Frank Notes

Satish Chander

Viability of Indigenous Fertilizer Production

Fertilizer industry is considered part of eight core industries. But more important is the fact that it provides plant nutrients to agriculture without which agriculture productivity will go down drastically. Therefore, fertilizers are classified as essential commodity. It has always been concern of the government to make fertilizers available to farmers in time and at right price all around the year. Because of such a linkage of fertilizer industry with agriculture, it remains highly regulated. A plethora of acts, regulations, policies and procedures regulate every step of its operation. There is no parallel of fertilizer sector in Indian economy as far as controls are concerned. Industry collects more than 50% of its revenue from the government. It has been performing onerous task of reaching fertilizer subsidy to more than 120 million farmers for last 40 years with no cost to the government.

Realizing early the importance of domestic production of fertilizers, government formulated policies in 1970s to incentivize investment in new plants and maximize production from operating plants. This helped to build a world class large production base of fertilizers in the country and raise the level of self-sufficiency to acceptable levels. Gradually, as it happens with any controlled commodity, government was unable to raise retail prices of fertilizers to keep pace with inflation. With the result, subsidy which used to be 10-20% of cost of production in 1970s has reached a level of 75% for urea. Due to this widening gap between cost of production and retail price and also due to manifold increase in consumption, fertilizer subsidy increased geometrically. Government, instead of addressing the real cause behind ballooning subsidy, started squeezing industry in respect of cost parameters. This saved some subsidy but it hardly made any dent in total subsidy budget which touched almost one lakh crore in certain years. Such an approach rendered operation of many fertilizer units unviable and made the sector unattractive for further investment. There was no new fertilizer plant between 2000 and 2017.

The consumption of urea was 30.3 million tonnes compared to domestic production of 24 million tonnes in 2017-18. The shortfall between consumption and domestic production is met through imports. Government of India decided to encourage investment in new plants and invited both private and public sector companies. This was a strategic decision for self-sufficiency in spite of the fact that the cost of production from new plants will be substantially higher than imports. Under the new investment policy, government has committed itself to reimburse the cost of production from new plants subject to certain conditions. Three new plants have already come up and will start production soon and four others are under implementation. This will add about 9 million tonnes to present urea production. Investment in new plants and import of sufficient quantity of urea is part of the strategy to ensure fertilizer security of second largest fertilizer consuming country in the world irrespective of the cost to exchequer. The cost of imported urea has gone up by almost $100 per tonne during last one year. But it is imported on government account to ensure its availability in every nook and corner of the country.

Domestic industry has been constantly supplying urea at prices lower than imported price over the years. Industry has been making continuous investment in technology upgradation. Fertilizer plants operate continuously under severe temperature, pressure and chemical conditions. It is to the credit of the industry that it has maintained the highest level of safety and efficiency with least impact on environment. But, government has dealt with domestic industry with a heavy hand. It continued to decline payment of

an increase of only few dollars in fixed cost for more than four years. There has been no move to revise the fixed beyond 2008-09 up to which an increase of Rs. 350/MT was notified but not paid. It also mopped energy efficiency improvements four times since 2004. This has driven a number of urea units into red. Other units are operating at wafer thin margins. Existing units rightly feel aggrieved and discriminated.

Partially decontrolled of phosphatic and potassic (P&K) fertilizers segment is not able to operate to its full capacity. One of the reasons has been adverse fiscal policies. This segment of industry is heavily dependent on import of raw materials. The customs duty on major inputs and finished products is at the same level of 5%. Unlike urea, where imports are canalized, import of P&K fertilizers are free. GST regime has aggravated the problem with high rate of GST on some of the raw materials. Further, subsidy on fertilizers which is 30-35% on these products is out of GST regime. This has given rise to high input tax credit and thus increasing the working capital requirement.

A hefty increase in prices of raw materials and depreciation of Indian currency has pushed up the cost of P&K fertilizers during last one year. Industry has to pass the major part of increase in cost to farmers through higher MRP. This has further distorted the price ratio of urea vis-a-vis P&K fertilizers. The retail price of DAP is now five times of that of urea which should be less than two times. This is suppressing the demand of P&K fertilizers and may create further imbalance in use of three primary nutrients nitrogen, phosphorus and potassium. This in turn leads to less than optimum crop yields and affects the income of farmers. All the above factors are unfavorable to the domestic P&K industry resulting in low capacity utilization.

There is a need for comprehensive review of urea policy which needs major reform and liberalization in the interest of Indian agriculture, fiscal prudence and viability of indigenous production.

Introduction of DBT has created its own set of problems. Disbursal of subsidy is now possible only when sales are made through Point of Sale (POS) machine and details of transaction are recorded correctly. Given several problems faced in smooth functioning of the system, industry is unable to generate bills for subsidy all the time. Further, DBT has delayed in payment of subsidy by 3-6 months than earlier system, increasing working capital requirement. There is no provision in urea policy to recover additional cost of working capital.

Industry's wish list is very fair and realistic. As long as there are stiff controls, government should recognize legitimate increase in fixed cost for urea units. It should also allow for higher working capital requirement than provided in present policy. The present energy consumption norms for some units are effective from 2018 and others from 2020. Government has proposed and setup an Expert Committee to consider energy consumption norm beyond 2025. Consideration of energy consumption norms in isolation is not justified. There is a need for comprehensive review of urea policy which needs major reform and liberalization in the interest of Indian agriculture, fiscal prudence and viability of indigenous production.

In case of P&K fertilizers, industry expects a reasonable and fair taxation regime which provides level playing field to domestic industry. The highly distorted inter-nutrient prices should be a matter of serious concern to the government. There are remedies available to balance the prices of three primary nutrients to promote their prudent use. However, there is need of will to do so. Corrective measures are required urgently in the interest of soil health, crop productivity and farmers' income.

The viable and vibrant domestic industry is in the public interest. This year's Annual Seminar with the theme 'Making Fertilizer Industry Viable and Vibrant' will provide an opportunity to debate and discuss the issues faced both by industry and agriculture. Eminent economists, scientists and policy makers will present their ideas and participate in the discussion. This will lead to a set of recommendations for increasing the viability of both Indian agriculture and domestic fertilizer industry. ■