

Inaugural Session

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Chairman, FAI, Mr. U. S. Jha, Co-Chairman Mr. K. S. Raju, Mr. R. C. Gupta, DDG, FAI, Secretary (Fertilizers) Dr. Sarma and Distinguished delegates.

It gives me immense pleasure to be with you all at this inaugural function of FAI Annual Seminar. The theme of the Seminar "Holistic Approach to Agriculture and Fertilizers" is most appropriate as we are facing the problem of decreasing productivity response to fertiliser usage in the country. This holistic approach is very important to achieve agriculture growth targets of the 11th Five Year Plan. We need to keep in mind that use of fertilisers is just a means towards an end and not an end in itself.

Chemical fertilisers have been a major contributing factor to the growth of Indian agriculture over the last five decades. Unfortunately, agriculture has

not kept pace with growth in other sectors especially over the last few years. While the economy grew at an average rate of 7-8% during the Tenth Plan period, agriculture and allied sector grew at the rate of 2.5% per annum. This inequity is increasingly putting a question mark over the sustainability of our growth process. The challenge before us today is to promote use of fertilisers in the country in a way which leads to increased soil productivity and consequently better returns to the farmers.

The overall fertiliser consumption in the country has had a phenomenal growth in last few years. From 16.8 million tonnes of total nutrients (N+P+K) in 2003-04, it increased to 21.7 million tonnes in 2006-07 and is likely to reach 23.5 million tonnes in 2007-08. In terms of product, the consumption of urea which was 19.8 million tonnes in 2003-04, is expected

to touch 26.46 million tonnes in the current year. Similarly, the consumption of DAP is likely to increase from 5.6 million tonnes to 8.53 million tonnes and that of MOP from 1.8 million tonnes to 3.38 million tonnes during the same period. Consumption of complex fertilisers is expected to increase from 4.7 million tonnes in 2003-04 to 7.4 million tonnes in the current year. This rapid increase in consumption has outstripped domestic production which has remained almost stagnant in the last couple of years. As a result, imports have increased substantially. The import of urea which was nil during 2003-04, is likely to touch 7.0 million tonnes in 2007-08. Import of DAP is expected to increase from 0.73 million tonnes to 3.02 million tonnes during the period. Import of MOP is expected to increase from 2.6 million tonnes in 2003-04 to 3.6 million tonnes in the current year. Along with the increase in imports, international prices have also been showing increasing trend sharply. While higher imports are likely in the current year, tight global supplies are further straining our import budgets.

I have noted with concern the indigenous industry's reluctance to import DAP in the current year. While the Government has made sincere efforts to address the problems of fertiliser industry, the industry has not reciprocated as far as DAP imports are concerned. Last year, private sector organisations imported DAP to the tune of 1.0 to 1.2 million tonnes. During the current year, they have imported only



0.52 million tonnes (0.16 million tonnes in Kharif and 0.36 million tonnes in Rabi). I do understand that the industry did not import large quantities due to heavy under-recovery on freight account, etc. However, the industry should keep the national interest in view. The Government, however, has not allowed these problems to affect overall availability of fertilisers in the country in the interest of our farmers who are toiling hard to provide this country with required food security. In this context, I must thank IPL which has tried to compensate the shortage by making large imports of DAP. But IPL does not have its own distribution channel. The companies who have distribution network upto the village level have imported less in the current year. However, I would like to compliment the complex fertiliser manufacturers for having done their best in producing the maximum possible quantity in spite of various constraints faced by them on input supply front. The Fertiliser Association of India also deserves compliments for coordinating the monitoring of information. I am aware of the problems being faced by the industry in availability of gas and even naphtha as well as rock phosphate, sulphur and phosphoric acid. I assure the industry that the Government will try to help the industry in every possible way.

India is the third largest consumer

of fertilisers in the world. We have been relying heavily on our traditional partners in fertiliser sector for meeting the fertiliser requirement of the country. Import of fertilisers has always been a major source for meeting the indigenous requirement. But the unprecedented increase in international prices of fertilisers and fertiliser inputs in the last few years has been a major cause of concern. CFR (India) price of urea has increased from US\$ 156 per tonne in 2003-04 to US\$ 407 per tonne now. Similarly, CFR price of DAP has increased from US\$ 203 per tonne to US\$ 600 per tonne and that of MOP from US\$ 123 per tonne to US\$ 356 per tonne during the same period. CFR prices of phosphoric acid have also increased from US\$ 356 per tonne to US\$ 566 per tonne during the same period. The quantum of price increase cannot be solely justified by the increase in costs of production and it clearly indicates an effort on the part of our traditional suppliers to take advantage of the prevailing demand-supply scenario. The price increase is having a significant impact on Government subsidies, which is becoming unsustainable. I would like to request the suppliers of fertilisers, raw materials and intermediates in the international market not to take a myopic view of the existing situation. Rather, they should keep their long-term relationship with India in perspective while dealing with exports

to India. An immediate correction in the prices is therefore the need of the hour.

Our agricultural growth is already low. Farmers still do not have the knowledge about how fertiliser should be applied in the soil and in what proportion. We are also not giving subsidy on all fertilisers. Voices have been raised about lower allocation of subsidy in the budget. During the current year, about Rs.45,000 crore has been requested as subsidy from the Government exchequer. In 2002-03, the amount of subsidy on urea was Rs.7,788 crore and today it is Rs.25,654 crore. The total amount of subsidy was Rs.11,000 crore in 2002-03 and today, the requirement is Rs.45,659 crore. We have not raised maximum retail prices of fertilisers (MRP) to the farmers. Five years back, MRP of urea was Rs.4830 per tonne and today also it is the same. With regard to subsidy dues, we have been equally concerned as the industry. We persuaded the Finance Ministry as well as the office of the Prime Minister for early release of payment. Out of Rs.45,000 crore, Rs. 36,500 crore has already been provided for, out of which Rs. 27,000 crore have already been disbursed. Rs. 7,500 crore will be in the form of bonds. Besides this, there is need for an additional amount of Rs.9,000 crore. Finance Ministry has assured that it will give Rs.5,000 crore and the remaining amount of Rs.4,000 crore will be spilled over in the next budget. During last year also, about Rs. 8000 crore was carried forward to the current year. We know that the industry is having difficulties. But it has been facing difficulties for quite a long time. That is why, I have told the Finance Minister and the Prime Minister that as we have to pay the subsidy money to the industry, it should be given in time so that the industry does not incur losses.

The increase in consumption of fertilisers has also led to the requirement of increasing indigenous

production of fertilisers both in nitrogenous and phosphatic sector. Currently, 70% of the total capacity of urea is based on gas and the remaining 30% on naphtha/F.oil. But 30% of the total amount of subsidy is provided to the gas based plants and 70% to the naphtha/F.oil based plants. So, we want all the existing naphtha/F.oil based plants to get converted to gas. For this, we need about 41 million standard cubic meter per day (MMSCMD) of gas. Currently, our plants are getting only 29 MMSCMD of gas. So, we need an additional quantum of 12 MMSCMD of gas immediately. Over and above this, if all the closed units of Hindustan Fertilizer Corporation Ltd. and Fertilizer Corporation of India Ltd. are revived, besides proposed revamp/debottlenecking/expansion of the existing plants, etc., the total gas requirement will be significantly high. The total requirement of gas is estimated at 95 MMSCMD for a urea capacity of 38 million tonnes by 2016-17. In the meeting of Group of Ministers, it has been decided that fertiliser sector will be given priority in gas allocation and the demand for 95 MMSCMD will be fulfilled. The gas availability in the country is projected to improve from 2008-09 onwards. The industry needs to take advantage of this opportunity to add indigenous production capacities, not only to meet the growing requirement within the country but also for exports. The decision of the Government to revive the closed units of the Hindustan Fertilizer Corporation Ltd. and Fertilizer Corporation of India Ltd. provides a unique opportunity for the indigenous industry to come forward for setting up of brownfield projects by utilising the already existing infrastructure. I am happy to note that our fertiliser PSUs have shown interest in the revival of five of the eight closed units and the process has been set in motion. In the case of DAP and other complex fertilisers, the availability of



rock phosphate and phosphoric acid have serious problems. Recently, IFFCO has entered into joint venture with Jordan for supply of phosphoric acid from Jordan. It is reported that Tunisia and South Africa have also shown interest for setting up joint ventures with India. There are issues of supply of phosphoric acid from Senegal. We are trying to find solutions to the problems relating to supply of phosphoric acid from Senegal. But I will once again say that we must concentrate more on domestic production rather than imports. For this, we are trying to frame a New Policy.

No new investment has taken place in this industry for the last 15 years. There is need for investment in this sector. There will be investment in this sector when there is adequate return on investment, like other sectors of the economy. I am aware of the concern of the industry for an investment friendly policy both in nitrogen and phosphate sectors to augment domestic supplies. The Government is actively considering various options for an investment policy which is attractive to investors. From time to time, the industry and the FAI were also involved in the deliberations and discussions. I am happy to say that the FAI and the industry have contributed significantly by making valuable suggestions in the formation of the draft policies. I assure you that the Government will come out with new policies in respect of both

nitrogen and phosphate sectors, which will be benchmarked to international standards and will encourage healthy competition and efficiency both in production and distribution. We assure you in this FAI conference that whatever policies will be framed by the Government in future, we will see that the industry's interest is safeguarded.

There are issues of direct subsidy to the farmers. The word direct subsidy sounds well but it is not in the interest of the farmers. Because under the Direct Subsidy Scheme, farmers have to pay first the higher price of fertilisers, may be through Smart Card, and then they would be able to recover the extra cost from the concerned authorities. In other words, to pay the same MRP what the farmers are paying today, farmers will have to undergo unnecessary harassment under Direct Subsidy Scheme. So, a consensus is developing for a nutrient-based pricing and subsidy. Under, nutrient based pricing regime, the selling price of fertilisers could be determined on the basis of nutrient content. To provide wider choice of fertilisers to the farmers, some more fertilisers could also be brought under subsidy regime. This initiative will be based on maintaining affordable prices of nutrients for the farmers at the farm gate. The Government is also working out the modalities for encouraging fortified fertilisers to add vital micronutrients to the soil. The increasing sulphur deficiency in many

regions is another cause for concern. To increase its consumption, the Government is considering inclusion of sulphur as a subsidised nutrient in the subsidy regime. We want nutrient imbalance to be removed from the soil. As human body needs vitamin, protein, etc., similarly, soil needs all types of nutrients, like sulphur, zinc. etc., in addition to primary nutrients.

In order to ensure that the fertiliser reaches every nook and corner of the country, the Government of India has introduced Fertiliser Monitoring System during the year. I know that the industry had to do a lot of work to comply with the requirements of the system and also faced some teething problems in the initial stages. The system, however, has greatly helped in equitable distribution of the available fertilisers in the country. The good work done, needs to be further continued, to completely stabilise the system and make it stand the test of time.

Today, there was a debate in the Parliament about the way of distribution of fertilisers. As mentioned earlier, we have introduced FMS by which we are monitoring movement of fertilisers upto the district level. Earlier, the Government was monitoring supply of fertilisers upto the state level. Fertiliser companies used to take 80% on-account subsidy on the basis of sales to the states. But now, we have decided to monitor the supply of fertiliser upto the district level. The figures of overall availability and sales in all the states do not show any shortage of fertilisers. But there are complaints from MPs who are representing the districts that materials have not reached their districts. Farmers have to buy fertilisers in black. But, how we can ascertain that our materials are reaching at the district level. The allocation of fertiliser is made by the Agriculture Ministry in consultation with the fertiliser industry. 50% of despatches of urea of each manufacturer is under ECA allocation.

For the remaining quantity of urea, as well as for DAP and MOP, advance plan is made with the state governments about where and how much quantity will be distributed and on which mode. So, whatever quantities have been committed to the state governments should be adhered to. Fertiliser industry should see that the fertilisers reach to the places as per the commitments.

I am aware of the concern of the industry regarding the limited freight reimbursement for P&K fertilisers under the Concession Scheme which prohibits it to supply fertilisers in remote corners of the country. The Government is looking into the possibility of a uniform freight policy for all subsidised fertilisers in the country on the pattern of the present freight regime for urea. The fertiliser industry also needs to respond positively by extending its marketing network to the remotest corners of the country. A vibrant and extensive marketing network can only help meet the objective of fertiliser subsidy by making it available to the last farmer in the queue.

The policy initiatives of the Government will be fruitful only if the efforts of industry are also synergised to provide best solutions to our farmers. The fertiliser industry also needs to invest in awareness generation amongst farmers especially the small and marginal farmers through a wide array of extension services in their areas of operation. This will enable them to meet their social responsibility as an industry and also encourage proper consumption of fertilisers. A holistic approach towards agriculture and fertilisers will remain incomplete without complete participation of all stake-holders towards a common aim of increased agriculture productivity and rural prosperity. We need to work together towards this common goal.

Agriculture is the backbone of our

country. At a point of time, our challenge was food security. Today, we have become self-reliant on foodgrains, barring a small quantity of wheat imported in the recent years. The main instrument behind the self-reliance in foodgrains is the fertiliser. That is why, any shortage of fertiliser is not only harmful to the farmer but to the nation. Human beings cannot survive without food. There cannot be increase in the production of foodgrains without increase in the use of fertilisers in a proper manner. So, the requirement of fertiliser will keep on increasing. Currently, we are paying subsidy on fertiliser to the tune of Rs.45,000 crore. It will further increase in future. But we should not forget that the money with the Government is the nation's money. If some additional tax is imposed, the burden will be on the shoulders of the farmers which will have a direct impact on the production of foodgrains. So, keeping all these in view, we should move in this direction. In the next two days' seminar, all of us wish that the Fertiliser Industry expands and flourishes, farmers become happy and there is least burden on the Government.

I sincerely hope that this Annual Seminar of FAI will provide a good opportunity for fruitful interaction between the members of Indian fertiliser community and the international fertiliser industry. I appeal to all the distinguished delegates to use this platform for detailed deliberations on international fertiliser scenario, including India, and to firm up a plan of action for meeting the major challenges before the fertiliser sector internationally, in the context of increasing demand for fertilisers in India and bio-fuels led increase in international demand for fertilisers.

With these few words, I inaugurate the seminar.

Jai Hind, Jai Bharat