Frank Notes

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No Ease of Doing Business in Fertiliser Sector

The present government has been trying hard to give push to various sectors of economy to maintain GDP growth trajectory in the vicinity of 8% and generate employment. The issues related to infrastructure, policies and governance are being addressed with a sense of urgency. Several initiatives have been taken to further the objectives of 'Make in India' and enhancing 'ease of doing business'. The latest initiative of 'startup India' was launched by the Hon'ble Prime Minister to provide an ecosystem to encourage entrepreneurship. The announcement of tariff policy for the power sector is the latest addition to such initiatives.

All these initiatives need to be lauded because these demonstrate the desire of the government to translate innovative thinking of Hon'ble Prime Minister into action. But the government should also spare a thought for the existing manufacturing sector. The overall average growth rate of manufacturing sector during April-November, 2015 has been 3.9% which is hardly commendable. While we encourage startup of new industries and businesses, the present manufacturing facilities should also be producing to their full potential.

Manufacture of fertilisers is a case in point where there is hardly any initiative for reforms. Domestic production of fertilisers has been lagging for last 15 years widening the gap between demand and production. India imported 18 million tonnes of products to meet the demand of 55 million tonnes in 2014-15. Reasons for this state of affairs in the sector are very obvious and tell perhaps the worst story of governance. Industry continues to operate at sub-optimal levels under highly regulated environment. The policies and regulations governing the sector are archaic and have not kept pace with the changing economic environment. If at all, there has been change in policies and the procedures for the worse.

India has world class fertiliser industry with capacity to produce 50 million tonnes of products which can be easily expanded to meet the entire domestic demand and that too at very competitive prices vis-à-vis imports. However, the total production in 2014-15 was only 38 million tonnes. Government seems to be content with small increase in production in current year. One has to reflect as to why India is importing more and more fertilisers and many a times at higher price at the expense of domestic production and even at the expense of public exchequer. The cost of imported urea has been higher than weighted average cost of domestic urea for last 10 years. India imported 8.7 million tonnes urea comprising close to 30% of consumption in 2014-15.

The reasons for such a state of affairs do not require any detailed analysis. There are numerous restrictions on production and reimbursement of cost of production of urea. Urea manufacturers have to raise bills under 20 different heads and payments are delayed for months and years. On the other hand, exporters of urea to India are paid lumpsum in advance. Such discrimination does not bode well for the theme of 'Make in India'.

Second important issue is the formulation of policies related to the sector. After deliberation of more than 6 years, the present government brought new urea policy which only tightened the energy consumption norms without recognizing the increase in cost related to additional capital investment and other conversion costs. Government has also been dithering in payment of an increase of Rs. 350 per tonne in fixed cost inspite of approval by the Cabinet and notification in April 2014. While government debates for years for sanctioning and reimbursing \$5-10 per tonne urea additional fixed cost to domestic manufacturers, no questions are raised for paying higher prices for imported urea year after year.

The pricing policy for phosphatic and potassic fertilisers was liberalized in 2010 with fixed subsidy and market determined retail prices. Unlike urea, import of these fertilisers is free with same level of subsidy on imported as well as indigenous products. However, the domestic industry is at a disadvantage vis-à-vis imports with same level of subsidy on raw materials and finished products. The pleading of the industry for reduction in duty on raw materials with the government for last four years has not yielded any results.

The distorted structure of retail prices of urea versus other fertiliser is leading to imbalanced use of plant nutrients and affecting the soil health adversely. Government is incurring large expenditure as fertiliser subsidy without achieving the objective of increasing farm productivity and farmers' income. It is not only waste of precious natural resources but has also created conditions for adverse impact on environment.

The third issue relates to procedures which are meant to micromanage the day to day affairs of the industry. Some of these procedures have been brought in last 2-3 years. Compliance of these procedures is an uphill task and results in sheer harassment of industry. Even when all the procedures are complied with by the industry, payments are with held on some flimsy grounds. The decisions which have to be taken on day to day basis are held up for weeks and months or not taken at all hampering flow of funds to the industry.

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Industry, exasperated by stand and attitude of the government has sought legal redressal in several cases. Here also government adopts dilatory tactics to delay the judicial process. Still worse, government fails to comply with court orders for more than a year inspite of court expressing unhappiness for noncompliance. This again does not bode well for the theme of 'Ease of Doing Business' in the country.

The fourth critical factor affecting the industry is insufficient provision for fertiliser subsidy in Union Budget resulting ever increasing arrear exceeding almost Rs. 50,000 crores in January, 2016. Government controls the retail price of urea which at present is only 25% of cost of production or imports. Having forced the industry to sell at one-fourth of its cost, government does not meet its obligation of paying the balance 75% in reasonable time. This is hampering the operation of industry so much that one can say that government is taking away the right to do business in the country.

The present situation is not sustainable. Status quo in the sector is pushing industry to sickness and outgo of higher price to foreign suppliers at the expense of public exchequer. A number of business houses are trying to exit from the sector with no takers. Most of all, it will finally lead to a situation that availability of fertilisers to the farmers will be threatened due to over dependence on imports. Industry has the potential to increase production by at least 25% and provide better advisory services to the farmers.

Therefore, there is need for a dynamic leadership in the fertiliser sector which can bring out the sector from the present morass and expedite the decisions on desirable changes in policies and procedures and more importantly to ensure implementation of these decisions. ■