Fertiliser Association of India

PRESS RELEASE

New Delhi, 28th November, 2016

1 Back Ground

1.1 Fertilisers played a stellar role in bringing green revolution in 1960s. But inspite of large strides made by Indian agriculture during last 50 years, yield per hectare of major crops is much lower than our neighbouring countries including China. For example, India has 50% more arable land than China but production of cereals is only 55% of that of China. This brings out the potential for increasing crop productivity in the country. This also brings into focus the fertiliser use efficiency. Crop response ratio to application of fertilisers has come down from 15 in 5th plan period to 6 in 11th plan period. Hence the need for application of appropriate fertilisers in optimum quantities alongwith other inputs and good farm practices.

1.2 Policies for fertiliser sector have played a major role in past inducing use of fertilisers and also building up of large and efficient base for domestic production. India emerged as the second largest fertiliser consumer in the World, next to China. India also became the third largest producer of nitrogen and phosphates inspite of lack of natural resources. India achieved near self-sufficiency by 2000-01 to meet the fertilisers requirement of the country. Potash requirement is met entirely through imports. International prices of raw materials and finished fertilizers increased over the years. However, controlled retail prices at low levels without even normal adjustments for inflation resulted in substantial increase in fertilizer subsidy burden. Consequentially, fertiliser pricing and subsidy policies after 1990s got distorted with the primary objective of containing subsidy burden.

1.3 The operating efficiency norms of the industry have been tightened to unachievable levels. However, the reasons for rise in cost of production and consequently subsidy burden have not been addressed. The industry continues to suffer with large under-recoveries of cost under various heads impacting their viability. The new investment has almost dried up in last one and half decade. Capacity and production stagnated and import dependence has increased.

Today, we are importing 28% of urea and 66% of DAP requirement. About USD 11 Billion worth of fertilizers and raw materials were imported in the year 2015. The following paragraphs briefly highlight major issues faced by the industry with suggestions for redressal of the same:

2. Major issues

2.1. Urea Policy

2.1.1 Fixed cost under urea pricing and subsidy scheme continues to be reimbursed based on cost data of 2002-03. There has been significant increase since then resulting in under-recovery to the industry.

2.1.2 Modified NPS-III Policy effective from 2nd April, 2014 allowed increase in fixed cost by Rs.350 per tonne of urea to partly compensate increase in selected four items of fixed cost namely salary & wages, contract labour, selling expenses and repair & maintenance. It also provided for minimum fixed cost of Rs.2300 per tonne of urea and special compensation of Rs.150 per tonne to more than 30 year old gas based urea plants. But the payments are yet to be made by the government. This is a classic example of non-implementation of a notified policy which was formulated after almost 7 years of discussion at various levels.

2.1.3 New urea policy-2015 notified a single policy for reimbursement of cost of production in excess of capacity. The formula is based on reimbursement of energy cost and fixed cost. Modified NPS III had provided Rs. 2300/MT as minimum fixed cost. Industry produced additional 4 million tonnes in 2015-16. Government also took credit for record production of urea during the year. However, payment for production beyond 100% re-assessed capacity for 2015-16 is being made based on fixed cost of Rs. 1285 per tonne. This is a breach of promise. If such a policy continues, country will lose about 4 million tonnes of urea production beyond reassessed capacity. This will necessitate substitution of this quantity with import and push up the international price. Irony is that country pays hefty increase for imported urea as per international prices but the domestic industry is not paid even a small justified income in terms of cost of US D 5-6 per tonne towards increase in fixed cost for the last 10 years. For instance, prices of imported urea have suddenly increased by almost US D 40 per tonne very recently.

2.1.4 New Urea Policy 2015 has reduced the energy consumption norms w.e.f. 01.06.2015. There is going to be further drastic reduction in energy consumption norms w.e.f. 2018-19. Government is completely silent on

recovery of capital related charges for investment made and going to be made for achieving the prescribed norms.

2.1.5 New Investment Policy 2012 was notified to facilitate fresh investments in Urea sector. Since notification, there has been tremendous depreciation of about 25% in USD / INR Parity and increase in the Manufacturing cost, while the Import Parity Prices has seen a decreasing trend. Under such a situation, financial viability and bankability of the new investment projects needs to be ensured. One measure to reduce the cost of production is to allocate additional quantity of domestic gas to bring down the pooled price of gas.

2.1.6 Under recoveries under various heads and ever increasing interest cost due to delayed payment has pushed the margins of majority of units into negative. More than 50% urea units are incurring losses and others are floating on thin margins.

2.1.7 Based on data from 26 operating urea units, the average return on networth was minus 4% for 2014-15 and average return on networth for the last three years comprising 2013-14, 2014-15 and first 9 months of 2015-16 was minus 1.9% against 12% post tax return promised under the policies.

2.2. P&K Policy

2.2.1. P & K industry is heavily dependent on imported inputs. It is facing serious dis-advantage due to same level of import duty of 5% on raw materials, intermediates as on finished fertiliser products. It may be pointed out that there is same level of fixed subsidy both on domestic and imported products. The basic economic principle is that there is always differential in import duty of raw materials and finished products to encourage value addition in the country. Industry has been representing on the issue for last 4 years without any success. With the result, the industry is operating at sub optimal levels. Capacity utilization for production of phosphate during 2015-16 was only 65%.

2.2.2. Having decided at the highest level to take a few steps to reform P&K sector, their implementation has been deferred indefinitely. The government approved policies like (i) Merging of freight with product subsidy and (ii) Doing away with monthly supply plan have not been implemented.

2.2.3. Government continues to meddle with retail prices as well as mopping up the benefits of efficient procurement, much against the tenets of NBS policy.

2.2.4. SSP industry suffers due to non-reimbursement of freight and restriction imposed with respect to type of rock phosphate to be used.

2.3. Payment Delays

2.3.1. Government has been under provisioning for fertiliser subsidy in Union Budget for last several years. Large amounts of the order of Rs. 40,000 crores of unpaid subsidy bills are carried forward from one year to the next. Pending dues of the industry on such a large scale almost on regular basis results in additional interest cost of about Rs.4,000 crore per annum. There is no provision in urea policy for recovery of such cost either from the government or from the farmers.

2.3.2. The payments of subsidy and freight bills are also delayed due to delay in notification of revised rates or cumbersome procedures or red tapism.

2.3.3. Citizens' Charter of the Department of Fertilizer has set down certain timelines for subsidy disbursement. In actual practice, these are not being adhered to for one reason or the other. Further, interest on delayed payment is not covered under the Pricing and Subsidy schemes. On the contrary, Government itself charges 17% p.a. interest on any recoveries due from fertilizer companies.

2.4. GST for Fertiliser Sector

2.4.1 If the subsidy, which constitutes major part of the cost of supplies, is not kept out of GST, it will increase the incidence of tax substantially resulting in either higher subsidy or retail prices or both. Further, incidence of taxes on fertilisers is very low for obvious reasons. Therefore, a GST rate higher than 5-6% will also increase the cost of fertilisers which will again have to be borne by the government or the farmers.

2.4.2 Major portion of fertilisers are moved on stock transfer basis, which are so far exempt from state VAT.

2.4.3 The incidence of tax on inputs used for fertiliser manufacture is higher than the incidence of tax on fertiliser products. This is because subsidy portion is currently exempt from taxation. This will result in large amounts of

unutilised input tax credit unless there is a mechanism for refund of such credits on a regular basis.

2.5. DBT for Fertiliser Subsidy

The pilot project launched for Direct Benefit Transfer (DBT) for fertiliser subsidy does not envisage transfer of subsidy to the farmers. Subsidy will be continued to be routed through the industry. Only change is that subsidy to the industry will be paid only after sale to the farmer subject to correct recording of sales transaction. This will further delay or even deny the payments to the Industry.

2.6. Marketing of City Compost

Fertiliser companies have also been given the task of marketing the city compost manufactured by small companies. A market development assistance of Rs. 1500/MT will be given for the same. This is insufficient to fill up the viability gap and payment procedure is again very cumbersome. Further, there are issues related to quality of city compost.

2.7. Imbalanced Use of Nutrients

Very high subsidy on urea (70%) and low level of subsidy on other fertilisers (30-45%) has led to huge difference in farm gate price of urea vis-à-vis P&K fertilisers. Price of DAP should be approximately two times that of urea. But, at present it is more than 4 times. This in turn is reflected in disproportionate use of nutrients N, P&K. N:P:K use ratio is 7.5:3:1 compared to a benchmark figure of 4:2:1 i.e. highly skewed in favour of nitrogen due to artificially low price of urea. Faulty subsidy and pricing policies are leading to such situation which is not only affecting soil health but also wasting precious natural resources.

3. Industry's Expectations

3.1 Urea Policy

3.1.1 Implementation of Modified NPS-III Policy as notified by the government without further delays i.e. payment of additional fixed cost w.e.f. April 2014.

3.1.2 Payment for additional production based on minimum fixed cost of Rs.2300 per tonne.

3.1.3 Review of energy norms proposed from 2018-19 onwards to make them reasonable and achievable with provision for recovery of the investment required for achieving such energy efficiency.

3.1.4 Addressing the issues of naphtha based units by treating them at par with other gas based units in terms of energy norms as well as energy cost.

3.1.5 Allowing some leeway in fixing energy norms for units using coal for fuel and utilities to encourage continued use of coal instead of using imported higher cost, LNG.

3.1.6 Encouraging investment in the sector by ensuring viability of existing capacities and expediting commencement of production from a new plant.

3.1.7 Additional Domestic gas allocation for the new investment is necessary to bring down the pooled price of gas and reduce the input cost..

3.1.8 Urea, being an important constituent of Indian fertilizer consumption, needs to be brought within the Nutrient Based Subsidy (NBS) Scheme to accelerate the task of providing balanced fertilization as well as curbing the Government's subsidy bill. Imperative need is to bring MRP of Urea to a realistic level at par with other fertilizers.

3.1.9 De-Canalization of import of Urea can improve availability of Urea at competitive prices for benefit of farmers with lower subsidy burden.

3.1.10 Exempting LNG for fertiliser manufacture from customs duty in line with exemption allowed for power generation. Currently, rate of basic customs duty on LNG and urea is same at 5%. This will incentivise domestic production which has multiple advantages.

3.2 P&K Policy

3.2.1 Exemption / reduction of customs duty on raw materials and intermediates namely rock phosphate, sulphur, phosphoric acid, ammonia.

3.2.2 Increase in customs duty to 10% on P&K fertiliser products except DAP.DAP is a bound product under World Trade Agreement (WTA) and the duty rate cannot be increased beyond the existing rate of 5%. Import duty on DAP should be negotiated with trade partners.

3.2.3 Implementation of CCEA decisions of merging of freight with product subsidy and doing away with monthly supply plan.

3.2.4 Avoid undesirable interventions and micromanagement of industry operations like import, distribution, valuation of stock and fixation of MRP.

3.2.5 Reimbursement of outward freight to SSP and payment of subsidy to SSP on receipt in the district basis in line with other P&K fertilisers.

3.2.6 Withdrawal of stringent conditions regarding use of only certain grades of rock phosphate, which restrict manufacturers' choice and impacts its prices.

3.2.7 Government may grant open permission for Export of P&K fertilizer products in South Asian countries, for which no subsidy would be eligible. This may encourage increase in Capacity Utilization of domestic P&K Industry.

3.3 Adequate Budget Provision

3.3.1 Adequate budget allocation for the year 2017-18. Also there is need for allocation of at least Rs. 25,000 crore through supplementary grants to partially clear the dues of 2015-16 and previous years in this year itself.

3.3.2 Simplify payment procedures and improve governance to avoid delay in payment of subsidy and freight bills when funds are available.

3.4 General

3.4.1 Bring a road map for Direct Benefit Transfer (DBT) which will ensure payment of subsidy directly to the farmers, instead of routing it through the industry. Industry has fully cooperated so far and will continue to assist government to meet this objective.

3.4.2 The instrument of subsidy should be used to address the price disparity between urea and other fertilisers in the interest of balanced use of primary, secondary and micronutrients, soil health, agriculture productivity and conservation of resources.

3.4.3 Investment in the sector will be attracted only if the ease of doing business in the sector in India is improved, and reasonable return on

investment at least equivalent to opportunity cost of the capital is ensured.

3.5. GST Regime

Under proposed GST regime, subsidy should continue to be exempt from GST. The rate of GST applicable for fertiliser products and major raw materials / services used in fertiliser manufacture be kept at the minimum. A 5% rate recommended for essential goods of mass consumption be applied to fertilisers and raw materials. Effective mechanism for refund of unutilised input tax credit be provided to address the issue of higher incidence of tax on inputs than on fertiliser products, which will arise due to exemption to subsidy even when the rate of tax on inputs and fertiliser products is same.

4. FAI Annual Seminar 2016

4.1 The 52nd FAI Annual Seminar with the theme "Fertiliser-Make in India?" is being held in Hotel Pullman, Aerocity, New Delhi during November 30 – December 02, 2016. Seminar will be inaugurated by Hon'ble Shri Ananthkumar, Minister of Chemicals & Fertilizers and Parliamentary Affairs on 30th November, 2016. Hon'ble Shri Mansukh Mandaviya, Minister of State for Chemicals & Fertilizers, Shipping, Road Transport and Highways will be the Guest of Honour. The Seminar will be accompanied by an exhibition where 45 companies will display their products and services. Inaugural function will be followed by Cultural Programme, Cocktail and Dinner. There will be 4 working sessions on 1st and 2nd December. The Valedictory Address will be delivered by Prof. Vijay Paul Sharma, Chairman, Commission for Agricultural Costs and Prices, New Delhi at 4.00 PM on 2nd December, 2016.

4.2 In all, there will be 18 presentations from within and outside the country. The presentations relate to supply-demand and price trends of fertilisers and raw materials, impact of fertiliser policies, production technologies, prudent use of natural resources in Indian agriculture, efficiency in marketing and distribution, etc.

5. All the issues mentioned above are relevant to safeguard the present production and increase the production from the existing capacity. It may be underlined that industry is advocating for 'Make in India' at competitive prices vis-à-vis imports albeit with level playing field.

*****