Fertiliser Sector during 2014-15

The year 2014-15 ended leaving behind a mixed scenario of progress, setback and challenges in fertiliser sector. While analyzing the developments in the year passed, the first in order comes the performance of monsoon which is crucial for fertiliser use and agricultural production. After receiving exceedingly good pre-monsoon shower, the rainfall during South west monsoon 2014 was poor in major part of the country. Overall rainfall during 1st June to 30th September, 2014 was 12 per cent below Long Period Average (LPA). Good pre-monsoon rainfall and adequate water availability in reservoirs in early June 2014 facilitated fertiliser use for sowing of crops. However, poor rainfall during June-August 2014 affected fertiliser use adversely in rainfed areas. In irrigated areas, underground water was reported to have been extensively used during the period in absence of adequate precipitation. With good rainfall received in September, 2014 followed by adequate moisture availability in soil, the growth in consumption of fertiliser nutrients marked upward trend in Rabi 2014-15. All-India consumption of total fertiliser nutrients ($N+P_2O_5+K_2O$) increased at a modest rate of 4.6% in 2014-15 after experiencing negative growth in preceding three years. Total nutrient consumption increased from a total of 24.48 million metric tonne (MMT) during 2013-14 to 25.62 MMT during 2014-15.

Increase in fertiliser consumption was aided by overall comfortable availability of fertilisers in the inventory coupled with nominal increase in production from indigenous sources and high imports. Total production of fertiliser nutrients ($N+P_2O_5$) showed a marginal growth of 1% in 2014-15 over 2013-14. Product-wise analysis indicates except NP/NPKs, there was fall in production of other major fertilisers, such as, urea, DAP and SSP. Production of urea, DAP and SSP declined by 0.6%, 5% and 0.6%, respectively during 2014-15 over 2013-14. Conversely, NP/NPKs marked an increase of 12.7% during the period. Against overall nominal increase in domestic production of fertiliser nutrients, imports of fertilisers recorded sharp increase during the period. Import of urea increased by 23.4%, DAP by 17% and MOP by 31.4% during 2014-15 over 2013-14.

The year was marked by loss of production of urea in number of plants. Two urea plants suffered production losses due to non-availability of sufficient quantity of gas. This in turn, was due to pipeline problems. Three naphtha based plants (ready to use gas) were shut down for part of the year in absence of pricing and subsidy policy for these plants. A number of plants limited the production to reassessed capacity due to non-viability of extra production under the prevailing policy. Production in one of the complex fertiliser plants suffered due to sudden stoppage of supply of domestic gas.

Availability of gas from indigenous sources continued to remain significantly lower than the requirement of about 42.4 MMSCMD. Government imposed a cap of 31.5 MMSCMD on supply of domestic gas to fertiliser plants. There was continuous reduction in supply of APM gas during the year. The supply of gas from KG-D6 continued to be short by almost 15% of allocated quantity. A number of recently converted plants continued to be 100% dependent on imported LNG. Share of LNG was high at 36% in total supply of gas to the fertiliser plants. Government notified a policy recently for pooling of gas price for urea plants. This will ensure the same cost of gas to all urea plants irrespective of source of supply. This will provide a level playing field to all urea plants as far as cost of feedstock is concerned. However, several technical issues are yet to be worked out. Its successful implementation will depend on the coordination between GAIL and FICC.

Capacity utilization of phosphatic plants remained low at 61.6% due to various factors including competition from imports, non-payment of subsidy dues, uncertainties in policy and payment procedures, etc. In addition there were incidences of forced shut down of some plants for short periods due to technical problems.

The industry continued to suffer due to inadequate budget allocations with large amount of unpaid subsidy dues carried forward from one year to the next. The year 2014-15 started with previous year's backlog of Rs.35000 crores. The allocation of Rs.72,970 crores in the General Budget was grossly inadequate. Allocated funds for urea subsidy got exhausted with the 'on-account' monthly payment for July 2014 and part payment for August, 2014. The allocated amount for P & K fertilisers also got exhausted with the payment for the period October / November 2014. The

payment for the rest of the period remained pending. In addition, balance monthly payment of 5% in the case of urea and 10-15% in the case of P&K fertilisers remained held up since November, 2012 due to procedural delays. Similarly, differential freight bills remained pending from the year 2008-09. As a result, the year ended with unpaid subsidy bills of about Rs.35,000 - 40,000 crore which has to be paid from the allocation for the year 2015-16. The unpaid subsidy bills are carried forward from one year to the next due to inadequacy of budget provisions. This creates severe liquidity problem for the industry besides increasing working capital requirements and the interest cost. Such interest costs are neither recognised as cost in the subsidy and pricing policy nor are being reimbursed to the fertiliser companies. This severely impacts the viability of fertiliser business crippling industry's capacity to ensure uninterrupted supply of fertiliser to Indian farmers.

There were some developments on the policy front. These *inter-alia* include notification of Modified NPS III policy, New Urea Policy – 2015 for existing urea units, pooling of gas prices, amendment to New Investment Policy 2012. While the objectives behind policies may be well meaning, their implementation, quite often, creates enormous hardship to the industry. For instance, Modified NPS-III Policy allowed additional fixed cost of Rs. 350 per tonne or actual increase in 4 items (salaries & wages, contract labour, repair and maintenance and selling expenses) of conversion cost in 2012-13 over 2002-03 whichever is lower, based on certified cost data. Minimum fixed cost of Rs.2300 per tonne or actual fixed cost in 2012-13 whichever is lower based on certified cost data. Special compensation of Rs. 150 per tonne to gas based urea plants which are more than 30 years old. The policy was applicable for one year. But, no payments were made even after lapse of one year.

{ There is need for implementation of policies in true spirit. }

Secondly, companies are suffering financial loss due to issues relating to implementation of pooling of gas costs for urea sector. As per the guidelines, after completion of a month, the Pool Operator (GAIL) should prepare debit and credit notes latest by 15th of succeeding month and forward the same to the individual fertiliser plants and FICC by 16th of the succeeding month. The individual fertiliser plants should deposit the amount against the debit note in the Pool Fund Account within 4 working days of receipt of debit note and the pool operator shall release the payment to the fertiliser plants against the credit notes by 23rd of succeeding month. But GAIL has so far not issued the debit and credit notes for the month of June and July, 2015.

Thirdly, there are issues relating to release of balance payment of fertiliser subsidy after modification in the procedure with the introduction of mFMS. The procedure is impractical and cumbersome. The retailers are not under direct control of the Industry. There are problems of infrastructure, literacy amongst the retailers, etc. in rural areas. There are unique issues related to State Marketing Federations in view of their vast retail network. There is also an issue of reconciliation of quantities in mFMS and FMS. The seamless transfer of data from mFMS to FMS is not taking place to assess acknowledgements and stocks.

There is need for implementation of policies in true spirit.

With regard to prospects for 2015-16, it is difficult to predict conclusively about the fertiliser use due to erratic behaviour of monsoon. Information regarding rainfall received upto 19th August 2015 shows a deficit of 9% compared to long period average (LPA). Out of a total of 36 meteorological sub-divisions, 22 sub-divisions received excess/ normal rainfall and remaining 14 sub-divisions received deficient rainfall during 1st June to 19th August, 2015. Water level in 91 major reservoirs in the country was 87.09 BCM as against 100.36 BCM on the corresponding date in the previous year. Current year's storage is 87% of the last year's level and 96% of the normal storage.

As per the *Crop Weather Watch Group Report* of the Ministry of Agriculture, the crop coverage upto 14th August 2015 of current Kharif was 89.08 million hectares which was 84.2% of the normal sown area for whole kharif season. Area sown under rice was 77%, coarse cereals 80%, pulses 90%, oilseeds 88%, sugarcane 101%, cotton 95% and jute & mesta 89% of the normal area during the period.

Sale of urea, DAP and NP/NPKs increased by 9.4%, 56.3% and 20.6%, respectively, during April-July, 2015 over the corresponding period of the previous year. However, the sale of MOP (for direct application) declined by 7.4% during the period. Overall sales of fertilisers are likely to improve during the remaining period of the Kharif 2015.

Keeping in view better sales in Kharif 2015 and assuming close to normal water storage in the reservoirs at the beginning of Rabi 2015-16, overall consumption of fertiliser nutrients during the full year 2015-16 is expected to improve over the previous year's level.

The current issue of Indian Journal of Fertilisers covers *Annual Review of Fertiliser Production and Consumption* 2014-15 which presents elaborately the review of fertiliser and agriculture situation in India during 2014-15 and a brief outlook for 2015-16. ■