Frank Notes

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Fertilizer Sector during 2017-18

The broad contours of fertilizer scenario for past year were earlier given in the Frank Notes of July 2018 issue of Indian Journal of Fertilisers based on the basis of information available at that point of time. Now that more accurate and detailed information is available, this issue carries the review of performance of fertilizer sector in 2017-18 with prospects for 2018-19.

Overall rainfall during south-west monsoon of 2017 (June/September) was normal. However, the distribution pattern was found to be uneven across different regions of the country. Out of a total of 36 meteorological sub-divisions, 30 sub-divisions received excess/normal rainfall and remaining 6 sub-divisions received deficient rainfall. Total rainfall received during the period was 5% below the long period average (LPA). About 66 per cent of total number of reported districts received normal to excess rains during the period.

Aided by overall normal rainfall, total fertilizer nutrient consumption touched 26.79 million tonnes in 2017-18 which was 3 per cent higher than the previous year. Higher fertilizer consumption contributed to growth in agricultural production. Foodgrain production touched a record level of 284.8 million tonnes in 2017-18, 3.5% higher over the previous year.

All the zones contributed to growth in consumption of fertilizers except south where consumption slipped marginally. In south zone, fertilizer consumption fell in three major states, viz., Andhra Pradesh, Karnataka and Telengana. All-India NPK use ratio improved slightly from 6.7:2.7:1 during 2016-17 to 6.2:2.5:1 during 2017-18. Per hectare use of total nutrients ($N+P_2O_5+K_2O$) increased from 130.8 kg in 2016-17 to 135 kg in 2017-18. But there is wide variation in fertilizer use across states.

In regard to availability of fertilizers from indigenous sources, some improvement was noticed in terms of total nutrient production. There was a marginal increase of 1.2% in $N+P_2O_5$ production in 2017-18 over 2016-17. This was due to higher production of DAP and NP/NPKs. But urea and SSP production fell during the period. DAP production at 4.65 million MT and NP/NPKs at 8.24 million MT were higher by 7.4% and 4%, respectively, during the period. In contrast, production of Urea at 24.03 million MT and SSP at 3.91 million MT declined by 0.7% and 9.1%, respectively, during 2017-18 over 2016-17.

Fertilizer industry continued to face shortfall in supply of natural gas from domestic sources. Domestic gas supply declined from an average of 20.7 MMSCMD in 2016-17 to 18.1 MMSCMD in 2017-18. Share of domestic gas in total gas supply to fertilizer plants declined from 49.0% in 2016-17 to 42.8% in 2017-18. The balance requirement was fulfilled by imported LNG. Increase in share of more expensive imported gas increased the pooled gas price for urea plants. There was loss of production in some urea plants which took longer shutdown for revamp projects. Moreover, adverse policy environment affected the production beyond reassessed capacity. Indian urea sector continued to suffer due to non-payment of notified increase in fixed cost for more than four years, unreasonable reduction in energy consumption norms, unfavourable policy for production beyond 100% of re-assessed capacity and discriminatory policies for naphtha based plants.

Cabinet Committee on Economic Affairs (CCEA) approved the Modified NPS-III Policy in 2014. This policy provided for an increase of Rs.350 per tonne of urea in fixed cost with minimum fixed cost of Rs.2300 per tonne. Special allowance of Rs. 150 per tonne of urea was also allowed for gas based urea plants more than 30 years old. These provisions were made to partially offset some of the important elements in fixed cost. The policy was extended under New Urea Policy 2015 and has been reiterated in revised energy norms notification of 2018. However, no amount has been paid on this account

since April 2014.

Energy norms of urea industry has been tightened but capital expenditure incurred on improvement in energy efficiency has not been recognized by the government. Unfortunately, the units which have taken measures in improving energy efficiency and achieved target energy have been penalized rather than rewarded. Effective date for implementation of target energy has been fixed from 1st April, 2018. For other units, the existing norms have been extended for further period of 2 years, i.e., till 31st March, 2020 with penalty of 2% energy of difference between New Urea Policy (NUP) norms and Target Energy norms of NUP 2015 for the first year, i.e.,2018-19 and 5% for second year, i.e. 2019-20.

New Urea Policy 2015 provides that production above 100% of reassessed capacity will be entitled for respective variable cost of the unit plus a uniform per tonne incentive equal to the lowest of per tonne fixed cost of all indigenous urea units subject to import parity price (IPP) and average of other incidental charges. But since the Government is yet to reimburse minimum fixed cost of Rs. 2300 per tonne of urea as provided in the Modified NPS-III policy, excess production continued to be reimbursed based on the old minimum fixed cost of Rs.1285 per tonne.

The 3 naphtha based urea units, viz., MCFL-Mangalore, SPIC-Tuticorin and MFL-Manali have already invested huge amounts to enable the plants to use gas. But, gas is not available due to lack of connecting gas pipeline.

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These units have been discriminated under the policy by restricting their reimbursement to lower of the cost based on LNG used by recently converted plants or cost based on naphtha. The state taxes on feedstock are also not being reimbursed.

Phosphatic fertilizers performed a little better over the previous year but it continues to operate at suboptimal capacity due to unfair competition from imports. This is due to higher import duty on raw materials compared to finished fertilizers. There is need for rationalization of import duty on raw materials for manufacture of P & K fertilizers.

As regards SSP industry, it is important to mention that this industry does not get reimbursement of freight at all while all other fertilisers in the category receive reimburse-ment of primary freight. There is need for either merging freight with product subsidy under NBS as already approved by CCEA or make provision of freight subsidy for SSP industry as well.

Fertilizer Industry continued to suffer due to inadequate budget allocations with large amount of unpaid subsidy dues carried forward from one year to the other. Unpaid subsidy at the end of 2017-18 was around Rs.32,053 crore.

GST was implemented from 1st July, 2017. FAI played a pro-active role with the government in removal of anomalies in rates of GST for fertilizers and fertilizer raw materials as fixed initially. In this regard, the favouable steps taken by the government in removal of anomalies are narrated in the following paragraph.

First, GST rate on finished fertilizers was brought down to 5% at the last moment from initial announcement of 12%. Second, GST on raw materials (ammonia, phosphoric acid, sulphur, naphtha, etc.) were initially kept higher than finished fertilizers. GST rate on ammonia, naphtha, phosphoric acid, sulphuric acid, sulphur recovered as by product was 18%. This had given rise to accumulated tax credit due to inverted duty structure and no GST on subsidy. Delay in refund of such credit created liquidity problems for fertilizer manufacturers. After several representations by the FAI and the industry, rates for phosphoric acid and sulphur have been reduced to 5%. Rates of GST for naphtha, ammonia and sulphuric acid still remain at 18%. Third, GST rate issue on imported urea and MOP for manufacture of complex fertilizers has been settled. Initially, 5% GST was charged on this account but subsequently, GST @ 18% was collected from the industry by some field officials. Now, the GST council has clarified that the fertilizer supplied for use in the manufacturing of complex fertilizers for agricultural use is only 5%. Fourth, the issue of levy of GST on value of imported urea has also been addressed. The IGST on imported urea will now be levied on value at which Department of Fertilizers sells

urea to Fertilizer Marketing Entities (FMEs), known as "Pool Issue Price". All the above measures brought some relief to the fertilizer industry.

Government of India rolled out the DBT scheme for fertilizers in all states between 1st September, 2017 and 1st March, 2018. Fertilizer industry has been fully cooperating with the government in implementation of DBT scheme. But under the existing DBT scheme for fertilizer sector, subsidy is not transferred directly into the accounts of the beneficiaries as is done in case of LPG. Fertilizer subsidy continues to be routed through the industry. Entitlement of subsidy takes place after sales are made by the retailers through the POS machine. There are several policy and operational issues in regard to implementation of DBT for fertilizer sector which are delaying or even denying subsidy payments on products sold under new scheme. In spite of best efforts of government and industry, the system continues to be plagued by issues related to hardware, software, connectivity and inadequate capacity of trade.

Against this brief review of situation in 2017-18, there is need for assessing the prospects of this sector for 2018-19. As regards weather, rainfall during 1st June to 22nd August 2018 was 7% below the long period average (LPA). Rainfall distribution pattern was uneven across different regions of the country. Out of a total of 36 meteorological sub-divisions, 25 sub-divisions received excess/ normal rainfall and remaining 11 sub-divisions received deficient rainfall. Total actual rainfall received during 1st June to 22nd August, 2018 was 605 mm as against the normal rainfall of 647 mm during the period. About 61% of the total number of districts received normal to excess rains during the period. However, rainfall situation is expected to improve during remaining period of south west monsoon. Live storage in 91 reservoirs as on 23rd August, 2018 was 101.29 BCM as against 79.30 BCM on the corresponding date in the previous year. Current year's storage is 128% of the last year's level and also 107% of the normal storage. There is adequate water availability in reservoirs. It is expected that there will be sufficient moisture in soil in most states. This bodes well for next *rabi* crop season.

As per latest information available on sowing of kharif crops, around 94 per cent of the normal area of full kharif season was sown upto 24th August, 2018. Area sown under all kharif crops taken together has been reported to be 99.56 million ha at All-India level during 1st April to 24th August, 2018 as compared to 100.86 million ha in the corresponding period of last year.

The reports of fertiliser sales show a high growth in first four months of the current year over last year. Sale of urea, DAP, SSP and NP/NPKs has shown increase of 3%, 7%, 17% and 23% respectively, during April-July, 2018 over the corresponding period of last year. Sale of MOP remains at the same level as last year during the period. Total nutrient consumption may show a modest increase during the full year 2018-19.

Against the positive factors mentioned above, recent rising trend in global prices of raw materials and finished fertilizers is a matter of concern. International prices of fertilizer raw materials and products have hardened in 2018-19. Along with this, Indian currency has depreciated significantly against US dollar since April 2018. Per tonne CFR (India) price of ammonia has gone up by 47% from US$ 235 in July 2017 to US$ 345 in July 2018. Sulphur price has increased by 51% from US$ 104 per tonne to US$ 157 per tonne during the period. Similarly, CFR prices of finished fertilizers have increased significantly. Average CFR (India) price of urea has increased by 35% to US$ 291 per tonne, DAP by 26% to US$ 469 per tonne and MOP by 13% to US$ 294 per tonne. Average cost for natural gas has also gone up by at least US$ 1.60 per MMBTU during first quarter of 2018-19 over the average cost for the full year 2017-18. This will lead to increase in cost of production of urea. Higher cost of indigenous and imported urea will result in increase in the subsidy bill of the government. In case of decontrolled phosphatic and potassic fertilizers, higher international prices of raw materials and finished products have bearing on retail prices to farmers.

The current issue of Indian Journal of Fertilisers covers *Annual Review of Fertiliser Production and Consumption* 2017-18. The review presents an elaborate overview of fertilizer and agriculture situation in India during 2017-18 and outlook for 2018-19. ■