Frank Notes

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Fertiliser Sector Needs Strong Dose of Reforms

More than 1200 delegates from industry in India and abroad, government, international organisations, research institutes and universities gathered for the 51st FAI Annual Seminar last month. Eminent speakers from the areas of economic policies, production technologies, soil science, nutrient management, extension and logistics presented their views in the three day deliberations. The deliberations took stock of present situation, identified issues and showed way forward in fertiliser sector.

Government's view was that it has taken several initiatives to address some of the serious issues plaguing the sector. The most important and laudable initiative was to manufacture neem coated urea which can give higher use efficiency. However, the extent of improvement in use efficiency is not very certain especially if excess urea is used. The second step was to bring New Urea Policy (NUP) for next five years. But NUP is nothing but continuation of old policy. The only change effected was tightening of energy consumption norms for the industry without taking cognizance of capital investment made over last five years for energy saving projects, thus squeezing the bottom line of urea units. Government will save a few hundred crores out of total subsidy of Rs. 40,000 crore of urea subsidy.

Yet another initiative of pooling of gas price for urea plant is a step in right direction. But pooling of gas price by itself does not change anything for existing plants. It also does not affect the quantum of subsidy outgo for the government. But it can help to bring reforms in the sector. Government does not seem to be inclined to take any further steps in this direction to address the issues of imbalanced use of primary nutrients, ever increasing subsidy burden and non-payment of subsidy dues on time.

On polices related to P&K fertilisers, government has refused to move a step forward to simplify the Nutrient Based Subsidy (NBS) Scheme. Having taken a decision at cabinet level it has refrained to implement the decision to merge freight with product subsidy. This could have simplified the scheme and the payment procedure.

Further, government took up certain other changes in policies and procedures related to payment of industry dues on several accounts. The payment of balance (residual) subsidy (5% of urea and 5-10% for P&K fertilisers) has been pending since November 2012. Government got the approval of cabinet for change in procedure of these payments. However, the proposed change is so half-baked that it has not helped to address the issues completely. Hence, the payments accumulated to almost Rs. 10,000 crore remain held up in the files of the government. So is the case of reimbursement of marketing margin on supply of gas from KG-D6 where only 5% of total dues of about Rs. 640 crore have been released after along wait of almost seven years.

These developments do not reflect very well on the governance in the sector. In fact, government is the largest litigator and respondent to litigation due to ambiguity in policies and procedures. There is need for due diligence in formulation of new policies and procedures so that these do not give rise to multiple interpretations. Government should then also follow its own rules in true spirit. This will save lot of time and financial resources of government, judiciary and industry.

The result of all the initiatives of the government in last few months is that industry remains a net loser. The problem is compounded due to inadequate budget provisions for fertiliser subsidy. There has been no move on part of the government to liquidate at least part of arrears. This has led to an unprecedented backlog of Rs. 40,000 crore owed to the industry.

The speakers in the Seminar felt that government is only tinkering with polices here and there which can save few hundred crore of subsidy by squeezing the industry margins without addressing the root cause of increasing subsidy burden of the government. The present pricing and subsidy policies are hurting the agriculture, industry and even public exchequer. This has rendered the fertiliser sector unattractive for investment leading to almost stagnant production. This in turn has increased dependence on import in view of increasing demand of fertilisers. India is the second largest importer of fertilisers in the world. The ever increasing dependence on imports of India does not augur well for fertiliser and food security of the nation. This itself should be cause of worry to the government.

The only silver lining in the three day discussion was industry's excellent performance with respect to energy and raw material efficiencies and high safety and environment standards. It is a matter of satisfaction that industry is applauded by different regulators for its world class performance. However, the industry can achieve much more in terms of production volumes provided it is unshackled from a plethora of complex controls at every step of operation.

The sense of the discussion was that government is shying away from major reforms which have become so urgent to salvage the deteriorating situation. The speakers advocated for immediate correction in the retail price of urea vis-à-vis other fertilisers in order to promote balanced use of primary nutrients. Government should also extend more support for use of secondary and micronutrients. Organic fertilisers like city compost and farm yard manure also need encouragement for complete nourishment of soil and sustainable agriculture.

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Support and equal treatment to all nutrients-inorganic and organic will ensure the soil health. Healthy soils will support the intensive agriculture for higher productivity and profitability of farmers.

Issues affecting the agriculture and fertiliser sectors adversely are well discussed and acknowledged by the government. The first step for the government is to liquidate the subsidy arrears even in 2-3 instalments with specified time table. Second, government should correct urea retail price with or without bringing urea under NBS. However, bringing urea under NBS will prepare the ground for direct benefit transfer (DBT) to farmers. Third, there has to be some order in the complexity of payment procedures. Industry is prepared to provide its inputs and even ready to resolve issues through discussion which are even pending in the courts.

It has been recognised that there is need for Second Green Revolution to provide nutritional security to 1.25 billion population which is likely to exceed that of China by 2030. It is also well recognized that resource use efficiency in agriculture has to be increased. Additional growth has to come with lower resource intensity. Nutrient management for agriculture is the single most important determinant in increasing productivity and efficient utilization of natural resources. The industry needs to be freed from stifling controls in order to respond to the changing situation by way of providing farmers right mix of products along with farm advisory services. This will lead to efficient use of resources and profitable agriculture in the country.

It requires a change in mindset and political will to bring requisite changes in fertiliser policies. We owe it to ourselves and future generations that we resort to sustainable agriculture and do not spend natural resources in wasteful manner. Change is urgent for food security, increasing farmer's income, rural employment and most of all inclusive growth.

The present issue of *Indian Journal of Fertilisers* includes resume of all the sessions, speeches delivered during inaugural and valedictory functions and salient conclusions and recommendations derived from the deliberations of the Seminar. The content of this issue should be of interest to the policy makers and to all those concerned with health and growth of fertiliser and agriculture sectors. ■