

Inaugural Session

CHAIRMAN'S SPEECH

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HON'BLE MINISTER FOR CHEMICALS, Fertilizers and Steel, Sri Ram Vilas Paswanji, Secretary, Govt. of India, Department of Fertilizers, Dr. J. S. Sarma, Vice Chairman, FAI, Sri K. S. Raju, Director General, FAI, Sri B. K. Saha, Excellencies, distinguished Delegates, Invitees, Friends from Media, Ladies and Gentlemen.

It gives me great pleasure to extend a hearty welcome to you all to this year's Seminar. We are particularly grateful to Sri Paswanji for not only being with us for inaugurating this Seminar, despite his busy schedule, especially when Parliament is in session, but also for his assiduous efforts in resolving the multifaceted problems of the fertiliser sector. The entire fertiliser industry joins me in expressing our gratitude to you Sir, for your patient hearing and preparedness to tackle the problems with an open mind whenever we have approached him, especially in connection with the formulation of the new policies for urea and phosphatic and complex fertilisers. Thanks are also due to the Department of Fertilizers and the Secretary (Fertilizers) for taking us into confidence and giving us an opportunity to explain the pros

and cons of various pricing alternatives being contemplated by it

This year's seminar assumes a special significance for many reasons. Firstly, the country has completed 100 years of manufacturing chemical fertilisers. It was started in 1906 with single super phosphate plant at EID Parry, Ranipet, in the State of Tamil Nadu. Since then, the Indian fertiliser industry has made remarkable progress not only in terms of production of fertilisers ranking third in the world, but also established itself as one of the most efficient fertiliser industries in the world in terms of capital costs, capacity utilisation, energy consumption and environmental standards.

Secondly, we are meeting against the backdrop of the ongoing exercises for the 11th Five Year Plan which is only a few months away. This is, perhaps, the most crucial time to evaluate the existing policies and available alternatives for the core sectors like fertiliser and agriculture which would lay the foundation of the policies and programmes for the next five years starting from April, 2007 and also

determine the overall rate of growth.

This apart, the very fact that the policies for both urea as well as phosphatic and complex fertilisers are currently in the offing makes the current juncture extremely important and eventful both for the government and the industry. The necessity of large scale import of urea and DAP this year and more importantly the import of wheat after a gap of 6 years has also made it a source of deep concern for the country which once boasted not only of self-sufficiency in food but claimed surplus for export. Fertiliser and agriculture are two sides of the same coin. The fate of the fertiliser sector is closely linked to the performance of agriculture. Therefore, before taking up the fertiliser situation, I would like to briefly highlight the current agricultural situation of the country.

The country is passing through a unique phase. On the one hand, it is reckoned as one of the fastest growing economies of the world with a growth in GDP of more than 8% per annum, on the other, it is also blemished as the nation which is home to the largest number of malnourished and undernourished population of the globe. One out of every three poor persons on the planet lives in India. The urban-centric growth of our economy, mainly due to the high growth in the manufacturing and services sectors, has failed to trickle down to the almost two thirds of the population living in the rural areas. This is mainly because our agriculture continues to lag far behind. While share of agriculture in GDP has gone down, the dependency on agriculture has not declined.

While the growth in industry and services has accelerated, the

growth in agriculture has been steadily declining from about 4% during the 8th Plan to 2% in the 9th Plan and is estimated to decline further to about 1.8% for the 10th Plan. If agriculture continues to limp at 2%, as it did during the Ninth and the Tenth Plan, manufacturing sector would be required to grow at more than 11% to yield a growth of 9% in overall GDP, and to absorb the industrial growth of this order our exports have to grow by about 26% which is certainly a stupendous task if not impossible. For several reasons accelerating growth in agriculture is the most desirable option for sustaining a high rate of growth of 8-10% in the GDP, as is being aimed at.

Having realised the imperatives for accelerating agricultural growth, the next question that comes to our mind is how to achieve it. The process of economic reforms seems to have by-passed agriculture. After the impressive strides of the 1970s and 1980s, the decade of the 1990s witnessed almost a vacuum in agricultural policies. The National Agricultural Policy announced in July 2000 also failed to fill the gap as it was not supported by a comprehensive action plan to convert the policy into reality.

The lack of a well-designed policy for more than a decade took its toll. Growth in agriculture decelerated with almost nil growth in employment. Agriculture lost its position as a viable means of livelihood. Income disparities between urban and rural population have been widening. All these translated into mounting rural distress which has been manifesting by way of farmers' suicides and extremist activities in several parts of the country. The average annual production of foodgrains has stagnated at around 202 million tonnes since 1998-99, of course with wide fluctuations from year to year ranging between 175 million tonnes to 213 million tonnes.

Indian agriculture today is largely associated with lack of investment,

credit, infrastructure, technology, knowledge and extension services. Massive investment along with a comprehensive multi pronged policy is urgently needed to reverse the slowing down of agriculture and bring back agriculture to the high growth trajectory. The investment in agriculture has been steadily declining over the years coming down from 2.2% of the GDP during the Seventh Plan to about 1.5 % of the GDP during the first two years of the Tenth Plan. It is likely to have declined further in the recent years. The proportion of public investment has declined more steeply from 0.9% to 0.4% of the GDP during the period which has been the major cause of poor infrastructure in the rural areas. The new agricultural policy has to address the second generation problems faced by the developed regions while accelerating growth in the relatively less developed areas where plenty of scope exists, especially the untapped potential of rainfed areas. It must focus on bridging the rural urban divide, besides narrowing regional disparities even within rural areas where agriculture has a key role to play.

The balanced and integrated use of fertilisers, including secondary and micronutrients, in combination with organic manures, green manure, biofertilisers, etc. has a crucial role in solving problems like soil degradation, declining crop response ratio, etc. and improve crop productivity. Currently, consumption of fertiliser nutrients per hectare of arable land in India is only about 100 kgs. which is lower than our neighbours like Pakistan, Bangladesh, Sri Lanka, etc. and much lower than the developed countries. Per hectare consumption of nutrients in neighbouring China is about 278 kgs. and it produces almost twice the quantity of foodgrains that we produce with much lesser arable land than we produce. There is, therefore, enough scope for increasing per hectare consumption of fertilisers and crop productivity in India. It has been estimated that an increase of 10%

in use of fertilisers would increase farm incomes by more than 3% which highlights the imperatives of increasing fertiliser use to achieve increase in crop productivity, production and net farm incomes. Let us not forget that the projected needs for foodgrains in the future have to be produced from the existing, if not declining, area under cultivation.

However, the health of the Indian fertiliser industry is not in good shape. The major problems bothering the industry today pertain to the strict controls on cost and prices of fertilisers with a significant portion of the legitimate cost actually incurred by the industry not being reimbursed, non-availability and high prices of feedstock for urea and raw materials, intermediates for phosphatic and complex fertilisers and also inordinate delays in announcement of the rates and disbursement of the concession. While most of the sectors have been deregulated including a core sector like petroleum, the Indian fertiliser sector continues to be one of the most strictly controlled industries in the world. Despite this, the industry is blamed for the increasing outgo of subsidy from the Government.

One of the major issues exercising the minds of policy makers in the recent years has been the sharp rise in fertiliser subsidy and in order to contain fertiliser subsidy, the Government has been tightening the pricing norms. However, in doing so, the Government has not been able to address the real causes of rise in fertiliser subsidy, which are the sharp increases in the prices of feedstock, fuels and other inputs on the one hand and almost stagnant prices of fertilisers on the other.

Sir, the inadequate provision in the successive annual budgets for fertiliser subsidy causes inordinate delays in disbursement of subsidy blocking large amounts due to the industry for long periods. Carry over of large arrears of subsidy from one year to the next for want of funds has almost become a practice in the recent years. For instance, a

backlog amount of about Rs. 6,000 crore was carried from 2005-06 to the current year, which was about Rs. 4,000 crore for the previous year. Even for the current year the allocation is only Rs. 18,750 crore (one crore is equal to 10 million). The latest estimates of demand for the current year is about Rs.40,000 crores (including carry over of Rs.6000 crores). Upto October, 2006, the claims of the industry stand at Rs.10,000 crore. Unless additional funds are made available during the year, the current year may end with a staggering backlog of Rs. 21,000 - 22,000 crores. Can the industry carry on with such huge unpaid amounts? Impossible. I should say the industry continues to reel under a severe cash crunch increasing the requirement of working capital and interest thereon. The situation is so acute, that recently a major urea producer had to shut down as it could not pay for raw materials. Many more units will face a similar fate unless funds are made available urgently.

Sir, we are thankful to you and the Secretary (Fertilizers) for having heard us even yesterday and assured us of positive intervention and look forward to very positive developments. Sir, it will be a tragedy that while the country is wanting more fertilisers to meet the brisk demand, the spectre of closure is looming large on our fertiliser plants

In the case of urea, the migration from the erstwhile RPS to NPS from April, 2003 has not paved the way to move from unit-wise pricing to group-wise pricing gradually leading to a single price and ultimately to decontrol, as was expected. The only objective achieved so far is reducing the rates of concession at every successive stage with the sole purpose of reducing subsidy. The provision of 12% post tax normative return on networth that was an integral part of the pricing formula under RPS has got somewhat distorted, first due to group averaging and further due to the

application of the principle of group average or actual price which ever is lower.

In the absence of a pragmatic long-term policy regarding pricing and subsidy for the fertiliser sector based on the requirement of the agricultural sector, the short-term interest of 'somehow reducing subsidy outgo' has prevailed for more than a decade which has badly affected the fertiliser industry. The issue of rising prices of hydrocarbons and the stagnant prices of fertilisers to the farmers has so far not received the attention that it deserves. The pricing of fertilisers, especially urea, and feedstock is closely linked to the amount of subsidy and hence should not be dealt with independently. In fact, a good bit of the rise in fertiliser subsidy, especially urea, has been due to deregulation of liquid hydrocarbons like naphtha, fuel oil, LSH, etc. which resulted in a sharp rise in prices of these vital inputs. We are faced with a deregulated upstream industry with highly regulated downstream products; though normally it should have been the other way round.

The market for hydrocarbons being far from perfectly competitive, leaving allocation and pricing of hydrocarbons to an imperfect market while maintaining strict control on fertilisers would only increase the subsidy bill. Government intervention in allocation and pricing of hydrocarbons, especially natural gas, LNG, etc. is, therefore, inevitable at this stage in the absence of an effective regulatory mechanism. Even otherwise, an important sector like energy which involves national planning and inter-ministerial decision making cannot be left to market forces till all other sectors are deregulated and there is true competition.

We are indeed grateful to the Department of Fertilizers for the sincere efforts that it has been making to ensure adequate allocation of gas and pipeline connectivity to most of the fertiliser

units in cooperation with the Ministry of Petroleum & Natural Gas, GAIL and other producers and suppliers of gas and LNG. As a result of its constant efforts and the industry for the past few months, a plan for ensuring pipeline connectivity and adequate supply of gas to the fertiliser sector is being worked out. As per this plan, while supply of gas to most of the existing urea units including non-gas based plants would be available by 2008-09, no plan has been drawn up for three naphtha based units representing about 1.4 million tonnes of urea capacity. These units, therefore, need a special dispensation to tide over the situation till such time that a solution can be found. Sir, because of your efforts, the revival of the closed urea units of FCI and HFC based on the availability of natural gas or coal gasification and Coal Bed Methane is a welcome step taken by the Department of Fertilizers.

The Government has been stressing upon the early conversion of non-gas based urea units to gas. Sir, I would like to assure you and the Department of Fertilizers that the industry would not be lacking in any way if the policy is right. Already, two naphtha based units of IFFCO, Phulpur and the Gadepan-II unit of Chambal Fertilizers have converted to gas and SFC, Kota is likely to do so by March, 2007. Other units are also actively pursuing their conversion plans. What is needed is the supply of gas. So far, the supply of gas, LNG to the existing gas based units and those which have newly converted has not been adequate.

Coming to phosphatic, potassic and complex fertilisers, I must admit that the situation is no better. The industry continues to suffer due to not allowing and/or freezing a large proportion of its cost under the pricing and concession schemes. There has been an increase of about 30% in railway freight alone that too in one year which has not been recognised so far. There having been steep increases in

other components of cost also due to normal inflationary and other reasons which the industry had to absorb as they are not recognised and reimbursed under the current dispensation. All these have severely eroded the margins of the units. The SSP sector has been the worst hit. The industry continues to suffer due to reluctance of the state governments in allowing any increase in the MRP on the one hand and delay in revision of concession rates by the Centre on the other as there is no provision for periodical revision or escalation in the rate of concession of SSP corresponding to increase in cost of major raw materials which is allowed for all other fertilisers.

The need for increasing fertiliser consumption is undisputed and so is the need for a long-term pragmatic fertiliser policy. A vibrant fertiliser sector is a must for progressive agriculture in a country like ours where the demand for fertiliser products per annum is likely to reach 55 million tonnes by 2011-12 in product-term. Our ports and inland transportation infrastructure are already under tremendous pressure with the increase in import of fertilisers and wheat during the current year, apart from the general increase in international trade. As per projections made by FAI, which is conservative by any standards, the shortfall of urea and DAP by the end of the Eleventh Plan is estimated at about 8 million tonnes and 7 million tonnes, respectively. The Government has to decide what proportion of this incremental requirement is to be met through domestic production and how much to rely on imports. The past practice of producing the greater part of our needs and depend on imports only to meet marginal shortfalls, has served us well by helping to moderate international prices, the growth of indigenous industry with its multiplier effects on the economy and a greater degree of fertiliser security which has insulated Indian farmers from the vagaries of international price fluctuations. Thus, there is a strong

need to increase the capacity of domestic production both for nitrogenous and phosphatic fertilisers.

Creating capacity either through debottlenecking, revamp, modernisation or through expansion and new projects is possible only through an investment friendly policy. The recent policies have somehow rendered the fertiliser sector unattractive for investment. This sector has not benefited from booming stock markets and hence it is not surprising that no urea plant has been set up after 1999. Even the debottlenecking proposals of the existing plants, which is the cheapest way to add capacity, have not fructified due to policy conundrums. The cost of these projects, in the mean time, has increased significantly. Similar is the fate of the proposed new projects. Today, we are not getting even the EPC contractors. Their order books are full. Even if we get them, their charges are much more.

In the case of phosphatic and complex fertilisers, some capacity has been added but commensurate increase in production could not fructify due to unfavourable policy regime including its uncertainty. The net result has been that we have ended up importing much higher quantities of urea and DAP this year at exorbitant prices. The time has come when we have to take a hard decision on what is beneficial for the country in the long run, encouraging domestic production of fertilisers or importing fertiliser and foodgrains at much higher rates? The international prices of wheat have increased from about US\$ 140 per tonne a few months back to more than US\$ 200 per tonne since India resumed imports of wheat after a gap of 6 years. Is it sustainable? Should we position ourselves as future suppliers of food to the world or just self-sufficient or future importers of food? These are barred questions. Where do the interests and future of 116 million farm households lie?

Setting up joint ventures in countries which are relatively abundant in either gas or phosphate deposits is another way of meeting our requirement of fertilisers. However, this strategy can work only if we are able to enter into long-term buy back agreements which insulate us from high international prices. The industry has been pro-active in this regard and what is encouraging is that of late the Department of Fertilizers has also been taking a lot of initiative in exploring the scope for and facilitating joint ventures abroad.

The industry is quite hopeful that the new policy for urea and phosphatic and complex fertilisers that is under the consideration of the government would take a long-term view and provide a road map of the future of the fertiliser industry and also, on a broader plane, of Indian agriculture. Ability to attract fresh investment in this sector would be the acid test of the new policy. The new fertiliser policies should facilitate achieving 4% growth in agriculture during the Eleventh Plan and not become a stumbling block.

Against this backdrop, the FAI Annual Seminar 2006 has been devoted to the theme of 'Fertilisers and the Revival of Agriculture'. The focus of deliberations in the Seminar would be on food, fertiliser and agricultural policies; pricing, availability and supply-demand balance of fertilisers, feedstock, raw materials and intermediates; production technology, agronomic and environmental aspects and marketing.

We have scheduled presentations on topical issues during the next two days which we hope will throw up some useful suggestions, which in turn will help in formulating suitable strategies for the agriculture sector, the fertiliser sector, the hydrocarbon sector and the economy as a whole. I welcome you all once again to the Seminar.

Thank you.