Frank Notes

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Reforms in Indian Fertilizer Sector

Indian fertilizer sector has come a long way since major policy initiatives for this sector were taken in the decade of 1970s. It has fully supported Indian agriculture catapulting the country from a situation of ship to mouth to achieving food security for its burgeoning population. Today India is not only food secured country, but it is also a food surplus country and a leading producer and exporter of a number of agricultural produces like rice, sugar, paddy, fruits and vegetables, spices, and many other commodities.

The country has established a world class domestic fertilizer industry. Some of our Indian fertilizer plants have won international awards for their sustainable performance with respect to safety and environmental standards. India has emerged as the second largest consumer and the third largest producer of fertilizers in the world with annual consumption of 60 million tonnes of fertilizer materials and production of about 43 million tonnes per annum. India is also the largest importer with annual import of more than 18 million tonnes of fertilizers and about 14 million tonnes of raw materials. Thus, India occupies a very prominent position in the global fertilizer market.

Performance of Indian agriculture even during COVID-19 pandemic has been commendable with cumulative growth of 3.4% during April-October, 2020 while overall manufacturing and services sectors registered negative growth resulting in the GDP growth to minus 14.9% during the same period. Following the trend in agriculture, Indian fertilizer sector also registered growth of 4.1% during April-October, 2020 over the same period of previous year. What is interesting is that among 8 core sector industries, fertilizer is the only sector registering positive growth with the remaining seven core sectors registering negative growth. Performance of Indian fertilizer and agriculture sectors during the remaining part of the year is also projected to be impressive providing support to the overall economy.

In spite of success of both agriculture and fertilizer sectors during pandemic, there is need for reforms in both sectors to address the problem of deteriorating soil health, poor crop productivity and low income of farmers. Existing policies for fertilizers are promoting imbalanced use of plant nutrients. N, P K use ratio has got distorted from 4.7:2.0:1 in 2010-11 to 7.1:2.8:1 in 2019-20. There has been inadequate use of organic fertilizers and Indian soils are facing widespread deficiency of secondary and micronutrients. This has resulted in lower nutrient use efficiency, lower than optimum crop yields and lower farmers' income. This is also giving rise to environmental issues. Particularly, nitrogen pollution in Indian agriculture is a cause of concern.

Government of India is spending more than Rs.70,000 crore per annum on fertilizer subsidy. This massive support by Central government is meant to increase agriculture productivity and farmers' income. Fertilizer pricing and subsidy policies need to be recalibrated to use this support judiciously. It should encourage balanced and integrated use of farm nutrients through innovative and more efficient fertilizer products. Nutrient Based Subsidy (NBS) policy can help to achieve these objectives. Therefore, NBS needs to be expanded to take urea in its fold. Regulatory and legal framework for approval of new fertilizer products also need to be simplified to encourage development and use of more efficient fertilizer products by Indian farmers. Ultimate objective should be sale of label based fertilizer products albeit with appropriate safeguards.

The government at the Centre has already started carrying out reforms in Indian agriculture sector. It has also initiated the process of reforms in the fertilizer sector with constitution of five Working Groups headed by the Cabinet Ministers and Ministers of State of concerned ministries under the Chintan Shivir. These Working Groups have had detailed deliberations on issues of the sector like reforms in policy for urea, implementation of DBT in true sense, use of new and innovative products, reforms in legal framework, etc. Existing model of DBT has generated enormous data upto farmers' level and the same will be helpful in payment of subsidy directly to farmers. To start with, subsidy should be allowed universally

A consensus has been built up on bringing urea under NBS as first step in reforms in urea policy.

to all farmers, as is the case at present. There has been consensus during the deliberations of Working Groups for implementation of NBS policy for urea and payment of fertilizer subsidy directly to the bank accounts of farmers. These reforms in fertilizer sector will help to address many issues in agriculture sector.

There are also issues under existing policies which need immediate attention of the government. Government needs to remove certain distortions in existing policies to ensure that domestic production remains viable till contemplated reforms are implemented. The major issues for urea sector include policy for minimum fixed cost and amendment in energy consumption norms. Appropriate level of minimum fixed cost will not only ensure viability of 3 efficient low cost urea units with combined annual production of about 6 million tonnes of urea, but, also continued viability of additional production of more than 4 million tonnes urea beyond RAC. This extra production is supplied at less than import parity price. The revision in fixed cost beyond what was part of Modified NPS-III should be linked to an index. Government is actively considering the issue and industry expects positive outcome.

Energy consumption norms for existing urea units need reconsideration to ensure recovery of investment in energy saving projects within reasonable period of 5 years. Alternatively, 2015 level of energy norms may be extended till there is new policy for urea sector. Energy norms implemented from 2018 and 2020 have been very harsh without any scientific study regarding feasibility of achieving such energy levels and investment required in energy saving projects. Energy consumption level of Indian urea plants is already of international standards. While considering energy norms, there is need for restoring the incentive for continued use of coal as fuel for steam and power generation in view of cost effectiveness of this option.

Capacity utilisation in P & K fertilizer industry can be improved by exempting raw materials, intermediates like phosphoric acid, ammonia, rock phosphate, sulphur and sulphuric acid from customs duty. If complete exemption is not possible, government may levy a nominal rate of 1% basic customs duty on these raw materials. Differential subsidy on domestic production of P & K fertilizers will also improve the competitiveness of domestic P & K fertilizers compared to imports. Expert Group on Phosphatic fertilizers headed by Prof Abhijit Sen had recommended higher subsidy of 5% to 20% to cover the handicap of domestic manufacturers. Recently, Government has allowed Production Linked Incentives (PLI) to a number of sectors to increase domestic production under AtmaNirbhar Bharat. Such incentive may also be extended to P & K fertilizer industry to increase domestic production and capacity utilisation, which has remained subdued at about 70% for more than a decade.

Ever increasing arrears of subsidy dues and resultant high interest cost on working capital is also affecting viability of fertilizer business. However, it is heartening to note that the government has announced allocation of additional Rs. 65,000 crore for the year 2020-21 under AtmaNirbhar Bharat 3.0. This unprecedented step reaffirms the commitment of present government to support fertilizer sector and hence the agriculture sector. It will ensure continued availability of subsidized fertilizers to Indian farmers. It will help clearing past dues and then keeping the payments current. Needless to mention that there should be sufficient allocation for fertilizer subsidy in Union Budget for 2021-22.

This year, FAI Annual Seminar was held during 7-9 December, 2020 with the theme of 'Fertilizer and Agriculture during COVID-19'. Hon'ble Minister of Chemicals & Fertilizers, Hon'ble Minister of State for Chemical & Fertilizers and Minister of State (independent Charge) for Ports Shipping and Waterways, Secretary, Department of Fertilizers, senior officials of Ministry of Agriculture and Farmers Welfare, policy makers, officials of eminent national and international think tanks, universities, research organisations and business leaders of fertilizer and agriculture sectors across the globe participated in the Seminar. The Seminar provided another opportunity to deliberate on issues faced by the fertilizer and agriculture sectors and make detailed recommendations in various areas. There were 14 presentations by eminent speakers from India and abroad in the areas of fertilizer supply demand in the world, fertilizer pricing and subsidy policies, innovation in fertilizer management, appropriate use of resources in agriculture, recent developments in production technologies including use of renewable energy sources and supply chain management during pandemic. The current issue of Indian Journal of Fertilizers carries resume of inaugural and technical sessions including conclusions and recommendations. We hope that our readers find the issue useful.■