Frank Notes

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Unlocking Potential of Fertiliser Sector

Fertiliser industry is one of the most capital intensive industries including steel, refineries, hydropower plants. These industries were planned immediately after independence and formed part of successive Five Year Plans. Government of India, as part of planned economy, decided on the raw materials, products, location and technologies for fertiliser plants. The first large fertiliser plant was commissioned in 1951 at Sindri to produce ammonium sulphate. The second plant was commissioned only a decade later at Nangal in 1961 to produce ammonium nitrate using hydro power from Bhakhra Dam. The industry witnessed a spurt in growth after advent and use of high yielding variety of seeds and became part of the green revolution in the country.

There were large number of plants commissioned in 1960s and 1970s in public, private and cooperative sectors. These were based on a variety of feedstock like naphtha, fuel oil, natural gas and coal. Public sector accounted for major production capacity in this phase of development of the sector. With advancement in technology and availability of natural gas in offshore fields of Western India, a string of large single stream plants were commissioned in 1980s and 1990s. Hazira-Vijaipur-Jagdishpur pipeline, infact, was planned and laid to supply gas to fertiliser plants to be located in fertiliser consuming areas of the country.

With conducive policy environment, fertiliser production capacity reached 14.8 million tonne nutrients in the year 2000 with 58 big and about 80 small and medium scale plants. India became the third largest producer of fertiliser in the world and self-sufficient in production of urea. In addition to fulfilling the increasing demand of fertilisers and generating employment in the country, the industry helped to build indigenous capabilities in design, engineering and fabrication of large static and rotating equipments. Fertiliser industry made a significant contribution in development of companies like PDIL, BHEL, L&T, BPCL, BHPV and host of others. Indian engineering industry became very capable and competitive internationally. This is one reason that capital cost of large fertiliser projects is the lowest in India. Industry has also developed a network of vendors for providing spares and services to running plants in most cost effective and timely manner.

In the process of expansion of fertiliser production capacity in the three decades of 1960s to 1990s, the industry also helped to develop a large base of trained technical manpower. Engineers and technicians from fertiliser industry not only migrated to large Indian chemical, refinery and petrochemical industries but also to all other countries in Middle East and South East Asia. Though, the manpower capabilities have been depleted in last decade or so due to lack of growth in the sector, still the sector has one of the best technical manpower in the world.

Simultaneous to the growth and development of production capabilities, industry also embarked upon the task of providing advisory services to the farmers by way of field demonstrations, crop seminars and soil testing facilities. All major fertiliser companies have extension departments with large number of agricultural graduates. Fertiliser sales network has penetrated every corner of the country. Such a network by itself is a big asset for reaching a variety of products and services including financial products and services to the farmers.

Fertiliser industry imports very large quantities of raw materials like rock phosphate, sulphur, muriate of potash, phosphoric acid and ammonia. It helped to develop port handling facilities to handle both liquid and solid cargo. In fact, some fertiliser companies have their jetties and handle the shipments on their own. Industry

also built large number of facilities for warehousing of fertilisers in various part of the country. Fertiliser companies store, transport and distribute about 55 million tonnes of fertiliser products in every nook and corner of the country. A large infrastructure for handling, transportation, storage, distribution and sale of fertilisers has been built over the years throughout the country.

Indian fertiliser industry and related industries are capable of constructing, commissioning, operating and producing fertilisers at the highest level of efficiency and at most competitive prices. The industry is also capable of reaching the fertilisers in sufficient quantities in every part of the country. Only, if the potential of the industry is tapped, India can be self-sufficient in production of fertilisers. In addition, industry can provide appropriate farm solutions to the farmers through various advisory services. Given the infrastructure at its command, industry can make other quality inputs like pesticides, seeds, speciality fertilisers, etc., available to the farmers.

Inspite of such strengths and capabilities of industry in production, imports and delivery chain and services, it is not able to use these fully for the benefit of Indian farmers and Indian agriculture. The policy environment for fertiliser sector started deteriorating in 1990s. Government went on tinkering with policy parameters with only objective of saving subsidy. These changes did not make any dent on subsidy because the basic reasons for rise in subsidy were not addressed. But

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industry suffered both due to unfavourable changes in policy and micro- management of the industry. With the result, the sector became unattractive for investment. There have been no new fertiliser plants since the year 2000. Due to stagnant capacity and production and rising demand of fertilisers, India has become heavily dependent on imports.

Industry continues to be highly regulated and is suffering from outdated policies, complex payment procedures and lack of good governance. Major part of cost of production or import has to be realized from the government as fertiliser and freight subsidy. In case of urea the subsidy constitutes more than 75% of cost of production due to artificially low controlled retail price. At the same time successive governments have failed to provide enough funds for fertiliser subsidy in Union Budget year after year. This has drained the financial resources of fertiliser companies as interest cost have climbed multifold in last five years.

The administration of subsidy is so complicated that industry has to raise bills under more than 20 different heads. The compliance with newer and newer procedure has become extremely difficult. Even when funds are available, the procedures have been complied with and bills are raised, the payments are withheld on one pretext or the other. With the result, the legitimate dues of the industry remain unpaid for years together. Industry spends lot of time and efforts in recognition of legitimate costs and payments. This is one sector where government should pay attention to governance and raising the level of "ease of doing business".

Fertiliser industry played a stellar role in Green Revolution of 1960s. It can play similar or even bigger role in bringing Second Green Revolution. The future growth of agriculture should come through more efficient utilization of inputs like water and plant nutrients. The higher water and nutrient use efficiency will ensure a sustainable development of agriculture for years to come.

Reforms in fertiliser sector are necessary in the interest of soil health, food security, sustainability of agriculture and elimination of rural poverty. Let the industry operate and carry out business in free and competitive environment and realize its potential to contribute to the health and growth of Indian agriculture. The industry can devote its resources to bring innovative products and services to the farmers. It is in this context that FAI Annual Seminar 2015 is devoted to the theme 'Unlocking Potential of Fertiliser Sector'. In all, 18 presentations will be made in four Working Sessions in the areas of Pricing Policy, Technology, Agriculture and Marketing during December 2-4, 2015.■