

Shri R. C. Gupta

No.12012/19/2007-FPP  
Government of India  
Ministry of Chemicals & Fertilizers  
Department of Fertilizers

DDG

FAI

Shastri Bhawan, New Delhi.  
Dated the 10<sup>th</sup> July, 2009

To

The Executive Director  
Fertilizer Industry Coordination Committee,  
8<sup>th</sup> Floor, Sewa Bhavan,  
R.K. Puram,  
New Delhi.

**Subject: Policy for Stage-III of New Pricing Scheme for Urea  
Manufacture Units – Amendments thereof.**

I am directed to refer to this Department's letter No.12012/3/2006-FPP dated 8<sup>th</sup> March, 2007, vide which the salient features of Stage-III of New Pricing Scheme introduced with effect from 1.10.2006 were communicated. It has been further decided to implement the Stage-III of NPS with certain amendments as contained in the subsequent paragraphs.

- (i) The capacity utilization of post-1992 Naphtha based Group Average will be considered as 95% instead of 98% for calculating the base concession rates of urea units, provided no cost towards conversion is recognized under NPS-III.
- (ii) The reduction in fixed cost of each urea unit strictly due to Group Averaging principle under NPS-III will be restricted to 10% of the Normated Fixed Cost computed under the base concession rates. The above amendment will be effective with effect from 1<sup>st</sup> April, 2009 only.
- (iii) The detailed parameters for Buffer-Stocking Scheme of urea will be as per the provisions detailed at Annexure-I.

Yours faithfully,



(Deepak Singhal)  
Joint Secretary (Fertilizers)  
Tel: 23381294

Encl: as above

Annexure- IBuffer Stocking Scheme for Urea

## INTRODUCTION

1. The CCEA in its meeting held on 1<sup>st</sup> February, 2007 while approving NPS Stage III for urea has authorized the Department of Fertilizers to operate a buffer stock of urea corresponding to 5% of the seasonal requirement.

## OBJECTIVE

2. The Buffer Stocking of Urea is required keeping in view the following objectives:-

- (i) To maintain stocks of Urea in case there is either a shortfall in production due to disruption in supplies of feedstock or delay/disruption in imports.
- (ii) To tide-over the sudden spurt in demand/shortages in any part of the country.

## SCHEME

3. Buffer stock would be positioned in the major agricultural states with the minimum stock being operated at 50,000 tonnes in each state. Major agriculture states requiring buffer stock will be identified at the beginning of each cropping season.

4. The buffer stocks would be operated through the Lead Fertilizer Suppliers (LFS) for these States as decided by the Department. The following states will have buffer stock of urea:-

State
Punjab
Haryana
Rajasthan
UP
MP
AP
Maharashtra
Gujarat
Bihar
West Bengal
Karnataka
Tamil Nadu
Orissa

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5. Urea for buffer stocking purposes will be allocated by the Department of Fertilizers under the Essential Commodities Act. The LFS will hold quantities of Urea under the buffer stock in their warehouses at designated locations as approved by DOF from time to time. Urea will be released from the buffer stock for sale by the LFS as per the directions of the DOF in consultation with the State government. The locations of buffer stocking warehouses and the quantities could be changed as per the instructions of DOF.

6. For the purposes of payment of subsidy, the buffer stock warehouses will be treated as primary stock points and subsidy will be paid on the urea stocked as buffer once it reaches the buffer stock warehouse at the designated location.

7. The company operating the buffer stock will be entitled to Inventory Carrying Cost at a rate 1 percentage point less than the Prime Landing Rate (PLR) of the State Bank of India as notified from time to time. This rate would be applicable at Rs. 4650 per MT (MRP less than the dealer's margin i.e. Rs.4830 – Rs. 180) for the quantity and the duration for which the stock is carried as buffer. In case of cooperatives, it will be at Rs.4630 per MT as dealers' margin in this case is Rs.200 per MT.

8. The Company will also be paid warehousing and insurance charges at the rate of Rs.23 per tonne per month on the quantity carried as buffer.

9. Since the material will be moved in two stages i.e. from the plant to the buffer stocking point and then on to consumption points, additional handling charges at the rate of Rs. 30 per MT will be paid to the Fertilizer Company on the quantity sold from the buffer stock.

10. In addition, freight from the buffer stocking warehouse to the block in case of movement outside the district in which buffer stocking godown is located, will also be paid to the company, in accordance with the provisions under the Uniform Policy for freight subsidy announced by the Government with effect from 1<sup>st</sup> April, 2008.

11. The Fertilizer companies will be required to submit fortnightly reports to the Department of Fertilizers indicating the quantities of the buffer stock available at each location. The same will also be monitored through the on-line 'Fertilizer Monitoring System'. Appropriate entries will also be made in the Fertilizer Monitoring System by the company operating the buffer.

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12. No Inventory Carrying Cost or warehousing and insurance charges would be payable to the LFS on stocks held in excess of the quantities agreed upon for different period and zones.

13. No other charges other than the above will be paid to the company for operating the buffer stock. The company will be responsible for safe storage of the urea as well as for ensuring its quality standards as per FCO norms. Company will be permitted to rotate the stock in the buffer stocking point by simultaneously drawing down the stock for normal sale and replenishing the stock by equal quantity. However, it will be the responsibility of the company to ensure that at no point the stock in the buffer is less than the stipulated level.

14. The LFS will maintain separate accounts of stock, purchases and sales for the quantities held under buffer stocking scheme.

15. Buffer stock will be operated in each State by the LFS concerned at the level prescribed by the DOF. This stock will be scaled down in the lean months of February-April as decided by the DOF and built-up and maintained at peak levels in the remaining months of each year.

16. Lead Fertilizer Suppliers will draw from the buffer stock as per requirement on the directions of the Department of Fertilizers in consultation with the State Governments. Quantity sold from the buffer stock will be reoccupied not later than the 7<sup>th</sup> of the month subsequent to the month in which such sale is made.

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1/17