

Rationalisation of the functions, activities and structure of the Department of Fertilizers

Contents

	Page No.
1. Introduction:	1-3
2. Historical Evolution Of Ministry Of C & F.....	3
3. Functions	3-4
4. Existing Structure	4-5
Public Sector Undertakings	5
Multi-state Cooperative Societies	5
5. Changing Scenario, Analysis And Comments:.....	6-7
6. Summary of Recommendations	8-9
Annexe 'A'	10
Sanctioned/Existing strength of Department of Fertilisers.....	10
Annexe 'B'	11
Sanctioned/Existing strength of FICC.....	11
Annexe-I	12-14
Extracts of ERC Report on Rationalising Fertiliser Subsidies	12
Annexe 'C'	15
Proposed Staffing of Department Of Fertilisers	15

Rationalisation of the functions, activities and structure of the Department of Fertilisers

1. Introduction:

1.1. Fertiliser is an important component in the strategy for increasing the production of food grains in the country. The fertiliser sector has, therefore, assumed a critical role in the economy, particularly in creating a prosperous rural base. The Green Revolution in the late sixties gave an impetus to the increased use of fertilisers. The eighties witnessed a significant addition to the production capacity of fertilisers in the country.

1.2. A substantial portion of the growing demand for fertilisers is met from indigenous production. There are 65 large sized fertiliser plants in the country, manufacturing a wide range of nitrogenous, phosphatic and complex fertilisers. Nine of the units produce ammonium sulphate as a by-product. There are about 79 medium and small-scale single superphosphate units. The nutrient-wise installed capacity of fertiliser (as on 1.12.2000) was 116.88 lakh MT of nitrogen (inclusive of an installed capacity of 205.45 lakh MT of urea) and 46.35 lakh MT of phosphate. The breakdown by sector is as under:

	(in lakh tonnes)	
	N	P
Public sector	37.54	8.27
Cooperative sector	26.48	5.19
Private sector	52.86	32.89
Total	116.88	46.35

1.3. The country is self-sufficient to the extent of 94% in the case of nitrogen (N). As for phosphatic fertilisers, owing to inadequate availability of domestic raw material, a policy-mix of three options has been adopted: (i) domestic production based on indigenous / imported rock phosphate and imported sulphur; (ii) domestic

production based on imported intermediates, viz. ammonia and phosphoric acid; and (iii) import of finished fertiliser, viz. di-ammonium phosphate (DAP) and rarely, mono-ammonium phosphate (MAP) and nitrogen phosphate potash (NPK). Domestic production accounts for about 66% of the requirement for phosphatic fertilisers. Since the indigenous rock phosphate supplies are sufficient only for 5–10% of the total requirement of phosphatic fertilisers, the indigenous production of these fertilisers is based essentially on imported raw materials and intermediates. The requirement of potassium fertilisers is entirely met through imports as there are no known commercially exploitable reserves of potash in the country.

1.4. With technological advancements and developments in the area of design engineering and execution of fertiliser projects, Indian consultancy organisations in the field of fertilisers have grown steadily and are now in a position to undertake execution of fertiliser projects from conceptualising to commissioning of fertiliser plants. They have now fully absorbed and assimilated the latest in fertiliser technology and are competent to operate and maintain the plants at their optimum levels without any foreign assistance. The performance of gas based plants in the country is amongst the best in the world. More than 70% of the equipment required for a major fertiliser plant is manufactured indigenously.

1.5. The sale prices of controlled fertilisers are fixed by the Department of Agriculture & Cooperation under the Fertiliser (Control) Order, 1985 issued under the Essential Commodities Act. The farm gate price of urea, the main nitrogenous fertiliser constituting about 56% of the total fertiliser consumption in the country, is amongst the lowest in the world and is highly subsidised. Under the Retention Price-cum-Subsidy Scheme (RPS), individual manufacturing units are paid subsidy to the extent of difference between the sale price and retention price (the cost of production as assessed by the government plus reasonable return on net worth). In addition to the retention price subsidy, equated freight subsidy is paid to manufacturers of controlled fertilisers to cover the cost of transportation from production points to consumption centres. Subsidy is also paid on imported

fertilisers to the extent of difference between the cost of imports and the statutorily fixed consumer price.

1.6. Government has also been giving a special concession on decontrolled fertilisers (including 'K' and 'P') in order to promote the balanced use of plant nutrients. Earlier, the scheme was being implemented by the Department of Agriculture and Cooperation. Now, with effect from 1.10.2000, the scheme has been transferred to the Department of Fertilisers.

2. Historical Evolution Of Ministry Of C & F.

2.1. The evolution of the Ministry of C & F dates back to 1958 when fertiliser as a section existed in the then Ministry of Production, and chemicals as a section in the then Ministry of Commerce & Industry.

2.2. The Ministry of C & F with its two departments namely (i) Department of Chemicals and (ii) Department of Fertilisers, was constituted for the first time in 1976 when the then Ministry of Petroleum and Chemicals was bifurcated into two independent ministries viz. Ministry of Petroleum and the Ministry of Chemicals & Fertilisers. However, it underwent further changes - bifurcations and mergers, and finally emerged in its present form in July 1991, when the Department of Chemicals & Petrochemicals from the Ministry of Petroleum & Chemicals, and the Department of Fertilisers from the Ministry of Agriculture, were brought together to reconstitute the Ministry of C & F.

3. Functions

3.1. The main activities of the Department of Fertilisers include promotion and development of the fertiliser industry, planning and monitoring of production, import and distribution of fertilisers and management of subsidy for indigenous and imported fertilisers. A list of subjects allocated to the Department of Fertilisers under the Allocation of Business Rules is given below:

1. Planning for fertiliser production including import of fertiliser through a designated canalising agency.

2. Allocation and supply linkages for movement and distribution of urea in terms of assessment made by the Department of Agriculture & Cooperation.
3. Administration of Concession Scheme and management of subsidy for controlled as well as decontrolled fertilisers including determination of retention price for urea, quantum of concessions for decontrolled fertilisers and costing of such fertilisers.
4. Administration of the Fertilisers (Movement Control) Order, 1973.
5. Administrative responsibility for public enterprises under the control of the department.
6. Public sector projects concerned with the subjects included under this department except such projects as are specifically allotted to any other ministry or department.
7. Administrative responsibility for fertiliser production units in the cooperative sector namely, Indian Farmers Fertiliser Cooperative Limited (IFFCO) and Krishak Bharati Cooperative Limited (KRIBHCO).
8. Administrative responsibility for the Indian Potash Limited (IPL).
9. All attached and subordinate offices or other organisations concerned with any of the subjects specified under this department.

4. Existing Structure

4.1. The Department of Fertilisers has a Secretary and three Joint Secretaries – JS (Fertilisers), JS (Admn. & Movement) and JS&FA. Against the total sanctioned strength of 272, it has 269 officers and staff in position. This excludes the officers and staff posted with the Minister of Chemicals and Fertilisers and the Minister of State (C&F). Detailed information about the manpower strength of the department is given in **Annexe – ‘A’**.

4.2. The department has an attached office – Fertiliser Industry Coordination Committee (FICC), headed by the Executive Director who is of the rank of Joint Secretary. FICC deals with the fixation/revision of retention price, equated freights

and subsidy calculation to enable determination and distribution of the quantum of subsidies in respect of indigenously produced fertilisers. The staff strength of FICC is shown in **Annexe 'B'**.

4.3. There are nine public sector undertakings (PSUs) and two multi-state cooperative societies under the administrative control of the Department of Fertilisers. These are listed below:

Public Sector Undertakings

1. Fertilisers and Chemicals Travancore Limited (FACT)
2. Fertiliser Corporation of India Limited (FCI)
3. Hindustan Fertiliser Corporation Limited (HFCL)
4. Madras Fertilisers Limited (MFL)
5. National Fertilisers Limited (NFL)
6. Projects & Development India Limited (PDIL)
7. Pyrites, Phosphates & Chemicals Limited (PPCL)
8. Paradeep Phosphates Limited (PPL), and
9. Rashtriya Chemicals & Fertilisers Limited (RCF)

Multi-state Cooperative Societies

1. Indian Farmers Fertiliser Cooperative Limited (IFFCO)
2. Krishak Bharati Cooperative Limited (KRIBHCO)

While four PSUs namely RCF, FACT, MFL and NFL and the two multi-state cooperative societies (IFFCO and KRIBHCO) have generally been making profits, two PSUs — HFCL and FCI— have been incurring losses right from their inception, mainly due to design and equipment deficiencies and excess manpower. PPL has also shown profits in 1999-2000. The Board for Industrial and Financial Reconstruction (BIFR) declared HFCL, FCI, PPCL and PDIL as sick companies.

5. Changing Scenario, Analysis And Comments:

5.1. In examining the scope for restructuring the functions and activities of this department, the following three developments, all of recent origin, merit serious attention. The first is the extent of deregulation that has taken place in the last ten years. Under the liberalised Industrial Policy of 1991, the fertiliser industry was de-licensed. Import of capital goods for fertiliser plants was also liberalised and put on OGL.

5.2. The second is the quest for rationalising fertiliser subsidies. The ERC has already recommended a phased programme (relevant extracts are given in **Annexe-I**), which over four stages would lead to total abolition of subsidies on nitrogen (N). As the price of nitrogenous fertilisers is progressively increased, those of phosphates (P) and potassic (K) fertilisers are to be increased in tandem, so as to maintain the desired N: P: K ratio. The movement away from unit wise to group retention price and doing away with distribution control in the first phase will itself result in considerable reduction of work load in fertiliser subsidy management, while at stage four, this work will get eliminated altogether.

5.3. The third development is the decision to bring down government equity in the public sector fertilisers companies to below 51%. Out of the nine PSUs under this department, NFL, MFL and PPL are already under disinvestment. RCF and FACT are also slated for disinvestment and the Cabinet Committee has deferred to next year a decision in the matter. FCI, HFCL, PPCL and PDIL are sick units and are to be processed for closure.

5.4. These three developments not only point to a drastic reduction in the range and scope of this department and consequently in its staff strength, but also put a question mark on the need for a separate department to discharge the evolving role in this sector. ***The Department of Fertilisers may be merged with the Department of Chemicals and Petrochemicals to have an integrated Department of Chemicals and Fertilisers. This would result in the post of Secretary (Fertilisers) becoming redundant. The post of Secretary (Fertilisers) can, therefore, be abolished.***

5.5. ***The processing of all matters relating to fertiliser subsidy, including administration of subsidy on imported fertilisers could be vested in the FICC. The second scrutiny in these matters in the ministry should be avoided by introducing a single file system, with the ED, FICC, to be made an ex officio Joint Secretary in the department, submitting files directly to the Secretary, through the FA wherever necessary.*** The Joint Advisor (Technical) as also the Section Officer heading FPP II Section along with the staff in the section could be transferred to FICC, in view of the additional work-load that will devolve on FICC under the proposed arrangement. ***All other posts, including that of Joint Secretary (Fertiliser) in the department, for dealing exclusively with matters relating to fertiliser subsidy needs to be abolished.*** Items of work other than fertiliser subsidy, now handled by JS (Fertilisers) could be transferred to JS (A&M), to be re-designated as Joint Secretary (Planning & Administration). JS (A&M) can be assisted by two officers at the level of Director/Deputy Secretary, one for dealing with matters relating to the existing public sector undertakings and corporations, and the other for dealing with general issues like planning, production, etc. relating to the industry as a whole. Considering the reduction in the staff strength as now recommended in both departments (Chemicals and Petrochemicals and Fertilisers) all aspects of general administration, like house keeping functions, establishment matters, Hindi work, parliamentary matters etc. could be handled in the integrated Department of Chemicals, Petrochemicals and Fertilisers by the officials sanctioned for such purpose in the Department of Chemicals and Petrochemicals. It is with this arrangement in view that no reduction had been recommended in the staff strength, of the Administrative Division of the Department of Chemicals and Petrochemicals notwithstanding reduction suggested in other wings of the department. Thus, in the integrated department there will be only one administration division, headed by a Director/DS, even as the present practice of having only one JS&FA for rendering financial advice for both wings will be continued.

5.6. ***The posts of AIA, Dir (M&E), Dy. Adviser (Ferts), Sr.PPS, DD (OL) and RO could also be surrendered. Both posts of Asst. Commissioner (dealing with Shipping & Movement), two out of three posts of Director/Deputy***

Directors of Accounts and two out of five posts of AD (Shipping)/AD(Movement)/AD(Fert. Movement) can also be abolished. The subordinate level posts in the department may also be reduced correspondingly after an intensive review of the revised workload.

6. Summary of Recommendations

6.1. The Department of Fertilisers may be merged with the Department of Chemicals & Petrochemicals to have an integrated Department of Chemicals and Fertilisers. The post of Secretary (Fertilisers) would thus get abolished.

6.2. The processing of all matters relating to fertiliser subsidy including administration of subsidy on imported fertilisers, grant of concessions on decontrolled fertilisers, may be vested in the FICC.

6.3. ED, FICC may be conferred ex officio status of Joint Secretary in the department for submitting files directly to the Secretary through the FA, wherever necessary.

6.4. Joint Adviser (Tech) and Section Officer along with the staff in FPP II Section dealing with subsidy matters be transferred to FICC. The post of JS (Fertilisers) and all other posts dealing exclusively with matters relating to fertiliser subsidy need to be abolished.

6.5. The posts of AIA, Director (M&E), Dy. Adviser (Fertilizer), Sr. PPS, DD (OL) and RO are recommended for abolition. Both posts of Asst. Commissioner (dealing with shipping and movement), two out of three posts of Director/Deputy Directors of Accounts and two out of five posts of AD(Shipping)/AD(Movement)/AD(Fert. Movement) may also be abolished.

6.6. The practice of taking persons from the PSUs for working in the Department on informal basis should be discontinued and all such persons should be repatriated to their respective PSUs forthwith.

6.7. Following the merger of the Department of Fertilisers with the Department of Chemicals & Petrochemicals, the integrated Department will have common support

facilities for Administration, Establishment, Vigilance, Parliament and Hindi work, house-keeping functions etc., resulting in reduction in the staff strength deployed for these functions.

6.8. A statement showing posts to be retained/abolished is appended at **Annexe- 'C'**. The subordinate level posts in the department may also be reduced correspondingly after an intensive review of the revised workload.

Annexe 'A'

Sanctioned/Existing strength of Department of Fertilisers

	Sanctioned	Existing	Vacant
Group A	38	39	-1
Secretary - 1 Jt. Advisor - 1 Jt. Commissioner - 1 Joint Secy. - 3 AIA - 1 Dir. (M) - 1 Dir. (M&E) - 1 Director - 3 DC (POP) - 1 DS - 1 DS (<i>in situ</i>) - 2 Dy. Advisor - 1 PPS - 1 AC(M) - 1 AC (Shipping) - 1 Dy. MEO - 1 DD(Accts) - 2 DD(OL) - 1 Dev. Officer - 1 Dir. of Acctts. - 1 US - 6 (including 4 <i>in situ</i>) PPS - 2 RO - 1 Sr. AD of Acctts - 1 AD(M) - 1 AD(Shipping) -1			
Group 'B' (including PS-9; ADs (Fert. Movement)-3; AD (Accounts) - 4, AD(OL) -1, SOs/DOs-13; PAs-14; Asstt./Desk Attaches-31; Accountants -12, Sr.Invr.-1 STA(Procurement)-1, Research Asstt. (O&M) - 1	90	83	7
Group 'C'	93	85	8
Group 'D'	51	48	3
Total	272	255	17

Annexe 'B'**Sanctioned/Existing strength of FICC**

	Sanctioned	Existing	Vacant
Group 'A' ED – 1 Jt. Dir.-5 Dy. Dir.-2	8	8	
Group 'B' AD (Admn.)-1 PS – 1 AOs – 3 Asstts. – 1 PAs (Gr.C) – 4	10	10	
Group 'C'	16	14	2
Group 'D'	9	8	1

Annexe-I

Extracts of ERC Report on Rationalising Fertiliser Subsidies

x x x

x x x

x x x

11. 'In the circumstances, the Commission recommends the dismantling of the control system in a phased manner, leading, at the commencement of fourth stage, to a decontrolled fertiliser industry which can compete with import albeit with a small level of protection and a feedstock cost differential compensation to naphtha/LNG based units to ensure self-sufficiency. The scheme envisaged is in the spirit of the recommendations of the HPRC. The transition however has to be gradual.

12. The transition begins with the discontinuation of the RPS with effect from February 1, 2001, and introduction of a group-wise concession scheme. The number of groups is reduced from five to two by April 1, 2006. At this stage all units except those that are based on naphtha/LNG would be viable at a price of about Rs,.7000 per tonne of urea. For Naphtha/LNG based units a Feedstock Differential Cost Reimbursement (FDCR) of Rs.1900 per tonne of urea will be given. The details of the various stages are as follows:

(i) In the first phase beginning February 1, 2001, the following will be done:

(a) The existing units will be grouped into 5 categories – pre-1992 gas based units, post 1992 gas based units, naphtha based units, FO/LSHS based units and mixed feedstock units. The individual retention price scheme will be scrapped and in its place a Urea Concession Scheme with a fixed amount of concession for each of these groups will be introduced. At the same time, plants would be free to get feed stock from wherever they want including imports.

(b) The distribution control mechanism will be done away with.

- (c) The maximum retail price arrangement will be continued, the concessions for each group being so calibrated as to enable the units to sell at the stipulated maximum retail price.
- (d) Having regard to the large fluctuations in the import prices of feedstocks, it will be necessary to redetermine the concession to these groups of units every three months with reference to the prevailing import prices. When there is a reduction in the import parity prices of these feedstocks, the concession payable to the units would go down. It may be noted that this, however, is done only group wise and not plant wise. Whenever there is an increase in the import parity prices of these feedstocks, the additional costs should be passed on to the consumers through a suitable increase in the maximum retail price so that the total amount payable by way of concessions does not go up significantly. The revision in issue price to farmers however, should be done every season rather than every three months.
- (ii) In the second stage beginning 1st April, 2002, the concessions are reduced to reflect the possibility of reasonable improvement in feedstock usage efficiencies and reduction in capital related charges.
- (iii) The third phase will begin on 1st April 2005 and reflects the feasibility of all non gas based plants to modernize and switch over to LNG. For plants which do not switch over to LNG as feedstock only the level of concession that the unit would have been entitled to if it had switched over to LNG would be allowed.
- (iv) The fourth phase begins on 1.4.2005 when the industry is decontrolled. The commission recommends a 7% increase in the price of urea in real terms every year from 1.4.2001. This way the open market price will reach Rs.6903 by 1.4.2006, a level at which the industry can be freed from all controls and be required to compete with imports, with variable levy ensuring availability of

such imports at the farm gate at Rs.7000 per tonne of urea. While no concessions will be necessary from this date onwards for gas based, FO/LSHS and Mixed feedstock plants, existing naphtha plants converting to LNG as also new plants and substantial additions to existing plants will be entitled to a feedstock differential with that for LNG plants serving as a ceiling.

x x x

x x x

x x x

15. The farm-gate prices of Nitrogenous, Phosphatic and Potassic Fertilisers should be set to promote a desired balance of fertiliser use. In the circumstances the ERC will only suggest that once urea price is re-determined every six months, the prices of Potassic and Phosphatic Fertilisers should be suitably adjusted, as advised by the Ministry of Agriculture to ensure the desired NPK balance. It will be useful if government could announce in advance the formula to be adopted for fixing the prices of P & K Fertilisers with reference to a given urea price.”

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xxx

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Annexe 'C'

Proposed Staffing of Department Of Fertilisers

	Sanctioned	Actual	To be retained	To be abolished	Remark
Secretary	1	1	-	1	
Jt. Secretary	3	3	2	1	
Director/DS	3+1+2	2+2+2	2	4	
Jt. Adviser (F)	1	1	-	-	To be trfd.to FICC
Jt. Commr. (FSD)	1	1	1	-	
Addl. I.A.	1	1	-	1	
Dir. (Mov.)	1	1	1	-	
Director (M&E)	1	1	-	1	
Dy.Comnr. (POP)	1	1	1	-	
Dy. Adviser (F)	1	-	-	1	
Sr. PPS	1	1	-	1	
A.C. (Mov.)	1	1	-	1	
A.C. (Shipping)	1	1	-	1	
Dy. M&EO	1	1	1	-	
Dy. Dir. of A/c	2	2	1	2	
Dir. Acs.	1	1			
Dev. Officer (Fert)	1	1	1	-	
D.D.(OL)	1	1	-	1	
U.S.	6	8	4	2	
PPS	2	2	1	1	
RO	1	1	-	1	
Sr. AD (A/cs)	1	1	-	1	
AD (Mov)	1	1			
AD (Shipping)	1	1	3	2	
AD (F. Mov.)	3	3			
AD (OL)	1	1	1	-	
AD (A/cs)	4	2	2	2	
SO/DO	13	9	7	5	One SO(FPP-II) to be trfd. to FICC
Total	59	56	28	29	