Frank Notes

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Self-Reliance in Fertilizer Production

Fertilizer continues to be a critical input for agriculture throughout the world. India continues to be the second largest consumer of fertilizer in the world. Given the vast size, different geographic terrains and limitations in infrastructure, ensuring availability of fertilizers to all farmers in every part of the country is always a challenge. Even more important is the fact that farmers have limited storage capacity and buy fertilizers when it is required for immediate application. Therefore, timely availability of fertilizers is crucial for application during sowing and at various stages of growth of crop.

India remains the largest importer of raw materials and fertilizer products in the world. Indian imports influence the market price trends for most fertilizer commodities. Therefore, any large dependence on import of a particular raw material or finished product pushes up the prices for such a commodity. This, alongwith some cartels operating for fertilizer commodities, makes India extremely vulnerable. In such a scenario, it is very essential that the country has a high level of self-sufficiency in fertilizer production even with imported raw materials. Domestic industry, in spite of several constraints, has done an excellent job and has repeatedly saved the country from vagaries of international markets. Domestic industry has also been performing an import function on behalf of the government and that is reaching fertilizer subsidy to every farmer in the country for last forty years.

Government of India has moved swiftly in last four years to bring new urea plants after a long gap of 17 years. There are 6 urea plants with combined capacity of more than 8 million tonnes which have either been commissioned or are scheduled to be commissioned by 2020-21. This will bring total urea production in the country to more than 32 million tonnes. This level of urea production will be more than enough to meet the total urea demand in the year 2021.

This paints a very reassuring picture as far as self-sufficiency in production of urea is concerned. But this entire scenario is contingent upon the continued production of urea from existing plants at present level. There is some doubt here, given the policy environment and treatment meted out to existing units. The issues involved have been discussed and debated and solutions are not far to seek. The urea sector needs reforms to allow urea plants to operate in a competitive environment free from stifling controls. Reforms have to be carried out at two levels, one at the level of fertilizer producer and another at the level of farmers. At the level of producers, immediate reform could be a flat subsidy on per tonne of urea to manufacturers. To start with urea units can be divided into few groups depending on the size and vintage of plants. This is possible now due to pooling of gas price which has ensured same price of gas to all urea units. This will simplify the pricing policy implementation to a very large extent. Ultimate objective of reforms in the sector has to be total decontrol but ensuring availability of domestic gas for fertilizer production.

At farmers level the present DBT scheme should be taken to its logical conclusion that is, transferring the subsidy directly to the account of farmers.

Till the controls continue, there should be realistic norms of energy consumption and government should recognize the legitimate elements of cost of production under urea pricing policy.

While self-sufficiency in urea production is a desirable objective, there is need for more prudent use of urea as part of total nutrient management in Indian agriculture. This will need intensification of extension work to educate the farmers about

appropriate application of farm nutrients. Even more important, this requires rationalization of retail prices of various fertilizer products. Farmers behave like any other consumer and tend to buy more of cheap urea than other more expensive products containing other primary, secondary and micronutrients. Therefore, both farmers' education and policy correction are required to move towards prudent use of expensive inputs. This is in the interest of soil health, farmers' income and preservation of environment.

In case of phosphatic and potassic (P&K) fertilizers which are also called complex fertilizers, India has production capacity sufficient to meet the entire demand of the country. However, capacity utilization of 19 plants in the country remains poor. There are several reasons for the same. This segment of industry is heavily dependent on imported inputs. The interplay of prices of raw materials, intermediates and finished products is manipulated by few dominant players in the world to the disadvantage of India. This has to some extent been contained by putting up several joint venture projects for production of major intermediate phosphoric acid in resource rich countries.

The second important reason for poor performance of P&K fertilizer plants is the taxation regime for the sector. There is same level of import duty both for inputs like ammonia and phosphoric acid and finished products. In principle, there should be higher import duty on finished products to neutralize the cost disadvantage of domestic

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units and thus encouraging value addition within the country. Further a number of inputs attract higher rate of GST of 18% compared to 5% on finished fertilizers. Such an inverted tax structure gives rise to large input tax credit and refund comes after several months creating the problem of working capital and higher interest cost. These issues render domestic production uncompetitive vis-a-vis imports.

In addition to value addition within the country and support 'Make in India', domestic production needs encouragement due to the fact that it can produce and supply a variety of products to suit the local agro-climatic conditions. This helps in increasing crop yields and farmers' income. Such a variety of products is not available in the international market.

Unfortunately, industry has been punished for its own success. In spite of producing fertilizers at cost lower than imported products, reaching subsidy to the farmers for last 40 years and ensuring availability of fertilizers in every nook and corners of the country, industry is being deprived of reimbursement of its costs. Whatever is reimbursed is also being done in such a manner that it requires continuous efforts to realize the dues and there are delays all the time and hence again reforms are need of the hour.

Policy reforms in fertilizer sector are also necessary for another good reason. Controls by nature hinder innovation. All the industries operating in free economic environment are innovating, expanding and growing at brisk pace. Unshackled fertilizer industry can also bring about innovation in technology, products and services. This will benefit Indian agriculture, farmers and the nation. Higher growth in agriculture with better economic return will also reduce agrarian crises.

To sum up, fertilizer industry remains vital to agriculture productivity but operates under most controlled regime. There is need for a slew of reforms in the sector in the interest of Indian agriculture and domestic production. These and other important issues of the fertilizer sector were discussed and debated in the 3-day FAI Annual Seminar 2018. The present issue of Indian Journal of Fertilisers carries the important conclusions and recommendations, resume of all presentations and transcript of speeches during inaugural and valedictory functions.

We hope that recommendations emerging out of the Seminar will be useful for all those concerned with agriculture and fertilizer sectors and especially those involved in policy making for these sectors. ■