Fertiliser Sector during 2015-16

The year 2015-16 continued to remain challenging for the fertiliser sector, faced with weak monsoon, high inventory, modest increase in consumption and acute liquidly problem due to delay in payment of subsidy. Despite experiencing such an adverse situation, indigenous fertiliser industry increased production. Production of urea increased very significantly. Imports of fertilisers also continued to remain high. Availability of fertilisers was more than demand leading to supply surplus situation. Performance of the fertiliser sector during 2015-16 is presented in greater detail in the following paragraphs.

Rainfall during pre-monsoon (March-May) season of 2015 was exceedingly good, 38 per cent higher than Long Period Average (LPA). After receiving excellent pre-monsoon shower, the rainfall during first one and half months of South-west monsoon 2015 also continued to be good. Thereafter, performance of monsoon was consistently poor during remaining period of the season. Cumulative rainfall during South-west monsoon was 14 per cent below Long Period Average (LPA).

Initial good precipitation facilitated Kharif sowing operations in full swing. During Kharif 2015, consumption of nitrogen (N) and phosphate (P_2O_5) increased while potash (K_2O) consumption fell. During the following Rabi 2015-16 season, consumption of N and K_2O fell while P_2O_5 showed some improvement. Total nutrient consumption (N+ P_2O_5+ K_2O) increased to 27 million metric tonnes (MMT) during full year 2015-16 from 25.58 MMT in the previous year, registering an increase of 5.6%.

Higher fertiliser consumption was met adequately by carry over inventory, indigenous production and imports. Production of fertilisers registered a growth of almost 7% in terms of nutrients in 2015-16. In terms of products, urea production increased significantly from 22.593 MMT in 2014-15 to 24.461 MMT in 2015-16, an increase of 8.3%. Production of DAP at 3.822 MMT in 2015-16 was higher by 10.9% compared to 3.445 MMT in 2014-15. Complex fertilisers (other than DAP) registered a growth of 7% in production from 7.829 MMT to 8.379 MMT during the same period. Production of SSP also increased by 2.5% to 4.335 MMT in 2015-16 compared to 4.230 MMT in previous year. Two urea plants in Andhra Pradesh continued to operate at sub-optional level due to short supply of gas. One urea plant suffered production loss due natural calamity in Tamil Nadu. Phosphatic fertiliser plants continued to suffer from limitations in availability of imported raw materials and unfair competition from imports of finished products. This is reflected in low operating level of these plants. The year was marked by coating entire production of urea with neem oil under policy direction of the government.

Supply of domestic gas continued to decline during 2015-16. An average supply of domestic gas declined from 27.0 MMSCMD in 2014-15 to 24.6 MMSCMD in 2015-16. Share of domestic gas in total supply of 43.5 MMSCMD was reduced to 56.6% in 2015-16. The balance requirement of gas for fertiliser plants was met by imported gas. Share of fertiliser plants in total supply of natural gas is also declining. There is need for additional allocation of gas from new sources of domestic gas in order to reduce dependence of high priority fertiliser industry on imported gas.

Fertiliser industry has been suffering from a major problem of inadequate liquidity due to delay in payment of subsidy dues by the government. The problem is getting bad to worse over last few years. The situation aggravated further during 2015-16 and payment of subsidy stopped after August 2015. The outstanding amounts as on 1st August, 2015 exceeded Rs.30,000 crore. This amount increased further as no additional funds were allocated during the year. The year 2015-16 ended with unpaid subsidy bills of Rs.43,356 crores comprising of Rs.26,838 crores for urea and Rs.16,518 crores for P&K fertilisers. FAI has been persistently taking up the issue of large amounts of outstanding subsidy and freight claims pending with the Government.

There have been a few developments in the policies for the sector. The new policies *inter-alia* include New Urea Policy 2015 (NUP-2015), policy for neem coated Urea, promotion of city compost and removal of minimum capacity utilization criterion for SSP

manufacturing units. NUP 2015 effective from 1st June 2015 is the same old policy. Only energy consumption norms have been tightened without making provision for any capital related charges required to improve energy efficiency. Further, irrational energy consumption norms have been provided from 2018-19 by dividing urea units into three groups. Fertiliser industry has fully complied with government directions by coating indigenous and imported urea with neem oil.

The policy on city compost has the provision of giving assistance of Rs.1500/MT of city compost to the marketers of city compost. Initially, the marketing and promotion of city compost would be done through the existing fertiliser companies. In due course, compost manufacturers and other marketing entities recognized by the concerned State Government would be included. Fertiliser industry has to provide subsidised city compost to the farmers first and then realize the subsidy from the government. The policy has two major draw backs, one the subsidy amount is inadequate and second, realization of subsidy from the government is a herculean task. There are also issues related to quality of city compost.

The Government has decided to do away with the provision of mandatory 50% capacity utilization or minimum annual production of 40000 MT for SSP units to be eligible for subsidy under NBS. The policy aimed at encouraging production of SSP by all units.

With this background review of 2015-16, let us review the situation for 2016-17 so far and prospects for balance period of the current year. After two back to back weak monsoon years, weather condition in 2016-17 has been far better. Before the onset of south-west monsoon, India Meteorological Department had made a forecast of 6 per cent above normal rainfall for the season. Rainfall during 1st June to 8th August 2016 was 3 per cent above the long period average (LPA) for the period. Total actual rainfall received during 1st June to 8th August, 2016 was 544 mm as against the normal rainfall of 527 mm during the period. More than two third of the total number of districts received normal to excess rains during the period. Water storage position in the reservoirs is also comfortable.

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Meanwhile, government reduced the subsidy rates under NBS for DAP, NP/NPK complex fertilisers and SSP for 2016-17 to mop up the reduction in international prices. Reduction in NBS rates for MOP is only minimal. NBS rates for DAP has been reduced by Rs. 3405 per tonne, NP/NPKs between Rs.1540 and Rs.2929 per tonne depending upon the grade, MOP Rs.18 per tonne and SSP Rs.830 per tonne. It has also been decided that the rates of subsidy will be reviewed by the government on half yearly basis instead of annual basis.

Inspite of reduction in NBS rates for P & K fertilisers by the government, fertiliser industry has given a big bonanza to the farmers by reducing MRP of these fertilisers substantially. Retail price of DAP has been reduced by about Rs.2500 per tonne, NP/NPKs Rs. 1000 per tonne and MOP Rs.5000 per tonne. This would cause loss of about Rs.1000 crores for disposal of old stocks. But industry has always maintained its efforts to supply fertilisers at affordable prices to the farmers sacrificing its operating margins.

In the above context, it is important to mention that retail prices of P & K fertilisers are driven by three factors, viz., international prices, rupee exchange rate and NBS rates. Change in any one of these factors or combination of these factors lead to change in MRP. Industry has always endeavoured to keep the MRP reasonable for the farmers. In absence of defined parameters, government takes an adhoc approach to determine reasonableness of MRP of various products. Industry has been pleading with the government to define the criterion of reasonableness and keep the process transparent in the interest of good governance in the sector.

Keeping in view good rains from South west monsoon 2016, adequate water storage in the reservoirs at the beginning of Rabi 2016-17 with moisture availability in the soil and reduction in prices of P & K fertilisers to farmers, overall consumption of fertiliser nutrients during the full year 2016-17 is expected to show significant increase over the previous year's level.

The current issue of Indian Journal of Fertilisers includes *Annual Review of Fertiliser Production and Consumption* 2015-16. The review presents an elaborate overview of fertiliser and agriculture situation in India during 2015-16 and outlook for 2016-17. ■