PRESS RELEASE

Production of Complex Fertilizers Suffers

Fertiliser industry has been pleading with the government for quite some time to take measures to save the manufacturers of complex fertilisers from brink of closure. One of the immediate measures, industry has been requesting the government is to rectify import duty structure of raw materials vs-a-vis finished products. Industry has also been underlining the fact that exporters of raw materials and finished products are same entities. These companies have adopted a strategy to keep prices of raw materials high and keep prices of finished products low, so that manufacturing in India becomes unviable. The prevailing CIF price of imported DAP is US$ 345 per tonne. Corresponding price of phosphoric acid, the major input to produce complex fertilisers should be about US$ 500 per tonne. However, the exporters are not prepared to come below US$ 630 per tonne. One of the largest exporters has now announced to suspend shipment of phosphoric acid effective 01 July. This is clearly a cartelization and adoption of unfair practice aimed to cripple the Indian industry. India being the second largest consumer will be left high and dry after closure of its manufacturing facilities. One of the companies has already announced closure of 1.2 million tonne DAP manufacturing facility on the East Coast.

Indian government should take some immediate measures like reduction in import duty on raw materials. At present there is bound rate of duty of 5% on finished product DAP. Government should take the matter to WTO and renegotiate the terms of trade so that duty on import of DAP can be raised, if required. Failure to take immediate action will compromise the availability and price of these fertilisers in near future, once domestic industry is incapacitated.

A copy of the background on the subject is given below.

How Not to Make in India

India is the second largest populous country in the world. Providing nutrient requirement of 1.25 billion persons is no easy task. The food security hinges on large number of factors which affect agriculture productivity. India has to grow more and more food from shrinking agriculture land. Use of fertilisers is one of the key inputs which helped to increase per hectare productivity manifold. Use of fertilisers continues to play that role and will remain critical input for further increasing land productivity on sustained basis.

Fertiliser industry provides the key input to Indian farmers in every nook corner of the country. Fertiliser industry was one of the basic industries encouraged in the planned economy after independence. Simultaneously, retail prices of various fertilisers have been controlled by the government for more than four decades. This is the only industry which continues to remain heavily regulated because of its linkage to agriculture.

Fertiliser industry can be divided into two broad categories. One, that is producing urea and the other segment is producing complex fertilisers. Urea carries only one primary plant nutrient nitrogen. Complex fertilisers carry two or all three primary nutrients that is nitrogen, phosphorous and potash. The second segment of the industry producing complex fertilisers is the subject of discussion here.

India lacks the raw materials for producing complex fertilisers. More than 90% of inputs required to manufacture these fertilisers are imported. India being one of the largest consumer of fertilisers in the world, government consciously adopted a strategy to keep the imports diversified in three categories: namely import of basic raw materials rock phosphate and sulphur, second, import of intermediates like phosphoric acid and ammonia and lastly, import of finished products led by dia-ammonium phosphate (DAP). Based on this strategy, investment was encouraged and large manufacturing capacity was built based on both basic raw materials and intermediate inputs. The total production capacity at present is 14.7 million tonnes of products. Needless to state that there are huge capital assets on the ground and fertilisers are also of strategic importance for the country.

For decades, import of fertilisers raw materials and products remained canalized. Import of raw materials was decanalised in 1992 and import of finished products DAP was also decanalised in 1992. With the introduction of nutrient based subsidy (NBS) policy in 2010, fixed subsidy per tonne of product was provided equally both on imported and domestically produced products. Earlier, there was higher subsidy on domestically produced DAP and there was no subsidy on other imported complex fertilisers in order to encourage domestic production.

Out of total production capacity of 14.7 million tonnes, products more than 8 million tonnes is based on imported phosphoric acid. The applicable custom duty on import of phosphoric acid and finished products is same at the level of 5%.

Free imports, same level of custom duty on inputs and finished products and finally same level of subsidy on imported and domestic products has affected the domestic industry very adversely. Same level of import duty on inputs and finished products has specially posed unfair competition. This is reflected in performance of Indian plants. Capacity utilization of Indian plants came down from more than 90% in the past to about 65% last year. This has become a fit example of 'how not to make in India'.

There is another strange phenomenon which has been witnessed in last several months. The exporters of raw materials and finished products are same entities. These entities are pricing the raw materials and finished products in a manner that it is completely unviable to produce in India. This can be illustrated with some approximate calculations. Indian companies imported phosphoric acid in last quarter at a CIF price of $ 715 per tonne. There have been some hard negotiations but suppliers are not prepared to come below US$ 630 per tonne. The CIF price of another input ammonia is about US$ 380 per tonne. One tonne of DAP requires 0.47 tonne of acid and 0.22 tonnes of ammonia at very high level of conversion efficiency. Thus, the cost of raw materials itself is US$ 380 per tonne DAP. The CIF price of imported DAP at present is US$ 345 per tonne. Therefore, there seems to be a clear strategy to price the inputs higher and destroy Indian domestic industry. Once domestic industry is crippled, the second largest consuming and the largest importing country will be left at the mercy of foreign suppliers.

Due to prevailing situation for last 2-3 years, one of the industries has already announced to shut down its plant on the East Coast. Therefore, there is need for the government to pay attention to this sector and take all plausible measures to bring the industry from brink of shutdown.

Let us consider the options to remedy the situation. One is that the import duty on imported products can be raised. Unfortunately India agreed to a bound rate of duty of 5% on import of DAP under WTO agreement. But this is specific to DAP and duty on other products can be raised.

Another option is that there may be quantitative restriction on import of finished products. Whether this option can be exercised within confines of WTO agreement is something which has to be explored, seriously and immediately.

The most plausible option which can be exercised immediately is to reduce or eliminate custom duty on import of ammonia, phosphoric acid, rock phosphate and sulphur. Industry has been crying hoarse for exercising this option for several years but to no avail. Simultaneously, import duty on products not covered by bound rate should be raised to a level of 10%.

In order to save the country from exploitation in near future, the government need to implement these measures urgently. Domestic industry not only does the value addition of almost $ 40 per tonne of product and hence adds to GDP, but also provides employment in fertiliser and ancillary industries. Moreover, this can save the capital assets of hundreds of thousands of crores turning non-productive.