Frank Notes

Satish Chander

Challenges Remain in Fertilizer Sector

Agriculture remains backbone of Indian economy. In spite of its contribution of 17% to Indian GDP, rural demand has cascading effect on the growth of industrial and service sectors. Agriculture sector performed exceedingly well in spite of lockdown/partial lock down and other restrictions on economic activities in the country during past 14 months. It registered a growth rate of 3.4% during 2020-21 and helped to offset to some extent the negative growth rates in other sectors of the economy. Even more important is the fact, we continue to ensure food security of our large populace. According to third estimates of Ministry of Agriculture and Farmers Welfare, India produced a record 305 million tonnes of food grains in 2020-21. There were similar gains in sugarcane and other crops. This also helped to increase the export of agriculture products especially rice and sugar. India became the largest exporter of rice in the world.

Agriculture also absorbed part of the labour force returning from cities due to lockdown.

All this has been possible due to well distributed rains and hard labour of our farmers. Central government extended all help through various schemes and record procurement of wheat, rice and other commodities. Centre and State governments ensured that all agriculture related activities continued uninterrupted even during pandemic due to COVID-19. Fertilizer demand also recorded a robust growth rate of 11.5% during 2020-21.

Central government helped fertilizer sector by allocating additional Rs. 65,000 crore taking revised budget estimate for fertilizer subsidy to Rs. 1,33,947 crore during 2020-21. This helped to clear the arrears of fertilizer subsidy which were perpetually carried over from one financial year to next financial year. This in turn eased the liquidity position of the industry.

Situation for the current year may become precarious in view of all round steep increase in cost of raw materials and fertilizers. For P&K fertilizers, Government has already made a hefty increase in subsidy. There is increase in subsidy on P_2O_5 from Rs 14.888 per kg to Rs. 45.323.per kg. This translates to an increase of 140% in subsidy for DAP. This has been done to insulate farmers from any increase in retail prices of these fertilizers.

Urea industry is dependent on imported gas (LNG) to the extent of 80% to meet its feedstock requirement. Long-term contract for LNG are linked to crude oil prices. A jump in crude oil prices means higher gas cost and higher cost of urea production. There has also been spurt in prices of imported urea. Retail price of urea remaining constant, this will also increase the requirement of subsidy both for domestic and imported urea. Thus, there will be escalation of about 40% over and above the allocation of Rs. 79,530 crore for fertilizer subsidy this year. There is every reason for the industry to remain hopeful that Government will make adequate additional allocation for fertilizer subsidy to ensure availability of fertilizers to farmers at reasonable prices.

Fertilizer industry continues to face challenges due to policy environment governing the sector.

It is hoped that Government will initiate necessary reforms in the sector in right earnest once the present public health crisis is over and economic situation stabilizes.

Urea industry suffers from under recovery in fixed cost. A nominal increase allowed under Modified NPS-III policy was based on 2008-9 data. Natural gas accounts for major cost of urea production. Gas price taken in calculation of concession(subsidy) has to be revised every quarter as per provisions of the pricing and subsidy policy. But it always remains in arrears. Freight rates for movement of fertilizers by road reimbursed by the government under freight policy are also not revised in time. Processing of claims and procedures further delay the payments. The present policies and procedures require huge man hours to complete the process of payments. It means even when funds are available, payments remain pending. This causes hardships to the industry in terms of higher working capital requirement. It also takes huge efforts and time on part of industry for compliance with provisions of policies and procedures. Thus industry not only takes financial hit but it also faces difficult business environment.

Hence, there is the need for liberalization of policies for the sector. But first and foremost, there is need to address the issues under the present policies. Fixed cost and road freight can be benchmarked to a price index. This will alleviate the need for detailed calculations every time these cost have to be revised. Simultaneously, details of reforms in urea price and subsidy policy have to be worked out. Bringing urea under Nutrient Based Subsidy (NBS) Scheme will automatically resolve most of the issues faced by the industry. It will also relieve the Government of the burden of administration of present policies which requires huge expert manpower. In other words, it will increase the ease of doing business in the sector both for the Government and the industry.

Government is already paying attention to the need and type of policy reforms in fertilizer sector. It constituted five high level working groups under 'Çhintan Shivir' last year. The recommendations of the groups are with the Government. Some of the suggestions related to Fertilizer Control Order and introduction of new and innovative products have already been implemented. There has been consensus on bringing urea under NBS policy. But bringing urea under NBS policy or for that matter any reform in urea policy will require correction in level of subsidy which is almost 75% of cost of production or imports. This level of subsidy is leading to improper use of urea. This is harmful for soil health and environment. Even more important, it is affecting crop yields and farmers' income adversely and therefore not sustainable.

The second wave of Covid-19 since this April has been more serious than the first one. Rural population which remained almost untouched during the first wave last year has been badly affected this time. This may affect agriculture operations due to shortage of labour. The effect of second wave on growth of Indian economy remains in the realm of guesstimates in view of continuance of second wave in some of the big states of the country. Rightly, there is focus of the government on prevention of spread of COVID and minimizing its impact on economy. Attention is also focused on the welfare of poor population to meet their basic needs.

Reforms in fertilizer sector are necessary in the interest of Indian farmers and sustainable agriculture. It is hoped that Government will initiate necessary reforms in the sector in right earnest once the present public health crisis is over and economic situation stabilizes. ■