 'P'), was considered one of the contributing factors leading to imbalanced application in favour of 'N'.

Details of consumption ratio of N, P & K during the period 2007-08 to 2013-14 are given in Table-3:-

Table 3 : Consumption ratio[14] of N, P & K

Year	Consumption ratio (N:P:K)
2007-08	5.5:2.1:1
2008-09	4.6:2.0:1
2009-10	4.3:2.0:1
2010-11	4.7:2.3:1
2011-12	6.7:3.1:1
2012-13	8.2:3.2:1
2013-14	8.0:2.7:1

As against the preferred ratio of 4:2:1 (N:P:K), 'N', jumped to a ratio level of 8.2 in 2012-13 from 4.3 in 2009-10. Ratio in 2013-14 stood at 8:2.7:1. This was mainly due to the fact that farmers preferred Urea, containing 'N', because it was cheaper than P&K fertilizers though such a practice had an adverse effect on soil fertility. Thus, it is clear that NBS Policy did not succeed in controlling the imbalanced use of N, P and K nutrients in the soil which indicates that the efforts to promote balanced fertilization were not well directed and publicized.

[14] Source: Department of Agriculture and Co-operation.

DoF, in its reply stated (June 2014) that imbalanced fertilization was due to rise in prices of P&K fertilizers while there was relative stability in Urea prices. DoF further replied (October 2014) that there was distortion in the existing ratio of N, P & K in the country due to regulation of subsidy of Urea and P&K fertilizers under two divergent schemes. During Exit Conference (November 2014), DoF informed that it was in the process of revising the New Pricing Scheme (NPS) for Urea to address this issue. DoF further replied (March 2015) that NBS Policy promotes balanced utilization of fertilizers. Any imbalance in fertilization is due to low cost of Urea as compared to P&K Fertilizers. Government has already taken note of this and is in process of review of the Urea Policy.

The replies of DoF have to be viewed in the light of the facts that policy of GoI to decontrol prices of P&K fertilizers on the one hand while retaining its control on prices of Urea on the other hand distorted consumption equilibrium, as the price of Urea did not see much increase vis-à-vis P&K fertilizers. This was evident from the fact that between 2010-11 to 2013-14, the per metric tonne (PMT) price of Urea had increased by only 1 per cent (from ₹5310 PMT in 2010-11 to ₹5360 PMT in 2013-14) whereas during the same period, prices of P&K fertilizers increased between 104 per cent (from ₹7421 PMT in 2010-11 to ₹15150 PMT in 2013-14 for NPK 15-15-15-0) and 251 per cent (from ₹5055 PMT in 2010-11 to ₹17750 PMT in 2013-14 for MOP 0-0-60-0).

This resulted in a wide gap between the prices of Urea and major P&K fertilizers. Therefore, it was natural for farmers to substitute Urea for P&K fertilizers which resulted in skewed consumption ratio towards 'N' as compared to 'P' & 'K'.

PAC (2012-13) in its 81st report laid in Parliament on 30 April 2013 had also desired that "the department should address the balanced fertilization need of the nation as a dynamic concept with appropriate linkages and necessary inputs so that the intended goals of NBS Policy are achieved within a targeted time frame."

The fact remains that there was a need to expedite the review of Urea pricing policy to attain the objective of balanced use of nutrients.

Recommendation 2: 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.

3.3 Shortfall in production

NBS Policy expected growth of indigenous fertilizer industry[15] as well as increase in agriculture productivity. It was, however, observed that production levels of DAP and complex fertilizer did not increase during NBS regime. Details of number of fertilizer production plants and installed capacity during 2009-10 to 2013-14 are given in Table 4:-

[15] The country is dependent on imports up to 90 per cent in Phosphatic sector and 100 per cent in Potassic sector in the form of either finished product or raw material. Major chunk of P&K fertilizers, as well as requirement of Nitrogen for P&K fertilizers, are made available either by production with imported raw materials/intermediaries or by import of finished fertilizers.

Table 4 : Installed capacity during 2009-10 to 2013-14

(capacity in lakh MT)

Year	No. of plants		Installed Capacity	
	DAP	Complex Fertilizers	DAP	Complex Fertilizers
2009-10	13	21	72.99	52.22
2010-11	13	21	72.99	52.22
2011-12	13	21	72.99	52.22
2012-13	13	21	72.99	52.22
2013-14	13	21	83.32	60.71

A perusal of the data in Table 4 reveals that notwithstanding the fact that promoting growth of indigenous fertilizer industry was one of the objectives of NBS Policy, there was neither any addition in the number of fertilizer plants nor was there any increase in the installed capacity of these fertilizer plants during the period when NBS Policy was implemented (2010-11 to 2013-14). In fact the number of plants, and their installed capacities, remained static since 2003-04. Though the number of plants remained the same even in 2013-14, installed capacity increased marginally by 10.33 LMT and 8.49 LMT for DAP and Complex Fertilizers, respectively, during that year.

Details of production levels of DAP and other Complex fertilizers during 2009-10 to 2013-14 are given in Table 5:-

Table 5 : Actual Production[16] during 2009-10 to 2013-14

(production in lakh MT)

Product	2009-10	% of installed capacity	2010-11	% of installed capacity	2011-12	% of installed capacity	2012-13	% of installed capacity	2013-14	% of installed capacity
DAP[17]	42.47	58.18	35.37	48.46	39.63	54.29	36.47	49.97	36.11	43.33
Complex Fertilizers	80.38	153.93	87.27	167.11	77.70	148.79	61.81	118.34	69.13	113.86

From the above table, it can be observed that:

- Production of DAP which was 58.18 per cent of the installed capacity in 2009-10 (in Concession Scheme) had gone down to 43.33 per cent of the installed capacity in

[16] MOP has not been considered for the analysis as the country is 100 per cent dependent on import for MOP.
[17] DAP category of fertilizers include MAP/TSP/DAP lite.

2013-14. As far as actual production was concerned, it fell by 14 per cent during the period 2009-10 to 2013-14.

- Further, production of complex fertilizer had also registered a decline of 14 per cent during 2009-10 to 2013-14, as it fell from 80.38 LMT in 2009-10 to 69.13 LMT during 2013-14.
- Though the capacity utilization in respect of complex fertilizer was better than that of DAP, overall capacity utilization of complex fertilizer plants declined during the period 2009-10 to 2013-14. The fertilizer industry producing complex fertilizer was utilizing 153.93 per cent of its capacity in 2009-10 which came down to 113.86 per cent in 2013-14.

DoF stated (June 2014) that under NBS Policy, no maximum/minimum production limit has been fixed for P&K fertilizers except for SSP. In respect of SSP, a unit was supposed to produce 50 per cent of its annual installed capacity or 40000 MTPA[18], whichever was less, in order to be eligible for subsidy. P&K fertilizer companies, so far as capacity utilization was concerned, were free to produce the quantity of subsidized products as per their commercial consideration.

The audit observation and the replies of DoF thereto have to be seen in light of the facts that one of the objectives of NBS Policy was to promote growth of indigenous fertilizer industries. Also, one of the major drawbacks of Concession Scheme, as observed by DoF, was that no investment had taken place in fertilizer sector during 2000 to 2009. Audit observed that no significant investment was made in the fertilizer sector to increase either the number of fertilizer plants or their installed capacity even after introduction of NBS Policy.

Further, there was no incentive for the companies to import raw material/intermediaries and produce finished goods, instead of importing finished products, as NBS did not differentiate between fertilizer companies which imported raw materials to manufacture finished products and those which imported finished products. Therefore, the fertilizer companies preferred to import the finished product.

DoF contended (October 2014) that without logistics provided by GoI or available in the country, no company would venture into fertilizer business, when establishment of fertilizer companies involved large investments. Hence, there were no investments in P&K fertilizer sector even after introduction of NBS Policy. As regards incentive to indigenous industry for importing raw materials/intermediaries, DoF had already taken up the matter of reduction in customs duty for raw material with Ministry of Finance.

The fact, however, remains that despite introduction of NBS Policy with its stated objective to improve growth of indigenous fertilizer industry, production of P&K fertilizers by the indigenous fertilizer industry declined. DoF being the nodal agency of GoI would do well to proactively work out a coordinated strategy in consultation with other department/wings of GoI so as to encourage investment in and growth of indigenous fertilizer industry in P&K fertilizers.

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[18] metric tonne per annum

Recommendation 3: DoF should take measures to encourage and enhance investment in the fertilizer sector in close coordination with Ministry of Finance. Early adoption of a result oriented approach to promote growth of domestic production of P&K fertilizers is recommended.

3.4 Subsidy on Imported and Indigenous Fertilizers under NBS Policy

The position of payment of subsidy on imported and indigenous fertilizers during the period 2009-10 to 2013-14 is depicted in Table 6:-

Table 6 : Amount of subsidy paid for Indigenous and Imported P&K fertilizers

P&K fertilizer (All products)	Subsidy (₹ in crore) (Quantity in Lakh Metric Tonnes (LMT))									
	2009-10		2010-11		2011-12		2012-13		2013-14	
	Amount **(Qty)**	%age	Amount **(Qty)**	%age	Amount **(Qty)**	%age	Amount **(Qty)**	%age	Amount **(Qty)**	%age
Indigenous	16000 **(153.78)**	*40.56* ***(58.56)***	20650 **(154.10)**	*49.76* ***(51.10)***	19943 **(170.28)**	*55.23* ***(53.96)***	16000 **(144.05)**	*52.33* ***(64.50)***	15500 **(147.51)**	*52.67* ***(68.44)***
Imported (Finished Goods)	23452 **(108.83)**	*59.44* ***(41.44)***	20850 **(147.46)**	*50.24* ***(48.90)***	16165 **(145.26)**	*44.77* ***(46.04)***	14576 **(79.27)**	*47.67* ***(35.50)***	13927 **(68.0)**	*47.33* ***(31.56)***
Total	39452 **(262.61)**	*100*	41500 **(301.56)**	*100*	36108 **(315.54)**	*100*	30576 **(223.32)**	*100*	29427 **(215.51)**	*100*

Audit noted that:

- The subsidy outgo on indigenous P&K fertilizers, in 2009-10 which was 40.56 per cent of the total subsidy expenditure that year, increased to 52.67 per cent in 2013-14. During 2009-10, DoF had released a subsidy of ₹16000 crore for 153.78 LMT of indigenous fertilizers and during 2013-14, an amount of ₹15500 crore was released as subsidy for 147.51 LMT of indigenous fertilizers.
- The subsidy outgo on imported P&K fertilizers, in 2009-10 which was 59.44 per cent of the total subsidy expenditure, reduced to 47.32 per cent in 2013-14. During 2009-10, DoF had released a subsidy of ₹23452 crore for 108.83 LMT of imported fertilizers and during 2013-14, an amount of ₹13927 crore was released as subsidy for 68.00 LMT of imported fertilizers.

Apparently, the objective to contain the subsidy bill was achieved after introduction of NBS Policy. Audit, however, observed that indigenous production as well as imports of P&K fertilizers also declined during this period indicating lesser availability of these fertilizers in the country. This suggests that during this period consumption of P&K fertilizers in the country declined and demand got skewed towards highly subsidised Urea as already mentioned in para 3.2.

DoF in its reply stated (October 2014) that no target was fixed for maintaining the subsidy on imports at a particular level. Since most of P&K fertilizers were imported and GoI did not control indigenous production, there would be ups and downs in the subsidy under two different heads. Moreover, the overall subsidy burden remained at the same level.

The reply was, however, silent about decreasing consumption of P&K fertilizers in the country which was a prime contributor to non achievement of balanced use of fertilizers envisaged under NBS Policy.

3.5 Quality Control

Schedule II of the Fertilizer Control Order, 1985 (FCO) and various amendments thereto contain detailed procedure for drawal of fertilizer samples from lots/bags, big/small go-downs, high stacking, etc. by the enforcement agencies. FCO also lays down the procedure for analysis of samples collected and time limit for analysis, and communication of results.

As per the information made available to Audit, there were 78 Fertilizer Quality Control Laboratories (FQCLs) located in various States including four laboratories of GoI at Faridabad, Kalyani (Kolkata), Mumbai and Chennai for testing the samples collected.

State-wise and year-wise figures (2010-11 to 2013-14) of the analyzing capacity of FQCLs in various States furnished by DoF revealed that the analyzing capacity consistently remained under-utilized in some States whereas number of samples tested was more than the capacity in other States. For example, samples tested in Mizoram FQCL ranged from zero to five, during 2010-11 to 2013-14, against analyzing capacity of 250. As against this, number of samples tested in Gujarat FQCL was 14623 as against analyzing capacity of 7500 in 2013-14. Details of samples tested during 2010-11 to 2013-14 in all laboratories are given in **Annexure IV**.

This shows sub-optimal utilization of created facilities on the one hand and excess utilization on the other hand, both of which underlined the need for critical review of the facilities and improvement of quality control efforts.

DoF stated (November 2014) during Exit Conference that:

- DAC had intimated that it had formulated a new Fertilizer Quality Control Act on the lines suggested by various stakeholders at various fora to make it similar to laws in other countries.
- In this regard, a detailed concept note covering various aspects such as notification of grades, registration/licensing, referee analysis had been prepared and submitted to State Governments and stakeholders for comments and DAC was awaiting comments. The proposed Act already has suitable provisions related to the issue raised by Audit.
- DoF also advised DAC on 19 September 2014 to formulate the proposals for revamping of the mechanism to enforce quality of fertilizers at farm gate level before Central Fertilizer Committee for discussion with stakeholders at the earliest and prepare a blue print for its implementation within two months.

The fact, however, remains that there was considerable scope for improving the effectiveness of quality control mechanism.

Recommendation 4: There is a need for critical review of utilization of FQCLs so that there is no avoidable underutilization or overutilization of the facilities.

Chapter 4 - Implementation of the Policy by DoF

4.1 Avoidable payment of subsidy

As per NBS Policy, IMC had to recommend subsidy per nutrient for 'N', 'P', 'K' and 'S' before the start of each financial year for decision by DoF. IMC decided (August 2010) that NBS rates for 2011-12 would be recommended by November 2010 for ensuring availability and timely supply of fertilizers.

On the basis of recommendation of benchmark price[19] by IMC, DoF notified NBS rate of DAP based on benchmark price of US$ 450 cfr[20] per MT (PMT) on 19 November 2010 for 2011-12. Fertilizer companies, however, did not enter into contracts for import of DAP till 10 February 2011. A meeting was held between DoF and representatives of the Fertilizer Industry on 10 February 2011, wherein representatives of the Fertilizer Industry suggested reconsideration of benchmark prices on the basis of prevailing international price. While considering the request, IMC, in February 2011, felt that due to extraordinary situation and need for reconsideration of benchmark price, GoM may consider the issue and give suitable directions. GoM approved enhanced rates of US$ 580 PMT on 15 February 2011 and DoF notified these revised rates on 9 March 2011. Considering the wide gap between the then international price and the above notified rates, Fertilizer Industry again requested DoF, on 28 March 2011, to revise the benchmark price. IMC, in its meeting held on 30 March 2011, brought on record that M/s Zuari Industries Ltd. had finalized a contract for import of DAP with OCP, Morocco at US$ 612 cfr PMT. After deliberations, IMC recommended the rate of DAP at US$ 612 PMT. The Cabinet approved further revised rates on 28 April 2011 and DoF notified the same on 5 May 2011 for 2011-2012. Fixation of benchmark price and its effect on subsidy is shown in Table 7:-

Table 7 : Movement of the Benchmark price of DAP for 2011-12

IMC meeting date	Date of notification of NBS rates	DAP (Benchmark price in US$ cfr PMT)	Subsidy for DAP (PMT in ₹)
8 November 2010	19 November 2010	450	12960
14 February 2011[21]	9 March 2011	580	18474
30 March 2011	5 May 2011	612	19763

[19] 'Benchmark Price' means purchase price considered for fixation of subsidy rates. The initial benchmark price was based on the weighted average price of last one year (October 2009 to September 2010) or last six months (April 2010 to September 2010), whichever was lower.

[20] cfr – Cost and Freight.

[21] The 5th Meeting of IMC was held on 11 and 14 February 2011.

Recommended benchmark price for DAP in November 2010 was US$ 450 PMT. This was reportedly based on the weighted average prices of the fertilizers for the last one year/six months whichever was lower. NBS rate for DAP for 2011-12, based on the benchmark price of US$ 450 PMT, was notified on 19 November 2010.

Majority of the fertilizer companies were, however, importing/procuring DAP, at rates ranging between US$ 495 PMT - US$ 498 PMT during May 2010 to November 2010. Evidently, as the benchmark price considered for fixation of subsidy for DAP was lower than the prevailing import/procurement rates, none of the fertilizer companies were able to finalize contracts with international fertilizer companies.

A series of negotiations took place between DoF and Fertilizer Industry during February and March 2011. During the intervening period, the landed price for DAP rose. Finally, the benchmark price for fixation of subsidy for DAP for 2011-12 was notified at US$ 612 PMT in May 2011 by DoF. This was more than 35 per cent higher than the benchmark rate fixed initially.

Audit observed that fixation of benchmark price by IMC/DoF after taking into consideration the then prevailing procurement rates of DAP for fixation of subsidy would have enabled the fertilizer companies to finalise contracts with international suppliers immediately after such notification[22]. By not fixing the benchmark price at reasonable level in November 2010, GoI lost an opportunity of saving subsidy of ₹5555 [23] crore **(Annexure V)**

DoF in its reply stated (June 2014) that the subsidy rates of P&K fertilizers announced on 19 November 2010 were fixed by IMC taking into account several factors. However, it was reported that no company could finalize import contract for 2011-12 even by mid February due to increase in fertilizer prices globally. The Industry requested DoF to reconsider NBS rates and revise the benchmark prices upward or allow adjustment in MRPs. In order to protect the farmers it was decided to revise the benchmark prices upward and accordingly NBS rates were revised twice, with the approval of Cabinet. DoF also contended (October 2014) that the audit observations were imaginary conclusions and not based on true analysis of international price trends. A number of factors in combination or isolation influence the international prices. India being one of the major importers of P&K fertilizers in the world, cartelisation of major suppliers/producers of phosphate and potash also affects the international price. Adequate availability of inventory levels in the country, good monsoon conditions, international availability of fertilizers etc. also influence the import price of P&K fertilizers. Hence, the conclusion drawn by the audit that delay in finalisation of such contract by fertilizer companies resulted in fixation of benchmark rates at higher rates and additional subsidy burden was not correct. Moreover, procedural requirement in finalisation of NBS rates such as inter-ministerial consultation, consideration by Cabinet etc. also contributed to these delays. DoF further added that it seems that audit while giving their

[22] The fertilizer companies imported DAP at the average rate ranging from US$ 497 to US$ 500 PMT from December 2010 to February 2011. There were no purchases in March 2011.

[23] Impact on subsidy has been worked out by comparing subsidy actually paid with subsidy that would have been paid if benchmark price would have been fixed at US$ 500 cfr PMT (factors considered for working subsidy at the benchmark price of US$ 500 are given in Annexure V) .

observations on the issue, had not analysed the availability of fertilizers in the country. Failure of the companies in entering into contract for import of P&K fertilizers would lead to scarcity of fertilizers in the country as most of the P&K fertilizers were imported. Audit also did not seem to have gone into details of reasons for non-entering contracts for import. IMC before recommending revision of NBS rates had detailed consultations on the issue and hence, there was no loss of subsidy or excess payment of subsidy.

The reply of DoF needs to be viewed against the following facts:

- In November 2010, IMC recommended the benchmark price reportedly based on the weighted average price of (i) last one year i.e. October 2009-September 2010 or (ii) last six months i.e. April 2010-September 2010, whichever was lower. The weighted average price during the previous year was US$ 449.73 PMT and for previous six months was US$ 499.58 PMT. IMC, therefore, recommended the benchmark price of DAP at the rate of US$ 450 PMT for 2011-12 (being lower of the two) which was notified by DoF on 19 November 2010. As stated by DoF, global prices for fertilizers were increasing. In the times of increasing prices, parameter of 'lower of weighted average price of last one year or last six months' led to fixation of benchmark price at the weighted average price of last one year that ignored the then prevailing prices. Due to non-consideration of impact of rising prices by DoF, benchmark price of DAP for 2011-12 got fixed at lower level in comparison to the prevailing prices and the fertilizer companies could not enter into contracts for import of DAP.
- Even during the period December 2010 to February 2011, international price ranged between US$ 497 PMT to US$ 500 PMT.
- So far as contention of DoF that Audit has not gone into details of reasons for non-entering contracts for import, it was observed that in the meeting held on 10 February 2011 between the Secretary (Fertilizers) and representative of the Fertilizer Industry, the latter had informed that benchmark price fixed for 2011-12 announced in November 2010 had proved to be inadequate in the wake of rising prices of fertilizers/fertilizer inputs.
- Contention of Audit is that fixation of benchmark price at an unreasonable level in November 2010 delayed the finalization of contracts and by the time the contracts could be finalized (by end of March 2011) the international import prices had gone up considerably.

The fact, therefore, remains that fixation of benchmark price at an unreasonable level delayed finalization of such contracts leading to additional subsidy burden of ₹5555 crore on GoI.

Recommendation 5: 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.

4.2 Pending Proformae 'B'

As per the procedure for payment of subsidy for P&K fertilizers (except SSP) under NBS, DoF releases 85 per cent (90 per cent with Bank Guarantee) 'On Account' payment of subsidy month-wise to manufacturers/importers of P&K fertilizers based on receipt of fertilizers in the districts/states. The manufacturers/importers claim 'On Account' payment in prescribed Proforma 'A' duly certified by the authorised signatory as well as the statutory auditor of the company. The balance payment (10-15 per cent) of subsidy is claimed by the fertilizer company based on information in prescribed Proforma 'D' duly certified by the authorised signatory as well as the statutory auditor of the company. The State Governments were required to submit a certificate to DoF for receipt of the fertilizers in prescribed Proformae 'B'.

With the introduction of Mobile Fertilizer Monitoring System (m-FMS) on 25 October 2012, the balance payment would be released subject to certification of quantity by State Governments in m-FMS. Such certification of quantity would be given within a period of 30 days from the date of receipt, otherwise it would be deemed to have been received. Certification of quality would be given within 180 days. These certificates in respect of quantity and quality would be given in Proforma B1 and B2 respectively.

It was observed in Audit that as of 31 October 2014, 4112 Proformae 'B' in respect of P&K fertilizers, pertaining to the period 2007-08 to 2013-14 were pending. Of these, 213 Proformae 'B' pertained to 'Concession Scheme' while remaining 3899 related to the period of implementation of NBS Policy. Year-wise details are mentioned in Table 8:-

Table 8 : Pending Proformae 'B'

(₹ in crore)

Period	Year	Number of Proformae 'B' outstanding
Pre-NBS	2007-08	91
	2008-09	98
	2009-10	24
	Total	**213**
During NBS	2010-11	59
	2011-12	268
	2012-13	1079
	2013-14	2493
	Total	**3899**
	Grand Total	**4112**

Public Accounts Committee (PAC) of the year 2012-13 (15th Lok Sabha) in its 81st Report on 'Performance Audit of Fertilizer Subsidy' had recommended that *"in view of the magnitude of the problem and the underlying consequences on the subsidy burden due to the malpractices, it is imperative that a strict verification regime with stringent enforcement of deterrent punitive/financial penalties based on real time information/data be put in place. The Committee also desires that DoF should urgently come out with a more robust monitoring* mechanism and inspection regime with foolproof procedure for verification of stocks/sales so as to curb the menace of pilferage, diversion and leakages of subsidized fertilizers".

DoF in its reply stated (October 2014) that as per modified procedure circulated vide No.F.No.D (FA)/ CCE/2011 dated 25 October 2012 the balance 10-15 per cent claim would be released subject to State Government's certification of quantity in m-FMS as well as fertilizer receipt confirmation by retailers through m-FMS. Certification of quantity would be given by the States within a period of 30 days from the date of receipt otherwise, it would be deemed to have been received. State certification of quality would be given within 180 days. Although, quantity certificate was deemed to have been received (if not received within 30 days) the quality certificate was required for balance claim payment. Further, States continued to upload Proforma 'B' on FMS certifying the quantity received in the State. DoF also regularly followed it up with State Government for timely submission of Proforma 'B'. As and when there was any short quantity reported by State Government through Proforma 'B', DoF would recover the subsidy paid on that quantity along with penal interest.

The fact remains that there is a need for DoF to address the issue of long pendency of Proformae 'B' and frame a time-bound action plan to clear pendency, as the measures taken so far had not yielded satisfactory results.

Recommendation 6: DoF may critically review the existing monitoring mechanism of receipt and pendency of Proformae 'B' and consider periodical review of the status at Regional or State level to bring the sense of urgency/importance to the issue and arrest pendency.

4.3 Excess payment of ₹25.74 crore on lump sum freight subsidy for SSP

Single Super Phosphate (SSP) is a localized fertilizer, indigenously produced in the country by small scale industries. It is sold in nearby States where SSP manufacturing units are located. While P&K fertilizers were eligible for primary freight (rail freight and/or direct road movement), there was no such provision for SSP.

The initial rates of P&K fertilizers, under NBS for the year 2010-11 were recommended by IMC in its 1st meeting held in March 2010 and were implemented by DoF from 1 April 2010. SSP was included in NBS Policy w.e.f 1 May 2010. In the 2nd Meeting held on 19 August 2010, IMC was informed that to compensate for the freight for secondary movement (Secondary Freight) of the fertilizers, ₹300 PMT had been added as part of the computation of NBS cost of DAP & MOP. As such, the Secondary Freight was subsumed under NBS. However, while deliberating on the issue of Secondary Freight, in its 3rd Meeting held on 8 November 2010, IMC concluded that ₹300 PMT towards Secondary Freight, included as part of NBS computation, appeared to be an anomaly as it had not facilitated transfer of the said freight to the farm gate and therefore, the same should be excluded from NBS rates. IMC, hence, recommended reduction of NBS rate to this extent for all P&K fertilizers for the year 2010-11 w.e.f. January 2011. IMC concluded that, in respect of SSP, this reduction would have an impact of reduction of ₹104 PMT in subsidy. IMC further recommended that 'since no freight is explicitly paid for SSP, ₹200 PMT lump sum may be provided with effect from 1 January 2011 as freight to manufacturers'.

In pursuance thereof, DoF notified payment of lump sum freight of ₹200 PMT for SSP in December 2010, though no approval in this regard was obtained from the Cabinet. In the meantime, DoF, on the recommendation of IMC, withdrew the restriction on MRP of SSP w.e.f. 1 April 2011 and the SSP manufacturers/marketers were allowed to fix their own MRP.

DoF on 6 June 2011 prepared a draft note to CCEA for obtaining *ex post-facto* approval for granting lump sum freight subsidy of ₹200 PMT and forwarded it (7 June 2011) to DoE and other Departments for their comments. DoE vide its notes dated 22 June 2011 and 23 August 2011 did not support the proposal. DoF again represented to DoE on 2 September 2011 stating that freight subsidy of ₹200 PMT was provided to SSP industry in lieu of reduction of ₹104 PMT in NBS and instead of discontinuing the payment of ₹200 PMT, ₹96 PMT, being excess paid over ₹104, could be stopped. Further, DoF requested DoE to suggest the date from which recoveries on account of such excess payment could be made. In reply, DoE on 8 December 2011 reiterated its earlier stand stating that "this Department is of the considered view that there is no case for making payments of any freight subsidy on SSP w.e.f 1 April 2011 i.e the day from which MRP of SSP was left open and subsidy was increased from ₹4296 PMT to ₹5359 PMT". In the meanwhile, DoF announced the suspension of freight subsidy on SSP in August 2011.

The issue was again discussed in the 9th IMC meeting held on 23 December 2011 and it was decided that since DoF had announced suspension of freight subsidy on SSP in August 2011, lump sum freight subsidy at the rate of ₹200 PMT may be paid on the sales of SSP up to August 2011. A draft CCEA note, in line with the above decision, was prepared and circulated on 30 March 2012. Despite having rejected the proposal of payment of any lump sum freight subsidy for SSP on three earlier occasions, DoE concurred with this proposal of DoF. Subsequently, ex-post facto sanction was accorded by the Cabinet for payment of lump sum freight subsidy at the rate of ₹200 PMT to SSP from 1 January 2011 to 31 August 2011.

In this connection, Audit observed that prior to introduction of NBS policy for SSP, no freight subsidy was being paid for movement of SSP reportedly due to the fact that SSP was basically a localized product, catering to the local needs. However, after marketing of the product by large P&K/Urea fertilizer manufacturers/importers in different States, SSP had started moving from one State to another. Resultantly, in NBS Policy, SSP was made eligible for Secondary Freight subsidy. The element of Secondary Freight subsidy inbuilt in NBS rates of SSP was ₹104 PMT which was being paid from May 2010 to December 2010. However, after removal of the Secondary Freight element from NBS Policy, on the recommendation of IMC, a lump sum freight subsidy at the rate of ₹200 PMT was introduced for SSP.

Audit feels that when the implication of removal of Secondary Freight subsidy was only ₹104 PMT, additional payment of ₹96 PMT (₹200-₹104) was not justified and resulted in excess payment of **₹25.74 crore**[24].

DoF in its reply stated (October 2014) that*:*

- SSP has been always treated differently from other P&K fertilizers in the matter of freight. While P&K fertilizers were eligible for primary freight and freight for direct road movement, there was no provision of primary freight for SSP, which was indigenously produced in the country by small scale industries. The secondary freight was initially subsumed in the fixation of subsidy for P&K fertilizers including SSP. When it was brought to the notice of IMC that there appears to be non-passing of the secondary freight component to farmers in the form of reduced prices, IMC decided to exclude the secondary freight component from NBS rates. Accordingly, the rates of NBS were corrected by excluding the secondary freight component w.e.f. 1 January 2011 but the primary freight and secondary freight have been paid as per uniform freight Policy as applicable for Urea to all P&K fertilizers except SSP. As a result the secondary freight available to SSP in NBS rates got withdrawn.

- However, since no primary freight was being paid to SSP and the secondary freight was also withdrawn subsequently w.e.f. 1 January 2011, IMC recommended a lump sum freight of ₹200 PMT in lieu of both primary and secondary freight w.e.f. 1 January 2011 and not in place of secondary freight excluded from the NBS calculation. Even after decontrol of prices of SSP w.e.f. 1 April 2011, this lump sum subsidy of ₹200 PMT was continued to be paid to compensate for movement of SSP from plant to rake points and then to district headquarters (dealer points). Since the lump sum freight subsidy of ₹200 PMT was not in lieu of secondary freight excluded from the computation of NBS rates w.e.f. 1 January 2011, there has been neither additional subsidy burden nor loss of freight expenditure to Government. As regards approval of Cabinet of the freight rates, though DoF was competent to take a decision for fixation of subsidy rates, in the case of freight subsidy rates, the Department decided to take approval of the Cabinet. Since the proposal for ex-post facto approval for the lump sum freight on SSP has the approval of CCEA, there is no case for any disagreement on the issue. There has also been no belated decision.

- DoF reiterated (November 2014) during the Exit Conference that the lump sum freight of ₹200 PMT allowed for movement of SSP w.e.f. 1 January 2011 and upto 31 August 2011 was not in lieu of the Secondary Freight component removed from the calculation of NBS rates from 1 January 2011. After removal of Secondary Freight component from the calculation of NBS rates from 1 January 2011, Secondary Freight was allowed to all P&K fertilizers except SSP as per the Uniform Freight Subsidy Policy. The Department has taken approval of the Cabinet for payment of freight subsidy on SSP from January to August 2011. The Department of Expenditure,

[24] ₹96 X 2680767.88 MT being quantity of SSP sold during 1 January 2011 to 31 August 2011.

though initially did not agree to the proposal, but later on during inter ministerial consultation of the draft Cabinet Note on the proposal agreed to the proposal.

The replies of DoF have to be viewed in the light of the facts that:

- IMC recommended a lump sum freight subsidy at the rate of ₹200 PMT, although the effect of removal of Secondary Freight subsidy element from the existing subsidy of SSP was ₹104 PMT only. Further, in the context of the contention of DoF that freight subsidy was not in lieu of Secondary Freight, it was observed that DoF, while seeking views of DoE (September 2011) on the date from which recovery at the rate of ₹96 PMT may be made, had stated clearly that this subsidy was in lieu of removal of Secondary Freight.
- Moreover, the lump sum freight subsidy for SSP at the rate of ₹200 PMT was provided only for eight months i.e. from 1 January 2011 to 31 August 2011 for which DoF had taken *ex-post facto* approval from CCEA on 3 July 2012. One of the reasons for according approval to above payment by CCEA was that lump sum freight subsidy payments had already been made to SSP industry till 31 August 2011.
- Further, removal of freight subsidy in August 2011 itself (Secondary Freight in respect of other NPK fertilizers was withdrawn w.e.f April 2012) and no payment on account of primary freight to SSP thereafter was indicative of the fact that the decision to make payment of lump sum subsidy at the rate of ₹200 PMT instead of ₹104 PMT, did not have a sound basis and hence, the reply of DoF appears to be an after-thought.

4.4 Non recovery of gains from P&K manufacturing companies for using cheaper domestic/APM (Administered Pricing Mechanism) gases

Nitrogen (‘N’), an NPK nutrient, is sourced directly from Ammonia. In some cases, it is also sourced from imported fertilizers, mainly, Urea and DAP.

DoF observed (September 2010) that the cost of indigenous Ammonia produced using cheaper domestic/APM gas was relatively cheaper for companies as compared to imported Ammonia for production of complex fertilizers. Three companies, namely Rashtriya Chemicals and Fertilizers Ltd (RCF), Deepak Fertilizers and Petrochemicals Corporation Ltd (DFCL) and Gujarat State Fertilizers and Chemicals Company (GSFC) were using APM/domestic gas.

In NBS Policy, a fixed subsidy was announced on annual basis which did not depend on the feedstock for production of Ammonia. Further, MRPs of P&K fertilizers had been opened up and manufacturers/importers were allowed to fix MRPs at reasonable level. Therefore, the manufacturers who used cheaper domestic gas, allocated by Ministry of Petroleum and Natural Gas (MoPNG), were unduly benefitted, as MRP of NPK fertilizers produced by them was at par with other manufacturers, who used imported Ammonia.

MoPNG, therefore, proposed (December 2011) discontinuation of supply of KGD6 gas to P&K fertilizer plants and supply it only to Urea plants as it had an impact on GoI subsidy burden. DoF, however, suggested continuing supply to such plants and assured that specific guidelines would be framed to effect recovery from fertilizer units, manufacturing products other than Urea, on the basis of differential price from either imported Ammonia or any other benchmark.

The Empowered Group of Ministers (EGoM) in its meeting held on 24 February 2012, considered proposals of MoPNG, alongwith suggestions of DoF, and decided that the proposal to suspend supply of KGD6 gas to P&K plants using such cheaper gas (RCF, DFCL and GSFC) including the proposal to restrict future supply only to Urea plants, be kept in abeyance till 24 May 2012. During this period, DoF was required to finalize guidelines for effecting recovery of undue benefits which had accrued to fertilizer companies due to use of cheaper domestic gas. DoF initiated the work of preparation of the draft guidelines in April 2012. Minister of State (MoS) for Chemicals & Fertilizers in his note (November 2013) directed that pending finalization of the guidelines, DoF should initiate adhoc recovery. This was again reiterated by MoS in December 2013. Accordingly, on 6 January 2014, DoF issued order to above three companies for such recovery.

Audit observed that despite the directions of EGoM in February 2012, DoF neither finalised guidelines to effect such recoveries nor did it make adhoc recoveries (November 2014). Resultantly, the said fertilizer companies kept on receiving cheaper APM gas for the production of P&K fertilizers and making additional gains.

In its reply, DoF stated (July 2014) that as per EGoM direction in its meeting held on 24 February 2012, the Department was in the process of finalization of guidelines for recovery of undue benefit on account of usage of cheap domestic gas for production of P&K fertilizers by DFCL, GSFC and RCF w.e.f. 24 May 2012.

It was also intimated by DoF that:

- GSFC had obtained stay order from Hon'ble High Court, Ahmadabad (30 January 2014) against DoF's order dated 6 January 2014. DFCL also challenged DoF's order in Hon'ble High Court, Delhi but no stay order was granted. RCF had not approached the court so far (July 2014).
- DoF further replied (October 2014) that due to various factors including, inter alia, the difficulty in calculating the quantity of ammonia used in Urea and P&K fertilizer production exactly, it has been decided to refer this issue to IMC under NBS Policy, co-opting members from MoPNG and Department of Legal Affairs to examine the issue in detail and submit recommendations. After recommendation of IMC, the issue would be placed before the Cabinet for decision. In the mean time, APM gas supply to one of the three companies, DFCL was discontinued w.e.f. 14 May 2014. The first meeting of IMC on this issue was held on 16 October 2014.

Reply needs to be viewed against the facts that:

- DoF had not finalized the guidelines for effecting recoveries, even after lapse of two years from directions of EGoM during which period the fertilizer manufacturing companies kept on making additional profits. Though supply of cheaper gas to DFCL was discontinued in May 2014, supply of such gas to GSFC/RCF was still continuing (October 2014).
- Further, despite the fact that Internal Finance Division of DoF had stressed that recovery should be made w.e.f. 1 April 2010, being the date of implementation of NBS Policy, DoF was still contemplating recovery w.e.f. 24 May 2012, though this date was only a target date given by EGoM to DoF for finalisation of guidelines for effecting such recoveries.

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.

4.5 Monthly Supply Plan (MSP) in respect of decontrolled P&K fertilizers

The month-wise and State-wise demand of fertilizers are assessed and projected by DAC in consultation with the State Governments. The same is conveyed to DoF as the Department is mandated to fulfill the requirement of the State from available resources. In order to fulfill the projected requirement of fertilizers, DoF prepares MSP for State/UTs/companies/Supplier on or before 25th of each month preceding the month for which the plan is applicable.

Audit, however, observed that the initial declared MSP as prepared by DoF for the fertilizer companies and issued to them before the commencement of a month was either 'Nil' or was fixed at a very minimum quantity. On the basis of the actual quantity supplied by the fertilizer company, which was invariably much higher than the planned quantity issued by DoF initially, the planned quantity was regularized on the grounds that (i) companies had produced excess fertilizers, (ii) they had to clear the stock at port, (iii) residual stock supplied, (iv) requirement of the State Government, (v) fertilizer imported had reached the port, (vi) to maintain the rake quantity, and (vii) supply made against the previous MSP etc. In some cases, higher quantities were regularized without even assigning any reason. In 101 cases, 447116 MT of P&K fertilizers were supplied/regularized during 2011-12 and 2012-13 against 'Nil' quantity mentioned in MSP. Instances where the initial planned quantities were revised to much higher quantities after the actual supply of the fertilizers in a month are given in **Annexure VI**. Notwithstanding the fact that the fertilizer companies and DAC intimated DoF regarding the availability and requirement of the fertilizers in advance, DoF did not work out a realistic MSP on the basis of the requirements in the field.

DoF replied (October 2014) that MSP was prepared in the preceding month as per the production and import estimates given by the companies. Therefore, MSP was basically a plan for estimated despatches that could be possible during the month. But in FMS, subsidy was paid on the basis of receipts. MSP as regularized thus reflected actual receipts in the States, which was true reflection of the real time (actual) demand in the State. Therefore, as the initial MSP basically covered despatches, there would always be requirement of regularization on the basis of actual receipts in the State. As per Fertilizer Control Order (FCO), P&K fertilizer could be controlled only up to 20 per cent and Urea up to 50 per cent. Therefore, to put MSP in straight jacket would have an adverse impact on availability in the States. DoF further replied (March 2015) that though DAC has taken various measures to ensure that the process of assessment of fertilizers is more rational, scientific and realistic, the actual consumption depends upon actual conditions prevailing during the season which changes the actual demand of fertilizers by farmers on real time basis. Supply to the field dispatch depends upon many variables, so it would always differ from MSP. MSP is issued by DoF keeping in view the stock position of the companies and requirement by States. Every effort is made to supply as per the requirement, at least. Higher availability of fertilizers in the districts is always better for the farmers since shortage results in black marketing.

The reply of the DoF has to be seen in the light of the fact that:

i. Initial MSP was based on estimated dispatches that were possible during the month and the regularized MSP was based on receipts in States. It was, thus, evident that there was no correlation between the quantities indicated in the two supply plans. Therefore, if the whole quantity supplied by fertilizer companies was to be regularized without having any link with the quantity mentioned in MSP prepared in advance, the objective of having a MSP framed in advance for projecting the requirement of the States for ensuing month, gets defeated.

ii. Chances of fertilizer companies supplying more than actual requirement and availing subsidy on it (due to the fact that 85 per cent 'On Account' subsidy was being released on receipt basis in the States i.e. supplies made by the fertilizer companies) could not be ruled out.

iii. Further, in the scenario of higher availability of fertilizers in the States than the actual requirement, the chances of diversion of subsidised fertilizers for non-agricultural purposes and illegal exports could not be ruled out.

Recommendation 7: 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.

4.6 Undue payment of subsidy due to import of DAP[25] in excess of requirement

As per procedure of subsidy payment under NBS, 85 per cent of subsidy is released upfront on the basis of receipt of fertilizers in the districts/States. Remaining 15 per cent of subsidy is claimed by fertilizer companies based on information in prescribed Proforma 'D' duly certified by the authorized signatory as well as the statutory auditor of the company.

[25] Including MAP/TSP/DAP Lite.

DoF, on the recommendations of IMC declares NBS rates every year, which remain applicable for the entire year. NBS rate for DAP for 2011-12 was ₹19763 PMT. IMC in its meeting held on 17 January 2012 decided to decrease the subsidy of DAP for 2012-13. Subsequently, IMC in its meeting on 7 February 2012, recommended the subsidy of ₹14350 PMT for DAP. These rates were notified on 29 March 2012.

Following decisions were taken by DoF vide notification dated 8 February 2012:

- DAP (MAP/TSP/DAP Lite), NPK (all grades) and MOP Fertilizers, except Urea, arriving during February 2012 and March 2012 would not be dispatched from ports to any State till further orders.
- The fertilizers already available as on 1 February 2012 (closing stock on 31 January 2012) would only be dispatched during the months of February and March.
- If the supply plan for the month of February 2012 had been indicated incorporating the imports during the month, the supply plan would stand reduced in proportion to the import during the month of February 2012.

Audit observed that as per MSP of DAP for the month of February 2012, which was issued to the various fertilizer companies as well as the concerned State Governments on 25 January 2012, the month's requirement for DAP was 4.08 lakh metric tonne (LMT) against which the estimated indigenous and imported supplies for the month were 5.30 LMT and 8.79 LMT respectively. Audit also observed that DoF had not mentioned any reasons for its decision to stop dispatch of fertilizers from ports in its notification dated 8 February 2012.

However, on 28 February 2012, DoF reversed its said decision and the then Joint Secretary noted that "as per discussions, orders for withholding the movement of February/March were issued due to port congestion due to old stocks. Now there are no reports of congestion so now we can release movement of February 2012 arrivals also by issuing a fresh order." The Secretary, DoF approved this on 28 February 2012. However, documents to support the claim of port congestion/absence of port congestion were not found on record.

Details of actual requirement, opening stock with States, quantities received, quantity sold in respect of DAP for the months of February 2012 and March 2012 were as under:

Table 9 : Requirement and availability of DAP in February and March 2012

(in LMT)

Month / Year (A)	Require-ment (B)	Opening Stock with States (C)	Receipt by States (Actual)			Availability with States (G=C+F)	Sales[26] (H)	Closing Stock (I=H-G)
			Indigenous (D)	Imported (E)	Total (F=D+E)			
February 2012	4.08	8.77	4.41	8.72	13.13	21.90	11.85	10.05
March 2012	2.99	10.05	3.76	4.76	8.52	18.57	14.57	4.00

[26] Indicates first point sale (i.e. sale to wholesaler, retailer etc) and not the end user sale.

Following was observed in this regard:-

- Requirement of DAP for February 2012 was 4.08 LMT. Against this, 8.77 LMT of DAP was already available in the fields/States as on 1 February 2012. Further, there was receipt of 4.41 LMT of indigenous DAP during the same month. Thus, for February 2012, DoF had 13.18 LMT of DAP. Therefore, there was no requirement of supplying imported DAP of 8.72 LMT to States during February 2012.

- Moreover, analysis of the actual figures for March 2012 also revealed a similar trend. Despite the monthly requirement of 2.99 LMT of DAP, which could have been fulfilled by the indigenous production of 3.76 LMT, 4.76 LMT of imported DAP was supplied to States.

- No records were available in DoF in respect of its decision of 8 February 2012, to not allow dispatch of imported DAP (along with other P&K fertilizer) arriving during February 2012 and March 2012. Keeping in view the available quantity, supply of indigenous DAP etc. rationale for above decision appears to be that the month's requirements could have been met through indigenous production and the carried over stock from previous months. However, the decision to reverse the said decision on 28 February 2012, after the subsidy rate for DAP was reduced for 2012-13 on 7 February 2012, enabled fertilizer companies to dispatch the imported fertilizers to district level and claim subsidies on such quantities at higher rates of 2011-12. Had the orders for revocation not been issued, fertilizer companies would have got subsidy on DAP, which had already been imported before March 2012, at lower rates of ₹14350 PMT fixed for 2012-13 instead of higher rates of ₹19763 PMT firmed up for 2011-12.

- Audit further observed that the orders of 8 February 2012, as depicted in the note of DoF on 28 February 2012, did not indicate that restrictions were imposed due to port congestion; none of the records furnished to Audit indicated that there was any port congestion during the said period; and in view of availability of DAP for February 2012 and March 2012, supply of imported DAP was not warranted.

Fertilizer companies were however, able to dispatch imported DAP to district headquarters and claim subsidy at higher rates of 2011-12. Resultantly, DoF had to bear additional subsidy burden of ₹653 crore[27], on additional quantity of imported fertilizers despite the fact that there was no immediate requirement.

DoF in its reply (July 2014) stated that the circumstances under which the decision was taken, was recorded in the relevant file and it had no further comments to offer. DoF further replied (October 2014) that import of P&K fertilizers was under Open General License and any company could import any quantity of these fertilizers as per their commercial consideration.

[27] Calculated on the basis of the lowest difference of subsidy rates amongst all DAP category fertilizers.
Total Excess Quantity= 8.72 LMT in February 2012 and 4.76 LMT in March 2012 (Total 13.48 LMT);
Lowest Difference in Subsidy rates (TSP) = ₹14875 PMT - ₹10030 PMT=₹4845 PMT
Additional Burden = total excess quantity X difference in subsidy rates = ₹653 crore.

Imports of P&K fertilizers did not materialize overnight. It took months to plan purchase and bring material to the country and there were obligatory imports under long-term contracts, which the companies could not stop. In view of the above and the fact that there was no such restriction imposed under NBS Policy for imports, it could not stop imports and declare any imported quantity non-transportable. Moreover, under NBS Policy, only 20 per cent of the P&K fertilizers were under Essential Commodities Act and liable for transport regulation. It is to be noted that the subsidy rates for 2012-13 were announced only on 29 March 2012 after the dispatch of fertilizers by importers. DoF stated during exit conference (November 2014) that movement of fertilizers was as per requirement decided in consultation with the DAC and the State Agriculture Departments.

The replies of DoF have to be viewed in the light of following facts:

- Order dated 8 February 2012 did not indicate any rationale for not allowing dispatch of imported DAP arriving during February and March 2012. Further, there was no documentary evidence to support the claim of DoF that the said orders were issued due to port congestion and revoked in the absence of the same.
- Further, Audit had not commented on either the timing of imports or the quantities imported. The observation is based on the revocation of the earlier decision despite the fact that the requirement could have been met through the opening stocks available and indigenous production.
- Further, it cannot be overlooked that the Fertilizer Industry was well aware that the rates of subsidy were going to be reduced w.e.f. April 2012 (for 2012-13) and the fertilizer companies had taken advantage of the prevailing higher subsidy rates of 2011-12, by offloading their entire stocks during February and March 2012.
- Analysis of the data of supplies of DAP during January-March 2012 vis-à-vis January-March 2011 revealed that monthly despatches/supplies to States/Districts during January-March 2012 stood at 4.72 LMT, 8.72 LMT and 4.76 LMT against 2.07 LMT, 1.98 LMT and 1.25 LMT respectively during January-March 2011. This shows significant increase in dispatches in comparison to same months of the previous year which supports the audit contention that higher dispatches were made by fertiliser companies to claim subsidy at higher rates.

Thus, the decision of DoF to revoke its earlier decision provided an opportunity to the fertilizer companies to keep on supplying imported fertilizers and claim subsidy at higher rates, resulting in additional avoidable subsidy burden of ₹653 crore on GoI.

4.7 Sale of SSP without assessing requirement during March 2012

As per payment procedure for SSP under NBS Policy, subsidy on SSP is released on first point sale[28] basis. Accordingly, the eligible units are allowed to claim 85 per cent 'On Account' payment of subsidy based on the information in respect of SSP duly certified by the

[28] For other P&K fertilizers, payments are based on receipt basis.

authorised signatory as well as statutory auditor of the company. The balance payment is released by DoF based on the certification of sales issued by the State Government in prescribed Proforma 'B'.

Audit observed that there was no monthly supply plan required to be prepared for SSP under the Policy. Resultantly, the movement of SSP is not monitored by DoF.

SSP sales during March 2012 were abnormally higher than the sales during January 2012 and February 2012. Sales in January 2012, February 2012 and March 2012 had been 2.99 LMT, 3.54 LMT and 6.34 LMT, respectively. The corresponding figures for January 2011, February 2011 and March 2011 were 3.36 LMT, 2.49 LMT and 1.69 LMT. Thus, the sale of SSP was higher in February 2012 and March 2012 as compared to those in same months of the previous year. Though in February 2012, the increase was marginal (40 per cent), in March 2012 the sale had exceeded that of March 2011 by 4.65 LMT, i.e. an increase of 275 per cent over March 2011 sale.

In the wake of the above scenario, DoF, in partial modification to the payment procedure being followed for SSP under NBS Policy, decided (July 2012) that:

- 50 per cent of the subsidy claims would be released to all SSP units as 'On Account' payment against the usual 85 per cent, for March 2012.
- Clarifications would need to be obtained from those SSP producing units which had exceeded the installed capacity during any one month of the last quarter of 2011-12.
- Specific inspection would be carried out by a third party in extreme cases viz. units which have exceeded their installed capacity by more than 10 per cent and those which have shown huge variation in sales in March 2012.

Accordingly, on the basis of inspection carried out by a third party, DoF decided (March 2013) to release the balance 50 per cent of subsidy for March 2012 in respect of all but 16 SSP companies, subject to receipt of Proforma 'B'. These 16 companies had exceeded both, sales in month of March 2012 as compared to maximum of previous five months and production in one or more months during the last quarter of 2011-12 as compared to the installed capacity. In respect of the said 16 companies, further inspections were carried out by third parties appointed by DoF, to verify claims of production and sales for the quarter October 2011 to March 2012. However, as no irregularities were reportedly found in the said inspections, the balance payments in respect of 15 companies were also released, except for one company, which was under examination as of 31 October 2014.

In this regard, Audit observed that:

- As no monthly supply plans for SSP were prepared, the actual field requirements for SSP could not be assessed. Therefore, there were no restrictions on production, supply and sale of SSP on the fertilizer manufacturing companies.
- DoF restricted its inquiry only to verification of claims of the fertilizer companies in respect of production and sale of SSP but made no efforts to determine whether there was actually an increase in the requirement of SSP during that period of the year.

DoF replied (July 2014) that the Cabinet had approved NBS rates for 2012-13 on 1 March 2012 and the rates for 2012-13 were notified by the Department on 29 March 2012 after taking requisite approval. As the notification of NBS rates for the year 2012-13 was under process, no communication in this regard were issued to any company. During the course of implementation of NBS Policy, it was observed from sales record that SSP sold during the month of March 2012 was higher than that of previous months in respect of 16 SSP units. As sales are certified by State Government under Proforma 'B', there was no occasion for comparison of sales of a particular month corresponding to same month of the previous year. Based on the examination of finding of Inspection Team, the 50 per cent withheld subsidy in respect of all the 16 units except M/s Mangalam Phosphate Limited (MPL) has been released. DoF further replied (October 2014) that there was no supply plan as SSP is normally a localized fertilizer. DAC also did not assess the requirement of SSP. Be that as it may, the Department had done what was appropriate to examine the subsidy claims. Verification of SSP production and sales and subsequent release of subsidy in respect of the 15 SSP units took more than one and half year. This clearly shows that adequate precautions were taken in release of subsidy, in the cases and subsidy was released to the 15 units after detailed verification and due diligence. SSP is a decontrolled fertilizer produced by about 100 units scattered all over the country with varying production capacity. On this product no primary or secondary freight was given. Producers of these units market their product in the nearby region only, as the consumption is mostly in the near vicinity. On account of the number of units being very large catering to demand in their vicinity and no freight subsidy being paid, it was not desirable to issue supply plan for regularization of SSP as sales were verified by the respective State Governments.

DoF stated (November 2014) during the Exit Conference that:

It is very difficult to set movement plans for SSP as the industry is basically a localized industry and many companies are struggling to achieve even the minimum capacity utilization set forth for these units due to working capital problems, limited marketing network, availability of raw material in the country etc. Many smaller SSP units enter marketing tie ups with bigger companies to market their product. Under the circumstances and given the large number of SSP units (at present 98), controlling 20 per cent of its movement will not achieve any purpose. Moreover, the purpose of controlling movement of fertilizers is to ensure availability and in respect of SSP there is no such availability issue as the SSP units are located all over the country.

The "On Account" subsidy on P&K fertilizers (except SSP) was paid based on the fertilizers received in the district, whereas in respect of SSP the "On Account" subsidy was paid based on first point sale. The Department has linked payment of balance subsidy to acknowledgement of sale by retailers in m-FMS, which proves that the fertilizer subsidy has been passed to farmers. However, DAC was being requested to assess the requirement of SSP as is done for other fertilizers. DoF also intimated that since November 2012, payments were being made only after the sales were certified by the retailer. DoF further replied (March 2015) that no freight subsidy is paid for movement of SSP. Hence, no Supply Plan is prepared for these products.

The reply of DoF has to be viewed in the light of the facts that:

- In the absence of a firm Monthly Supply Plan for SSP, there was no restriction on the fertilizer manufacturing companies on production and sale of SSP.
- The Cabinet had already approved, on 1 March 2012, NBS rates for 2012-13, which were ₹1686 per tonne lower than the existing NBS rates of 2011-12; hence the fact that NBS rates were going to be reduced was a known fact in the Fertilizer Industry which made it tempting for the fertilizer companies to artificially claim increased sales in March 2012.
- DoF made no efforts to verify from DAC the existence of actual field requirement during that period of time, and only restricted its inquiry to verification of production and sale of the fertilizer companies which did not bring to light the true picture of the whole situation.
- It is true that no primary or secondary freight is payable to SSP, but SSP is eligible for Nutrient Based Subsidy. Therefore, necessity of having some checks on the supply of SSP needs to be examined by DoF in co-ordination with DAC.

Recommendation 8: Necessity for having an MSP for SSP and modalities for same may be worked out by DoF in close co-ordination with DAC.

Chapter 5 - Implementation of the Policy by the companies[29]

One of the significant features of NBS Policy was that MRP of P&K fertilizers would be left open and manufacturers/importers/marketers would fix MRP of these fertilizers at a reasonable level. The word 'reasonable' was, however, neither explained/defined in the Policy nor did DoF issue any implementation guidelines. Audit, therefore, attempted to examine as to how MRP was fixed at reasonable level and what was the monitoring mechanism in DoF to assure themselves of the reasonability of MRPs.

5.1 Issues in MRPs fixed by fertilizer companies

Out of 34 companies (including 26 private companies, 2 co-operative societies and 6 CPSEs) producing/importing decontrolled P&K fertilizers, Audit test checked records of five companies[30] relating to import of fertilizer/fertilizer inputs and production by indigenous companies, the supply position of the companies, subsidy claimed and received, the components and inputs loaded while fixing MRPs of their brand and their profitability aspects.

During the course of audit, cost sheets of the fixation of MRPs of various P&K fertilizers subsidised under NBS Policy were called for from DoF and the selected five fertilizer companies. Neither DoF nor the selected five companies provided the cost sheets[31].

Despite the assurance provided by DoF during the Entry Conference (July 2013), the cost sheets for companies were furnished to Audit in October 2014 i.e. only after issue of the Draft Audit Report to DoF in September 2014. Moreover, above data was not supported by documentary evidence. Audit, thus, could not verify the accuracy of the facts depicted in the cost sheets. Resultantly, Audit was unable to vouchsafe the reasonableness of MRPs of the fertilizers.

DoF had not laid down any guidelines for assessing and enforcing the reasonableness of MRPs so fixed by the fertilizer companies. In the absence of any mandatory requirement for preparation of cost sheet in respect of subsidized fertilizers, DoF did not have any mechanism to assure itself about necessity/reasonability of all the components included in the cost. This was evident from the fact that during the examination of the records of fixation of price of DAP by IFFCO, which were the only cost sheets made available to Audit, instances were found which depicted loading of MRP with some components that were not reasonable. Further, other instances where Audit was unable to conclude that MRPs fixed by the fertilizer companies were, indeed, reasonable, also came to notice. These have been discussed below:

[29] In respect of five fertilizer companies selected for Audit.
[30] IFFCO, IPL, CFCL, ZIL and FACT.
[31] Except IFFCO, which too had provided cost sheets only in respect of imported DAP.

5.1.1 Unreasonable loading of cost component on MRP

5.1.1.1 Recovery on loss on sale of bonds

GoI issued fertilizer bonds amounting to ₹8396.11 crore during 2007-08 and 2008-09, towards settlement of subsidy dues to IFFCO. The bonds carried a coupon rate of 6.20 to 8.30 per cent and were maturing during 2022-2026. IFFCO sold them in the market and to RBI under buy back scheme of GoI, and thereby incurred a loss on sale of these bonds. To adjust the loss sustained by the company, IFFCO added ₹142 PMT as 'loss on sale of fertilizer bond' as a component of cost for fixing MRP of DAP (imported) w.e.f. 23 September 2011. Subsequently, it was observed that while revising MRP of DAP in May 2012, the cost component of ₹142 PMT on account of loss on sale of bond was excluded. Thus, recovery of loss on account of sale of bonds amounting to ₹9.89 crore[32] (during the period 23 September 2011 to 30 May 2012), due to addition of ₹142 PMT in MRP, was not justified. The cost sheets of other products were not provided to Audit and therefore, the recovery of loss, if any, from other products could not be verified in Audit.

IFFCO in its reply stated (June 2014) that MRP was fixed based on various parameters viz. cost of imported fertilizers, handling and other associated costs and market conditions. Sometimes, however, industry is constrained to fix MRP below the total cost because of competition and market conditions. Sometimes, MRP was fixed even below the total cost. During the year 2011-12, IFFCO has incurred a loss of ₹5193 lakh (₹473 PMT) on imported DAP. IFFCO further added that it had not earned any profit during the period when MRP was fixed at ₹18100 MT (i.e. after considering ₹142 PMT on account of loss on sale of bonds) and MRP fixed was not unreasonable.

DoF in its reply (June 2014) stated that as per approval of Ministry of Finance, the Government had agreed to reimburse 50 per cent losses (i.e. ₹778.93 crore) incurred by fertilizer companies including IFFCO in buy back bonds by RBI. If IFFCO loaded any cost on account of loss in sale of bonds, in fixing MRP, the subsequent reimbursement of losses it received from Government on this account was undue profit to the company and liable for recovery.

5.1.1.2 Recovery for loss on mopping up

DoF notified (5 May 2011) higher NBS rates for 2011-12 for P&K fertilizers in comparison to those of 2010-11. The increased subsidy on opening stock of imported DAP as on 1 April 2011, amounting to ₹4.41 lakh, was recovered by DoF from IFFCO on 17 August 2011. IFFCO in turn added ₹40 PMT w.e.f. 24.09.2011 as 'loss on mopping up of subsidy' as a cost component for fixing MRP of imported DAP. During October 2011 to March 2012, IFFCO sold 646459.42 MT of imported DAP. Recovery made from IFFCO was not a loss and it had

[32] Quantity of DAP sold=696317.28 MT
Cost component on account of loss on sale of fertilizer bonds=₹142
Recovery = (Quantity of DAP sold) X (cost component of loss on sale of bonds) = ₹9.89 crore

no relevance to MRP of DAP. Hence, adding expenses relating to mopping up to the cost element of DAP was not justified. This resulted in extra profit of ₹2.59 crore as well as inflated MRP of imported DAP for 2011-12.

IFFCO in its reply stated (June 2014) that since the notification was issued on 11 July 2011, by no stretch of imagination could IFFCO envisage such costs (by way of mopping up) and thereby be able to absorb the same. Hence, IFFCO considered the cost of ₹40 PMT in fixation of MRP effective from 24 September 2011. As no recovery with regard to the opening stock of raw materials was made by GoI subsequently, the above mentioned loss of ₹40 PMT, which was originally envisaged to be recovered in 5 years, was not considered while revising MRP from 1 June 2012.

DoF in its reply stated (June 2014) that during 2011-12, the subsidy rates were revised twice as no imports were possible due to higher international prices. The higher rates of subsidy were not applicable to old stock imported prior to increase in international prices. Hence, mopping up of higher subsidy claimed or allowed on the closing stock as on 31 March 2011 and sold after that date, was done in DoF. The higher subsidy claimed on closing stock imported prior to March 2011 was undue benefit to the company. Hence, the subsidy mopped up on this account should not have been reckoned as a part of the production cost or for fixing MRP of subsequent imported fertilizers by IFFCO.

5.1.2 Benefit of lower procurement cost not factored in MRP of DAP

DoF, while finalizing benchmark price for fixation of subsidy for each nutrient considers prevailing international prices of fertilizers. Audit, however, noticed instances where fertilizer companies made procurement at rates below the benchmark price e.g. CFCL and ZIL imported DAP at rates ranging between US$ 477.50 cfr PMT to US$ 500 cfr PMT during the year 2010-2011. Since the purchase cost in these cases was less than the benchmark price of US$ 500 PMT considered by DoF for fixation of subsidy for DAP for 2010-11, there would have been savings to these companies on account of lower procurement cost. In the absence of any cost sheet of calculation of MRP of DAP for the year 2010-11, Audit could not verify whether these companies had passed on the benefit of such lower cost of purchase to farmers through reduced MRP of DAP in 2010-11.

CFCL stated (June 2014) that DAP consignments were bought on ruling international prices and their contribution was 1 per cent of the average cost of sales of packed goods sold in the year. So there was no scope of MRP revision. Any such revision would have resulted into further lowering of company margin.

ZIL stated (June 2014) that audit team has ignored the actual exchange rate at which the imports were made to arrive at the Indian Rupee cost of import which, in our view, was higher than the exchange rate considered by the Government while fixing NBS rates. It also stated that handling charges actually incurred by the company were also on the higher side.

Replies of CFCL/ZIL could not be verified since the cost sheets of these companies were not furnished to Audit for verification.

5.1.3 Unjustified fixation of MRP

5.1.3.1 Disproportionate increase in MRP in lieu of withdrawal of freight subsidy

Secondary freight was inbuilt in subsidy rates declared under NBS as per notification of DoF dated 16 March 2010. DoF announced on 1 December 2010 that secondary freight for P&K Fertilizers (except SSP) would be paid in line with the 'Uniform Freight', applicable for Urea, w.e.f. 1 January 2011. This partial modification resulted in reduction of the freight subsidy by ₹300 PMT in the case of DAP.

Subsequent to the said notification, it was observed that fertilizer companies had increased their MRPs from the existing ₹9950 PMT to ₹10750 PMT w.e.f. 16 January 2011 (CFCL); 21 January 2011 (IPL) and 1 February 2011 (IFFCO). No cost details regarding the calculation of the revision of MRPs i.e. cost sheets etc. were produced to Audit by these companies. An internal note of CFCL, however, contained following justification for increasing the price of DAP:

"DoF has notified withdrawal of secondary freight of ₹300 PMT on DAP/MOP w.e.f. 1st January 2011. In line with the price increase by other companies, we propose to revise our MRP to ₹10750 PMT with immediate effect."

It appears from the above that MRP was increased only to compensate reduction of the secondary freight of ₹300 inbuilt in NBS rates. Audit observed that increase in MRP should have, at the most, been equivalent to the reduction in NBS rates i.e. by ₹300 PMT only. By increasing MRP of DAP by ₹800 PMT, the fertilizer companies had overburdened MRP by ₹500 PMT.

CFCL in its reply stated (June 2014) that they had earned a margin of ₹300.42 PMT on sale of 401486.750 MT, which was around 1 per cent of the average cost of sales of packed goods sold in the year. Reduction by ₹500 PMT would have resulted in further lowering of company margin.

5.1.3.2 Disproportionate decrease in MRP

Audit observed that for the period 31 January 2012 to 23 May 2012, procurement cost of CFCL reduced by ₹5398 PMT to ₹5466 PMT whereas reduction made in MRP of DAP by the company was only ₹1100 PMT. This resulted in additional profit of ₹67.37 crore[33] to the company.

CFCL in its reply stated (June 2014) that they had sold imported DAP under NBS Policy during 2010-11, 2011-12 & 2012-13 at various MRPs, which were fixed based on the costs and also to align with the market, from time to time. The company had earned a margin of ₹525.65 PMT on sale of 1335682 MT, which was around 1.55 per cent of the average cost of sales of packed goods sold during the years 2010-11 to 2012-13. As such, the company had not earned any higher realization.

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[33] Additional profit worked out as follows: 155517 (Quantity sold) x ₹4332 (difference between average price of November/December 2011 and February/March 2012 as reduced by ₹1100).

Reply submitted by CFCL and supplemented by DoF, pertaining to the observation in para 5.1.3.1 is not acceptable due to the fact that the enhancement in MRP was done by CFCL only to compensate the reduction in NBS rates due to removal of the secondary freight subsidy element of ₹300 PMT, which was evident from the internal note of CFCL. Therefore, the increase in MRP should have been restricted to ₹300 PMT only. Further, neither CFCL nor DoF had furnished any cost sheets regarding fixation of MRPs to Audit.

Replies of CFCL and DoF, pertaining to the observation in para 5.1.3.2, need to be viewed in the light of the fact that one of the prime objectives of NBS Policy was to allow fertilizer companies to fix MRPs of the fertilizers at a reasonable level. The fertilizer companies were expected to take into account the actual procurement rate while fixing MRPs so that the same could be passed on to the farmers. Further, DoF has conceded that there was a need to verify the reasonableness of MRPs fixed for the P&K fertilizers by the companies.

A common thread running in reply of DoF to audit observations on reasonableness of MRP was that under NBS Policy, MRP of P&K fertilizers was left open and fixed by the fertilizer companies at reasonable level. In order to ensure reasonableness, companies had been providing certified cost data as per the requirement and directions given by DoF from time to time. The companies were also reporting MRPs of P&K fertilizers regularly to DoF in FMS. The companies were claiming subsidy as per NBS rate announced by the competent authority as per recommendation of IMC. DoF further replied (October 2014) that it had decided to obtain cost data from P&K fertilizer companies from 2012-13 onwards. As there is no manpower and technical competency to scrutinise the cost data of these companies, the Department has appointed certified Cost Accountants/Firms to undertake the cost data study. Action would be initiated after the receipt of reports from Cost Accountants/Firms. As regards the individual cases reported in the report, the Department would examine the issues separately.

Recommendation 9: 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 date of introduction of NBS Policy instead of getting cost data examined only from 2012-13.

Chapter 6 - Conclusion and Recommendations

6.1 Conclusion

'Nutrient Based Subsidy' (NBS) Policy was introduced by DoF 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 were left open and the manufacturers/importers/marketers were allowed to fix MRP of P&K fertilizers at reasonable level.

Performance Audit of Nutrient Based Subsidy Policy for decontrolled Phosphatic & Potassic Fertilizers revealed that:

- There was no clear road-map in DoF for achieving the laid down objectives of NBS Policy and the Policy did not succeed in arresting imbalanced use of nutrients. The ratio of usage of N, P & K respectively stood at 8:2.7:1 in 2013-14 as against preferred ratio of 4:2:1. Despite stated objective of improving growth of indigenous fertilizer industry under NBS Policy, indigenous production of P&K fertilizers declined continuously from 2010-11 (122.64 LMT) to 2012-13 (98.28 LMT). Production in 2013-14 was 105.24 LMT.
- Though the objective to contain the subsidy bill was achieved after introduction of NBS Policy as the amount of subsidy disbursed came down from ₹39452 crore in 2009-10 to ₹29427 crore in 2013-14, however, it was observed that indigenous production as well as imports of P&K fertilizers also declined during this period indicating lesser availability and consumption of P&K fertilizers in the country.
- Testing facilities created in 78 Fertilizers Quality Control Laboratories were not utilised optimally as some facilities were underutilized and others were overutilized.
- Fixation of benchmark at a lower level in comparison to the then prevailing international prices for determining NBS rates for DAP resulted in delay in finalization of contracts for import of DAP for the year 2011-12. This also led to avoidable subsidy burden of ₹5555 crore to the GoI.
- There was high pendency of Proformae 'B' which was a control tool in support of certification of quantity as well as quality of fertilizers actually received in the States. 4112 Proformae 'B' were pending from 2007-08 to 2013-14 as on 31 October 2014, out of which 3899 pertained to period of NBS Policy.
- Lump sum payment of ₹200 PMT was allowed to compensate the withdrawal of freight subsidy of ₹104 PMT for SSP during the period 1 January 2011 to 31 August 2011, resulting in excess expenditure of ₹25.74 crore.
- DoF did not finalize guidelines for recovery from fertilizer companies using APM gas for production of Ammonia even after delay of more than two years after directions of EGoM (February 2012) in this regard.

- MSP in respect of decontrolled P&K fertilizers, as issued to fertilizer companies as well as States was not based on realistic assessment of requirements. Quantity actually supplied by companies was being regularised without having any link with the quantity mentioned in MSP. Further, no MSP was being prepared for SSP.
- DoF had to bear additional subsidy burden of ₹653 crore due to payment of subsidy at higher NBS rates of 2011-12, on additional quantity of imported fertilizers supplied to States during February-March 2012, despite there being no immediate requirement.
- There was no monitoring mechanism in DoF to ensure that prices fixed by fertilizer companies were based on their cost of production and that these were reasonable.

6.2 Recommendations:

1. 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.
2. 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.
3. DoF should take measures to encourage and enhance investment in the fertilizer sector in close coordination with Ministry of Finance. Early adoption of a result oriented approach to promote growth of domestic production of P&K fertilizers is recommended.
4. There is a need for critical review of utilization of FQCLs so that there is no avoidable underutilization or overutilization of the facilities.
5. 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.
6. DoF may critically review the existing monitoring mechanism of receipt and pendency of Proformae 'B' and consider periodical review of the status at Regional or State level to bring sense of urgency/importance to the issue and arrest pendency.
7. 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.
8. Necessity for having an MSP for SSP and modalities for same may be worked out by DoF in close co-ordination with DAC.
9. 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.

DoF replied (March 2015) that it had already initiated action in respect of some of the recommendations i.e. pricing of Urea, streamlining of movement/supply of P&K fertilizers and for ensuring reasonableness of prices of P&K fertilizers.

(ANAND MOHAN BAJAJ)
Principal Director of Audit
(Economic and Service Ministries)

Dated: 20 April 2015
Place : New Delhi

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Dated: 20 April 2015
Place : New Delhi

Annexures

Annexure I

(referred to in para 1.3)

List of fertilizers covered under NBS Policy

S. No.	Name of the fertilizer
1.	DAP (18-46-0-0)
2.	DAP Lite (16-44-0-0) (included in 2010-11)
3.	MAP (11-52-00)
4.	TSP (0-46-0-0)
5.	MOP (0-0-60)
6.	SSP (0-16-0-11) (included in May 2010)
NPK Group	
7.	16-20-0-13
8.	20-20-0-13
9.	20-20-0-0
10.	23-23-0-0
11.	24-24-0-0
12.	28-28-0-0
13.	10-26-26-0
14.	12-32-16-0
15.	14-28-14-0
16.	14-35-14-0
17.	15-15-15-0
18.	15-15-15-09 (included in 2010-11)
19.	16-16-16-0
20.	17-17-17-0
21.	19-19-19-0
22.	Ammonium Sulphate
23.	DAP Lite grade II (14-46-0-0) (included in 2011-12)
24.	MAP Lite (11-44-0-0) (included in 2011-12)
25.	13-33-0-6

Annexure II

(referred to in para1.4)

Illustration of calculation of NBS subsidy (₹per MT) for different P&K fertilizers

Ratio of Nutrient (N:P:K:S)	Quantity of nutrient in one tonne (1000 kg)	Subsidy per tonne (in ₹)	Total subsidy per tonne (in ₹)
(1)	(2)	(3) (Col. 2 × NBS rate per KG as notified by DoF[1] for respective nutrient)	(4)
Case A: Di-Ammonium Phosphate (DAP)			
18:46:0:0	180 kg (N) 460 kg (P)	180 × 27.153 (N)= 4887.54 460 × 32.338 (P)= 14875.48	19763
Case B: Mono-Ammonium Phosphate (MAP)			
11:52:0:0	110 kg (N) 520 kg (P)	110 × 27.153 (N)=2986.83 520 × 32.338 (P)=16815.76	19803
Case C: Triple Super Phosphate (TSP)			
0:46:0:0	460 kg (P)	460 × 32.338 = 14875.48	14875

[1] Rates of NBS for the year 2011-12 have been used for the illustration.

Annexure III

(referred to in para 2.5)

PAC recommendations in 81st Report (laid in Parliament in April 2013) for P&K fertilizers and action taken by Department of Fertilizers

S. No.	PAC recommendation	Action taken by DoF (as intimated in November 2014)
1	The Committee deprecate that the assessment of fertilizer requirement was not done in a scientific manner, but in a pedestrian manner by enhancing the requirement generally by 5 to 10 per cent over the previous season's/year's consumption. While the actual consumption figures of major fertilizers are considerably less than the requirements projected, the availability has been more than the assessed requirement in almost all the cases. The Committee desire that since the zonal meetings deliberate crucial issues like intensive study of the cropping and consumption pattern, cropped and irrigated area, per hectare consumption of fertilizers, requirement of nutrient in soil in different parts of the States etc., it is all the more important that detailed minutes of zonal conferences are meticulously maintained so as to keep track of things and take corrective measures. The Committee, therefore, urge that the overall assessment process be comprehensively reviewed for moving towards a more scientific approach based on realistic and accurate statistical data obtained from the fields and also taking resort to more cost effective futuristic technology applications like remote sensing and satellite imagery for plot assessment so that fertilizer requirement movement and distribution are done in a prudent and effective manner.	• This Ministry introduced new proforma and modified few earlier proforma (used for assessment of requirement of fertilizers) to make the assessment of requirement of fertilizers more scientific. • The States were requested to compile the information related to gross cropped area, area under irrigation, area under crops at block level and information pertaining to deficiency in terms of nutrients, requirements in terms of NPK nutrients at district level in these new proforma. • The matter relating to collection of statistical data was taken up with Ministry of Statistics and Programme Implementation. • This Ministry has sanctioned a project to Indian Institute of Soil Sciences Bhopal for preparation of Geo-referenced soil fertility maps to generate site specific recommendations for fertilizer application in 19 major states (171 districts). As on date, soil maps of all 171 districts has been completed. The component on preparation of digitized maps is proposed to be continued in 12^{th} Plan period to cover 371 districts. • Department of Agriculture & Cooperation (DAC) has already started recording detailed minutes of Zonal Meetings/Conferences since September 2012.
2	The Committee note with profound concern that payments on account of fertilizer subsidy increased more than eight fold from ₹11835 crore in 2003-04 to ₹96,603 crore in 2008-09 before coming down to ₹61,636 crore in 2009-10. The Committee also note that decontrolled fertilizers were the primary factor on high subsidy payments with an increase of almost 20 times	In order to meet the gap between the total requirement of P&K fertilizers and indigenous production, the Department of Fertilizers has also been encouraging fertilizer companies to explore the possibility of establishing Joint Venture (JV) projects, acquiring fertilizer assets abroad and entering into long term agreements for

	from ₹3326 crores in 2003-04 to ₹65,555 crores in 2008-09. According to the Department, the increase in subsidy amount was due to the cost of import of raw material for production of P&K fertilizers, fluctuation in the Indian Currency and the increased consumption leading to continued increase in the delivered cost of the fertilizers as the MRP remained unchanged from February, 2002 to March, 2010. The Committee are also concerned to note that although the capacity for phosphatic fertilizers doubled from1998-99 to 2008-09, actual production increased by only 30 per cent. As the increase in consumptions of DAP/MAP/NPK complexes over this period was met primarily through imports at very high prices, there were multi-fold increases in the subsidy burden. The Committee find that while the installed capacity of DAP units increased from 28,70,000 MT in 1998-99 to 72,99,000 MT (amounting to 154 per cent) in 2008-09, the production registered a negative growth of 22 per cent as it decreased from 38,67,000 MT to 29,93,000 MT during the same period. Intriguingly, though the production of DAP increased considerably during the subsequent years touching more than 84 per cent capacity utilization in the years 2009-10 and 2010-11 and 80.8 per cent in 2011-12, the dependence on imports for finished phosphatic fertilizers or phosphatic raw materials/intermediaries for indigeneous production of phosphatic fertilisers stands at 90 per cent as the Country's endowments of rock phosphate are minimal and of poor quality. Worse, the dependence on imports for potassic fertilizers for agricultural usage is 100 per cent. The Department of Fertilisers are reportedly encouraging exploration/surveys for locating fresh deposits of rock phosphate and potash. The Committee, however, desire that in addition to the steps initiated for further exploration of raw material for P&K fertilizers, the Department should also initiate adequate steps to secure long term supplies of not only finished fertilizers but also for new raw materials through strategic investments and tie ups with fertilizer resource rich Countries especially for those sectors which are substantially import dependent.	supply of raw materials/finished fertilizers under beneficial pricing arrangement. In this regard, Indian companies have already set up Joint Ventures in Oman, Senegal, Morocco, Tunisia, Jordan and Nigeria. Cooperation in fertilizers sector is being pursued in countries like Ghana, Togo, Belarus, Canada, Russia, Ukraine, Iran, Iraq, Jordon, Algeria etc. Joint Ventures projects in Iran, Russia, Togo and long term purchase agreement of Potash from Canada are under consideration in the Department.
3	With the introduction of the Nutrient Based Subsidy Policy w.e.f. 01.04.2010, no further rise in the subsidy amount on P&K fertilizers has been observed and in fact, the total subsidy outgo in P&K sector saw a	Due importance is accorded to Integrated Nutrient Management, conjunctive use of chemical fertilizers and organic manures is advocated to sustain soil health and promoted under National Project

	decline i.e. ₹36,107 crore for the year 2011-12 and ₹28,576.12 crore for the year 2012-13 (BE). On the rationale of subsidizing a decontrolled item, the Committee are informed that the decontrol of P&K fertilizers w.e.f. 25.08.1992 adversely affected the consumption of these fertilizers as subsidy was lifted affecting the small and marginal farmers and ultimately led to imbalance in the usage of NPK nutrients. The Committee find that while fertilizer consumption increased by 46 per cent from 2003-04 to 2008-09, the major components of agricultural production (food grains oilseeds and sugarcane) increased by just 16 per cent over the same period, indicating a relatively weak correlation. Mindful of the fact that imbalanced use of chemical fertilizers and neglect of organic manure results in low yields causing stagnation in agricultural productivity; low fertilizer use efficiency with consequent low farmer profit and further depletion of the most deficient nutrients in the soil, the Committee impress upon the Department to accord due importance to the Integrated Nutrient Management as contemplated, encompassing conjunctive use of Chemical fertilizers and organic manures so as to maintain soil organic carbon for higher fertilizer response *vis-à-vis* crop productivity. Further, as increasing fertilizer use efficiency undoubtedly has a high potential of saving a huge quantity of fertilizers without affecting the crop yield, it is of utmost importance that equal emphasis is also paid to the adoption of better agronomic practices and use of better quality fertilizers including organic and bio fertilizers for sustainable agriculture. The Committee, therefore, desire the Department to address the balanced fertilization need of the nation as a dynamic concept with appropriate linkages and necessary inputs so that the intended goals of NBS policy are achieved within a targeted time fame.	on Management of Soil Health & Fertility (NPMSH&F). The scheme is also proposed to continue during 12th Plan as a Sub-Mission under National Mission for Sustainable Agriculture. Better agronomic practices are provided to farmers by the State Governments and State Agricultural Universities (SAUs) through Package of Practices. In order to have better results in implementation of NBS Policy, the Department has assigned a task to study the impact of NBS policy to a consultancy firm namely M/s. Ernst & Young (EY). The key focus areas of the study are as under:- I. Impact of NBS policy on prices and availability of fertilizers in India. II. Impact of NBS policy on balance fertilization of soil and its impact on agricultural productivity. III. Mechanism to ascertain 'reasonability' of MRP. IV. Identification of additional mechanism under NBS policy to make it more effective in achieving its objectives. V. Monitoring and regulation of prices. VI. Price discovery and fixation of prices. After examining the final study report, which is awaited, and taking views from stake holder Departments/ companies, the Department will take appropriate measures to achieve intended objectives of NBS Policy.
4	The Committee note that the requirement for certification in Proforma 'B' by the State Governments for sale of decontrolled fertilizers for agricultural purposes is the only major control over end use of fertilizers, but with the removal of such linkage since June, 2007, adequate incentive to ensure certification by the competent authorities (*viz*. the State Governments) of end use of decontrolled fertilizers for agricultural purposes no longer exists. As a result, there was a steep increase in the amount of unreconciled sales	DoF has launched mobile FMS (m-FMS) system which extends the existing FMS from district level to the retailer level. Phase-I of m-FMS plans to capture the receipts of fertilizers till the retailer level. This has been operational since November 2012 and is getting stabilized now. Phase-II of m-FMS plans to capture the sales details & buyers details for the sales made by the retailer (i.e. last point sale). Phase-II application has been tested successfully in Ajmer

	figures which stood at ₹50,587 crore for the years 2007-08 to 2009-10 as compared to only ₹ 111 crore for the years 2003-04 to 2006-07. The Department have clarified that the outstanding amount as on 14.12.2011 for the period 2003 to 2010 stood at ₹2447.08 crore and the latest pendency figure was ₹1947 crore subsequent to a drive undertaken by the Department based on the Audit findings as submitted by the Secretary, DoF in evidence. On the audit recommendation for re-introduction of the earlier system of relating 10-15 per cent of subsidy till receipt of certification in Proforma 'B', the DoF have contended that the Proforma 'B' was getting less relevant as the Department is gearing up for the mobile Fertiliser Monitoring System (FMS) which will record on a daily basis, the fertilizer receipt and sales at the retailer level in the first stage. According to the Department, such information would be available online and once the system stabilizes within the financial year 2012-13, subsidy payment would be made based on the mobile FMS, which would not only obviate the need for reconciliation of sales figures but also act as an effective disincentive against black marketing and hoarding. Taking into consideration the Department's own admission that there is no existing mechanism of verification of sales and stocks beyond the district level and secondary sales and consumption patterns are being monitored by the State Agricultural Departments, the Committee are of the considered opinion that the DoF's role should not be limited to merely sensitizing the State Governments in light of various reported instances of diversion of subsidized fertilizer for non-agricultural use. Further, in view of the magnitude of the problem and the underlying consequences on the subsidy burden due to the malpractices, it is imperative that a strict verification regime with stringent enforcement of deterrent punitive/financial penalties based on real time information/data be put in place. As assured by the Secretary, DoF in evidence that the Department is developing a pilot plan to track the fertilizer movement upto the farmer level, the Committee desire that the DoF should urgently come out with a more robust monitoring mechanism and inspection regime with foolproof procedure for verification of stocks/sales so as to curb the menace of pilferage, diversion and leakages of subsidized fertilizers.	district by 6 retailers during February 2013. The application has been modified based on the feedback from companies, retailer & User Acceptance Test (UAT) participants. Pilot for Phase-II is being launched from 15 August 2013 in 6 pilot districts initially. Once the Phase-II stabilized, mFMS will not only provide availability of fertilizer till retailer level but also sales made for each category of fertilizers to the concerned individual. This would provide DoF with a robust monitoring mechanism for verification of stock/sales till the retailer level. Further, all the Director of Agriculture of concerned states have already been requested to expedite the issuance of proforma 'B' pending.

5	The Committee note with profound concern several deficiencies and inadequacies that plague the quality testing of fertilizers. Such areas of concern *inter-alia* include grossly inadequate annual capacity of the existing quality control laboratories *vis-à-vis* the required capacity for testing samples from all sales outlets; deficient physical and human infrastructure in many of the laboratories; significant shortfalls in the actual number of samples tested, etc. What concerns the Committee more is the non-adherence to the time limit prescribed for analysis and communication of results of fertilizer quality testing. Though the Department is reportedly taking a number of measures which *inter-alia* include strengthening of 39 existing FQCLs; sanctioning 15 new FQCLs; increasing the number of soil testing laboratories to 1049 with analyzing capacity of 10.7 million samples as on 31.03.2012; planning to add another 180 static and 145 mobile soil testing laboratories etc; the Committee are still worried over the reported existing bottlenecks in proper quality checking of fertilizers and use of sub-standard fertilizers. The problem is compounded with the FCO provisions under which the responsibility of ensuring the quality of fertilizers is solely left to the State Governments, though the Central Government provide financial assistance to the State Governments under the National Project on Management of Soil Health and Fertility (NPMSH&F). The Committee therefore impress upon both the Departments (Fertilisers and Agriculture) to seriously consider the imperatives involved in the quality testing of fertilizers and constantly endeavour towards augmenting and strengthening both physical and human infrastructure of the quality testing and soil testing laboratories so that possibilities of supplying sub-standard fertilizers to the farmers are completely eliminated. The Committee believe that working in tandem with the State Governments and involving Research Institutes like Indian Council of Agricultural Research (ICAR) and Indian Institute of Soil Science (IISS), the Departments will certainly be able to bring in noticeable improvements in the quality testing of fertilizers.	For point No. 5 & 6: The Committee has impressed upon to improve the functioning mechanism of Fertilizer Quality Control and implementation of FCO in the states. This Ministry from time to time takes up with the State Governments the need for strengthening of fertilizer quality control set-up and enforcement machinery of FCO in States to ensure quality fertilizers to the farmers etc. Recently also, the directions have been issued to all the State Governments vide this Ministry's letter dated 31 July 2013 for taking corrective/remedial actions on various points.
6	Taking note of the adverse implications of the delay in communicating results of the fertilizer quality testing within the stipulated time period of 52 days, the Committee exhort the Departments to prevail upon the State Governments to take stringent action against the officials for violation of	

	clause 30 of the FCO which provides for strict compliance with the time limit stipulated for analysis and communication of the quality testing results. The Committee further recommend that the penal provisions under the Essential Commodity Act (ECA), which prescribe prosecution of offenders and sentence, if convicted, upto seven years of imprisonment besides cancellation of the authorization certificate and other administrative action, be invoked against the offenders/defaulters to deter sale/supply of sub-standard fertilizers.	
7	Taking note of the admission of the representative of the DoF about complaints of supply of sub-standard fertilizers, the Committee recommend that the farmers' complaint lodging mechanism for sub-standard quality of fertilizers be streamlined and they be allowed to lodge their complaints with the District Magistrate/District Agriculture officer for expeditious and appropriate action. It is also equally important that the MPs, MLAs and other representatives of the people as also the NGOs be provided with the list of the exact location of the fertilizer Quality Testing Centres in the respective States so as to enable them to take necessary action, whenever warranted. The Committee further desire that requisite measures be taken by the Departments so that the National Project on Management of Soil Health and Fertility addresses the issue of contaminated water used by the farmers while harvesting.	The Department of Agriculture & Cooperation, M/o Agriculture has issued letter to all the State Governments advising them to streamline the farmers' complaint lodging mechanism for sub-standard quality of fertilizers. Besides, they have also been advised to provide the information in respect of Fertilizer Quality Testing laboratories to MPs, MLAs and other representatives of the people etc. The Committee has desired that measures be taken so that National Project on Management of Soil Health & Fertility addresses the issue of contaminated water used by farmers. In this regard, it is mentioned that the subject matter of irrigation water fall under the purview of Ministry of Water Resources.

Annexure IV

(referred to in para 3.5)

Statement showing state-wise no. of samples analyzed

State	No. of FQC Labs	2010-11		2011-12		2012-13		2013-14	
		Annual analyzing capacity	No. of samples actually tested	Annual analyzing capacity	No. of samples actually tested	Annual analyzing capacity	No. of samples actually tested	Annual analyzing capacity	No. of samples actually tested
Assam	1	500	271	500	275	500	292	500	324
Mizoram	1	250	5	250	0	250	1	250	1
Jharkhand	1	3385	682	3385	838	4165	824	1500	723
Bihar	1	2000	1748	2000	1738	2000	1719	2000	2080
Odisha	3	3500	2396	3500	2196	3500	2217	10000	3398
West Bengal	3	4500	2064	4500	2079	4500	2971	4500	2387
Gujarat	3	7500	5977	7500	9060	7500	9990	7500	14623
Madhya Pradesh	4	5200	4560	5200	4853	6500	5497	7270	6671
Chhattisgarh	1	2500	2098	2500	2018	2500	2150	2500	2171
Maharashtra	5	13630	14989	16000	16403	18000	16939	18000	17422
Rajasthan	4	8000	14336	8000	15820	10000	15586	8000	14051
Haryana	3	5100	4089	5100	4561	5100	4277	5100	3901
Himachal Pradesh	3	2000	1866	2000	1707	2000	1770	2000	1673
Jammu & Kashmir	2	1400	1395	1450	1895	1450	1980	1450	2127
Punjab	3	3000	3123	3000	3018	3000	3629	3600	3576
Uttar Pradesh	5	10000	9205	10000	11345	10000	10227	16500	10848

Uttarakhand	2	700	200	800	183	700	215	700	261
Andhra Pradesh	5	15000	14935	15000	15419	15000	15284	15000	15238
Karnataka	7	10065	5948	10065	6229	15000	9642	15000	10423
Kerala	2	3000	2574	3000	2542	4000	2262	4000	2463
Pondicherry	1	700	627	700	484	700	627	700	467
Tamil Nadu	14	17500	18011	17500	17398	17756	16540	17900	17899
Government of India	4	8500	10769	8500	11909	8500	9233	8500	6234
TOTAL	**78**	**127930**	**121868**	**130450**	**131970**	**142621**	**133872**	**152470**	**138961**

Annexure V

(referred to in para 4.1)

Statement of additional outgo of subsidy due to delayed fixation of Benchmark price for DAP (Nutrient P)

S. No.	Fertilizers	Quantity sold during 2011-12 (in MT)	Quantity of Phosphate* (P) (in MT)
1	2	3	4
1.	DAP (18-46-0-0)	9634024.82	4431651.41
2.	DAP Lite (16-44-0-0)	1129456.75	496960.97
3.	MAP (11-52-00)	112995.45	58757.63
4.	TSP (0-46-0-0)	84479.45	38860.55
5.	SSP	4814287.60	770286.01
NPK Group			
6.	16-20-0-13	314392.10	62878.42
7.	20-20-0-13	2931482.97	586296.60
8.	20-20-0-0	2710128.25	542025.65
9.	24-24-0-0	176203.10	42288.74
10.	28-28-0-0	283646.70	79421.08
11.	10-26-26-0	1711250.10	444925.03
12.	12-32-16-0	1252722.30	400871.14
13.	14-28-14-0	241542.20	67631.82
14.	14-35-14-0	321090.50	112381.68
15.	15-15-15-0	410969.70	61645.46
16.	15-15-15-0.2	30262.90	4539.43
17.	15-15-15-09	69829.55	10474.43
18.	16-16-16-0	46152.80	7384.45
19.	17-17-17-0	5422.00	921.74
20.	19-19-19-0	12101.55	2299.30
			8222505.54

Quantity of 'P' in P&K Fertilizers sold during 2011-12 (in MT)		8222505.54
Subsidy for 'P' based on rates fixed in May 2011 at the benchmark price of US$ 612 (₹ per MT)	32338	
Subsidy for 'P' if rates were fixed in November 2010 at the benchmark price of US$ 500 (₹ per MT)	25582**	
Differential subsidy (in ₹)	6756	
Subsidy avoidable	Quantity × 6756	₹5555.12 crore

* Quantity of phosphate calculated on the basis of per cent of phosphate in the fertilizer.

** Subsidy has been worked out on the basis of exchange rate of ₹46.06, custom duty at the rate of 5.15 per cent, London Interbank Offered Rate (LIBOR) for 105 days credit at the rate of 1.03 per cent, handling charges ₹729 per MT, dealer margin ₹275 per MT, return on capital ₹50 per MT and MRP of DAP at ₹9950 PMT.

Annexure VI

(referred to in para 4.5)

Difference in quantity of fertilizer supplies depicted in 'Initial Monthly Supply Plan' and 'Regularized Monthly Supply Plan'

(quantity in MT)

Name of the Company	Month	Name of the product	Name of the State	Plan as per DoF	Quantity regu-larized	Excess Quantity regu-larized	Reasons for excess supply
Deepak Fertilizers	Jun-12	NPK	Maharashtra	2000	10900	8900	Increased production of NPK
	Jun-12	NPK	Karnataka	0	800	800	Increased production of NPK
	Jun-12	NPK	Gujarat	0	800	800	Increased production of NPK
	Jun-12	NPK	Madhya Pradesh	0	500	500	Increased production of NPK
Rashtriya Chemical and Fertilizers	Jun-12	Imported MOP	Maharashtra	0	5400	5400	Not given
	Jun-12	Imported MOP	Andhra Pradesh	0	2700	2700	Not given
	Jun-12	Imported MOP	Karnataka	0	8100	8100	Not given
	Jun-12	Imported MOP	Tamil Nadu	0	5400	5400	Not given
	Jun-12	Imported MOP	Bihar	0	2700	2700	Not given
	Jun-12	Imported MOP	West Bengal	0	2700	2700	Not given
Coromandel International Limited	Jun-12	DAP indigenous	Andhra Pradesh	0	5000	5000	Increase in production
	Jun-12	DAP indigenous	Karnataka	0	2500	2500	Increase in production
	Jun-12	DAP indigenous	Maharashtra	0	5000	5000	Increase in production
	Jun-12	NPK indigenous	Maharashtra	0	10000	10000	Increase in production
	Jun-12	NPK indigenous	Madhya Pradesh	0	5000	5000	Increase in production
	Jun-12	NPK indigenous	Andhra Pradesh	55000	65800	10800	Increase in production
	Jun-12	MOP imported	Andhra Pradesh	0	3500	3500	Increase in production

Name of the Company	Month	Name of the product	Name of the State	Plan as per DoF	Quantity regu-larized	Excess Quantity regu-larized	Reasons for excess supply
	Jun-12	MOP imported	Tamil Nadu	0	2500	2500	Increase in production
	Jun-12	MOP imported	Karnataka	0	2500	2500	Increase in production
	Jun-12	MOP imported	West Bengal	0	2500	2500	Increase in production
Chambal Fertilizers and Chemical Ltd.	Jan-13	MOP imported	Gujarat	0	486	486	Left over stock at port
	Jan-13	DAP imported	Chhattisgarh	0	2716.35	2716.35	To complete the demand of Markfed
	Jan-13	DAP imported	Andhra Pradesh	0	311.95	311.95	To clear the stock at port
	Jan-13	DAP imported	Rajasthan	8000	13259.55	5259.55	Material sent to Rajasthan as the same was not allowed for other state
	Jan-13	DAP imported	Gujarat	1000	7520	6520	Material sent due to directional restriction. Material moved by Rail
Tata Chemicals Ltd.	Jan-13	DAP indigenous	Bihar	0	10982.20	10982.20	Not available
	Jan-13	NPK indigenous	Bihar	0	669.90	669.90	Receipt of 608 MT is against the last month transit & 62 MT is left over stock of NPK factory
MS Green Star	Jan-13	DAP imported	Madhya Pradesh	0	2646.60	2646.60	Original Plan was not submitted.
Paradeep Phosphates Ltd.	Jan-13	DAP indigenous	Chhatisgarh	2600	4019.40	1419.40	Residual stock was supplied
	Jan-13	DAP indigenous	Jharkhand	0	1046.80	1046.80	Residual stock was supplied
	Jan-13	DAP indigenous	Maharashtra	1200	2670.80	1470.80	Residual stock was supplied
	Jan-13	NPK indigenous	Andhra Pradesh	21800	33228.70	11428.70	Residual stock was supplied
	Jan-13	NPK indigenous	Jharkhand	0	655	655	Residual stock was supplied
	Jan-13	NPK indigenous	Maharashtra	4000	8197.80	4197.80	Residual stock was supplied
	Jan-13	DAP Lite imported	Chhattisgarh	0	2728.55	2728.55	Residual stock was supplied
	Jan-13	DAP Lite imported	Uttar Pradesh	2600	7718.85	5118.85	-do-
	Jan-13	MOP imported	Assam	0	2657.70	2657.70	Not available

Name of the Company	Month	Name of the product	Name of the State	Plan as per DoF	Quantity regu-larized	Excess Quantity regu-larized	Reasons for excess supply
Indian Potash Ltd.	Aug-11	MOP	Andhra Pradesh	0	500	500	Supply due to getting instructions from DoF/requirement by State Government/ Federation
	Aug-11	MOP	Gujarat	0	8000	8000	-do-
	Aug-11	MOP	Rajasthan	0	1500	1500	-do-
	Aug-11	DAP	Haryana	15000	19000	4000	Instruction from DoF / requirement by State Government
	Aug-11	DAP	Gujarat	0	4000	4000	-do-
	Aug-11	DAP	Jammu and Kashmir	0	4000	4000	-do-
	Aug-11	DAP	Kerala	0	2700	2700	-do-
	Aug-11	DAP	Orissa	0	500	500	-do-
	Aug-11	DAP	Punjab	50000	65000	15000	-do-
	Aug-11	MAP	Gujarat	0	4000	4000	-do-
	Aug-11	MAP	Maharashtra	0	4000	4000	-do-
	Aug-11	MAP	Punjab	0	3500	3500	-do-
	Aug-11	DAP Lite	Bihar	0	3000	3000	-do-
	Aug-11	DAP Lite	Jharkhand	0	3000	3000	-do-
	Aug-11	DAP Lite	Madhya Pradesh	0	3000	3000	-do-
	Aug-11	DAP Lite	Chhattisgarh	0	8000	8000	-do-
	August 2011	DAP Lite	Andhra Pradesh	0	12000	12000	-do-
Shriram Fertilizers and Chemicals	Jul-12	DAP imported	Rajasthan	0	2700	2700	Not given
	Jul-12	DAP imported	Punjab	0	2700	2700	Not given
	Jul-12	DAP imported	Haryana	0	2700	2700	Not given
	Jul-12	DAP imported	Madhya Pradesh	0	5400	5400	Not given
	Jul-12	DAP imported	Gujarat	0	1500	1500	Not given
	Jul-12	DAP imported	Maharashtra	0	2700	2700	Not given
	Jul-12	DAP imported	Uttaranchal	0	5100	5100	Not given
Tata Chemicals Ltd.	Jul-12	DAP imported	Bihar	0	13250	13250	A vessel of imported DAP of 31198 MT reached on 16.7.2012
	Jul-12	DAP imported	Jharkhand	0	2650	2650	-do-
	July 2012	DAP imported	West Bengal	0	10600	10600	-do-

Name of the Company	Month	Name of the product	Name of the State	Plan as per DoF	Quantity regu-larized	Excess Quantity regu-larized	Reasons for excess supply
Indian Potash Ltd.	May-12	MOP	Andhra Pradesh	20000	32000	12000	State Government requirement
	May-12	DAP	J & K	0	2700	2700	-do-
	May 2012	DAP	Uttar Pradesh	0	2700	2700	-do-
Tata Chemical Ltd.	Apr-12	DAP imported	Uttar Pradesh	0	12000	12000	Planned/Allocated 106600MT against requirement of 60000 MT
Coromandel International Limited	Apr-12	MOP	Karnataka	0	2500	2500	MOP stock of 6200 tonnes was available at Kakinada port on 09.04.2012
	Apr-12	MOP	West Bengal	0	2500	2500	-do-
	Apr-12	MOP	Andhra Pradesh	0	1200	1200	-do-
Green star Fertilizer s Ltd.	Apr-12	DAP Imported	Punjab	Not issued	3900	3900	DAP vessel of 37000 MTs excepted to arrive on 21.04.2012
Nagarjuna fertilizers and chemicals limited	Sep-12	MOP imported	Andhra Pradesh	0	15716.30	15716.30	Dispatch and left over stock of August 2012 has taken place in September 2012
	Sep-12	MOP imported	Karnataka	0	3805.80	3805.80	-do-
	Sep-12	MOP imported	Orissa	0	3767	3767	-do-
	Sep-12	MOP imported	West Bengal	0	2514	2514	-do-
Zuari Holding Ltd.	Sep-12	DAP Indigenous	Andhra Pradesh	0	743	743	Left over stock at rake point at the end of August 2012
	Sep-12	DAP Indigenous	Karnataka	0	355	355	-do-
	Sep-12	DAP Indigenous	Tamil Nadu	0	630	630	-do-
	Sep-12	DAP Indigenous	Kerala	0	590	590	-do-
Tata Chemical Ltd.	Oct-12	DAP Indigenous	Bihar	0	481.45	481.45	Receipt was against the supply plan of September 2012
	Oct-12	DAP Indigenous	Jharkhand	0	1004.15	1004.15	-do-

Name of the Company	Month	Name of the product	Name of the State	Plan as per DoF	Quantity regu-larized	Excess Quantity regu-larized	Reasons for excess supply
Tata Chemical Ltd.	Oct-12	DAP Imported	Bihar	0	13225.65	13225.65	Supply made against the supply plan of Sep 2012
	Oct-12	DAP Imported	West Bengal	0	5383.50	5383.50	-do-
	Oct-12	NPK Indigenous	Jharkhand	2650	3595.15	945.15	To maintain the rake quantity
	Oct-12	NPK Indigenous	Assam	500	1262.20	762.20	-do-
	Oct-12	MOP Imported	Assam	0	2572.20	2572.20	Supply made against the supply plan of September 2012
Chambal Fertilizers and Chemicals Ltd.	Oct-12	MOP Imported	Madhya Pradesh	0	202.95	202.95	This movement was in part rake with DAP
	Oct-12	MOP Imported	J&K	0	252.40	252.40	-do-
	Oct-12	MOP Imported	Uttaranchal	0	117.50	117.50	-do-
	Oct-12	DAP Imported	J&K	4000	7042.05	3042.05	State Government requirement
Indogulf Fertilizer	Oct-12	DAP Imported	Uttar Pradesh	0	13181	13181	Not given
	Oct-12	DAP Imported	Bihar	0	10874.80	10874.80	Not given
	Oct-12	DAP Imported	West Bengal	0	8621.80	8621.80	Not given
	Oct-12	DAP Imported	Jharkhand	0	2138.40	2138.40	Not given
	Oct-12	DAP Lite Imported	Uttar Pradesh	0	36485.60	36485.60	Not given
	Oct-12	DAP Lite Imported	Bihar	0	9707.60	9707.60	Not given
	Oct-12	DAP Lite Imported	West Bengal	0	3929.60	3929.60	Not given
	Oct-12	DAP Lite Imported	Jharkhand	0	517.40	517.40	Not given
Chambal Fertilizers and Chemicals Ltd.	Dec-12	MOP imported	J&K	0	562.05	562.05	This movement was in part rake with DAP
	Dec-12	MOP imported	Maharashtra	0	316.25	316.25	Receipt of transit rake of November 2012
	Dec-12	DAP imported	Madhya Pradesh	15000	18016.75	3016.75	Transit rake of November received in December 2012
	Dec-12	DAP imported	Maharashtra	0	1567.20	1567.20	-do-

Name of the Company	Month	Name of the product	Name of the State	Plan as per DoF	Quantity regu-larized	Excess Quantity regu-larized	Reasons for excess supply
IFFCO	Dec-12	Complex (NPK) Indigenous	Chhattisgarh	0	2727	2727	Demand from member co-operative societies, HL rake quantities and availability of stock in transit
	Dec-12	Complex (NPK) Indigenous	Himachal Pradesh	0	2665	2665	Direction received from DoF
	Dec-12	Complex (NPK) Indigenous	West Bengal	8000	15731	7731	Demand from member co-operative societies, HL rake quantities and availability of stock in transit
	Dec-12	Complex (NPK) Indigenous	Tamil Nadu	0	5294	5294	Direction received from DoF
	Dec-12	DAP Indigenous	Haryana	11000	24370	13370	Demand for Co-operative Society
	Dec-12	DAP Indigenous	Rajasthan	14000	20320	6320	-do-
	Dec-12	DAP Indigenous	Tamil Nadu	0	2567	2567	-do-
Tata Chemical Ltd.	Dec-12	NPK Indigenous	Bihar	2100	6545.25	4445.25	Due to extra production of Fertilizers
	Dec-12	NPK Indigenous	West Bengal	11340	20406.20	9066.20	-do-
Agrigold Organics Pvt. Ltd.	Nov-12	NPK	Andhra Pradesh	0	3400	3400	Supply plan was received late in the month of November 2012
	Nov-12	NPK	Karnataka	0	3500	3500	-do-
	Nov-12	NPK	Tamil Nadu	0	9000	9000	-do-
	Nov-12	DAP imported	Tamil Nadu	0	1000	1000	-do-
	Nov-12	DAP imported	Jharkhand	0	1000	1000	-do-
	Nov-12	DAP imported	Bihar	0	6000	6000	-do-
	Nov-12	DAP imported	Chhattisgarh	0	1100	1100	-do
	Nov-12	DAP imported	Uttar Pradesh	0	7500	7500	-do-
HPM chemicals and Fertilizers Ltd.	Nov-12	DAP Imported	Uttar Pradesh	Nil	15000	15000	Due to delay in shipment during the month of October 2012
	Nov-12	DAP Imported	Punjab	Nil	15000	15000	-do-
	Nov-12	DAP Imported	Haryana	Nil	5000	5000	-do-

Glossary

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Nitrogenous Fertilizer	Fertilizer primarily having nitrogen nutrient.
Phosphatic fertilizers	Fertilizer primarily having phosphorus nutrient.
Potassic fertilizers	Fertilizer primarily having potash nutrient.
Nutrient	Nutrients are the constituents of fertilizers which plants utilize to grow.
Farm gate price	The price (including tax) at which fertilizer is available to the end user i.e. Farmers.
Preferred ratio	The scientifically prescribed ratio of nutrient which ensures soil health and balanced fertilization.
Agricultural Productivity	The ratio of agricultural outputs to agricultural inputs.
Installed capacity	The production that can be obtained by optimal utilization of facilities of the installation.
Complex fertilizer	The fertilizer containing nitrogen, phosphorus and potash nutrient.
Benchmark price	The purchase price considered for fixation of subsidy rates.
Primary Movement	Movement by rail from the plant or the port to various rake points.
Secondary Movement	Movement by road from the nearest rake points to the block headquarters in the district.
Cheaper Domestic/APM gas	The indigenously produced gas which is available to fertilizer companies as per allocation by MoPNG.
Fertilizer Bonds	The bonds issued to fertilizer companies in lieu of cash reimbursement of subsidy.
Mopping up of Subsidy	The recovery of excess amount of subsidy on closing stock of fertilizer when subsidy is reduced.
Open General License	A type of import license issued by the Government to its domestic importer.
Monthly Supply Plan	The plan based on requirement projected by DAC in consultation with State Government. The plan is issued by DoF to fertilizer companies on or before 25th of each preceding month.

Abbreviations

Abbreviations

S. No.	Abbreviation	Detail
1.	APM	Administered Pricing Mechanism
2.	CFCL	Chambal Fertilizers and Chemicals Ltd
3.	C&AG	Comptroller and Auditor General of India
4.	CFR	Cost and freight
5.	CCEA	Cabinet Committee on Economic Affairs
6.	CoS	Committee of Secretaries
7.	CPSE	Central Public Sector Enterprise
8.	DAP	Di-Ammonium Phosphate
9.	DoF	Department of Fertilizers
10.	DAC	Department of Agriculture and Cooperation
11.	DOE	Department of Expenditure
12.	DARE	Department of Agricultural Research and Education
13.	DFCL	Deepak Fertilizers and Petrochemicals Corporation Ltd
14.	EGOM	Empowered Group of Ministers
15.	FAI	The Fertilizer Association of India
16.	FMS	Fertilizer Monitoring System
17.	FCO	Fertilizer Control Order
18.	FQCL	Fertilizer Quality Control Laboratories
19.	FACT	Fertilizers And Chemicals Travancore Ltd
20.	GoI	Government of India
21.	GoM	Group of Ministers
22.	GSFC	Gujarat State Fertilizers and Chemicals Ltd
23.	GNFC	Gujarat Narmada Valley Fertilizers Company Ltd
24.	IPL	Indian Potash Limited
25.	IFFCO	Indian Farmers Fertilizers Co-operative Ltd
26.	IMC	Inter Ministerial Committee
27.	ICAR	Indian Council for Agricultural Research
28.	LIBOR	London Interbank Offered Rate
29.	LMT	Lakh Metric Tonne
30.	MOP	Muriate of Potash

31.	MAP	Mono-Ammonium Phosphate
32.	MFL	Madras Fertilizers Limited
33.	MRP	Maximum Retail Price
34.	MPL	Mangalam Phosphate Limited
35.	MoPNG	Ministry of Petroleum and Natural Gas
36.	MTPA	Metric tonnes per annum
37.	NPMSH&F	National Project on Management of Soil Health and Fertility
38.	NFL	National Fertilizers Limited
39.	NBS	Nutrient Based Subsidy
40.	NPK	Nitrogen-Phosphorus-Potassium
41.	NPS	New Pricing Scheme
42.	PAC	Public Accounts Committee
43.	PMT	Per Metric Tonne
44.	RBI	Reserve Bank of India
45.	RCF	Rashtriya Chemicals and Fertilizers Ltd
46.	SSP	Single Super Phosphate
47.	TSP	Triple Super Phosphate
48.	UFS	Uniform Freight Subsidy
49.	UT	Union Territory