Inaugural Session

CHAIRMAN'S SPEECH

U. S. JHA, Chairman, The Fertiliser Association of India, New Delhi

Hon'ble Minister for Chemicals and Fertilizers and Steel, Shri Ram Vilas Paswanji, Secretary, Department of Fertilizers, Dr. J. S. Sarma, Co-Chairman, FAI, Shri K.S. Raju, Deputy Director General, FAI, Shri R.C. Gupta, Directors of FAI Board, friends from media, your Excellencies, distinguished Delegates, Invitees, Ladies and Gentlemen.

It gives me immense pleasure to extend a hearty welcome to you all to this year's Seminar. We express our deep gratitude to Shri Paswanji for being with us and inaugurating this Seminar despite his pre-occupation while the Parliament is in Session. Sir, the entire industry joins me in expressing our gratitude to you for promptly taking up our problems with the concerned ministries including the Group of Ministers, the Finance Minister, the Agriculture Minister and the Hon'ble Prime Minister, particularly, for your efforts for allocation of gas to fertiliser sector on priority basis and allocation of funds in the first supplementary grants. We are, in fact, grateful to the entire Department of Fertilizers for their continued support and cooperation under the stewardship of the Secretary (Fertilizers), Dr. Sarma. Sir, before proceeding further, I would like to reassure you that the industry will continue to extend its full cooperation within its means towards achievement of the objective of uninterrupted supply of fertilisers to support the accelerated growth in agriculture and ensure food security of the nation. Our only submission is "Please enable us to do so".

This year's Seminar assumes special significance as this is the first year of the 11th Five Year Plan. Smooth take off is very important for achievement of the Plan targets. Crucial policies for fertiliser, agriculture and energy sectors are still in the melting pot. The deliberations during the Seminar will be helpful in giving shape to the policies and programmes for the entire Plan concerning these sectors.

Friends, India is basically an agrarian country where about two third of the population still depends on agriculture. The growth in agriculture is not only important for generating income for the majority population but also to sustain higher growth in industry and services, as the demand for these sectors is largely dependent on income generated in the agricultural sector. Agriculture also provides basic raw materials for a host of industries and contributes significantly to the country's exports.

Unfortunately, while the economy has recorded an average growth of 5.5% and 7.6% during the 9th and the 10th Five Year Plans respectively, the growth in agriculture remained at low levels of 2% & 2.3% during the same periods. Per capita annual production of cereals declined from 192 kg during 1991-95 to 174 kg only during 2004-07 and that of pulses from 15 kg to 12 kg which has brought us back to the level of 1970s. Even the sunrise sectors of Agriculture like fisheries, livestock, horticulture etc., have started decelerating. More disquieting is the sharp decline in per capita availability of pulses, which is the main source of protein in our country.

Declining investment in agriculture,

particularly public expenditure, in creation of rural and agricultural infrastructure; inadequate agricultural research, especially in development of high yielding variety seeds for rainfed areas; imbalance in use of plant nutrients, deterioration in extension machinery of the Government, etc., have been at the root of prolonged agricultural deceleration. It has been suggested by experts that public investment in agriculture has to be stepped up to 4% of agricultural GDP to reverse the declining trend and put it back on fast track, as envisaged in the 11th Five Year Plan. The Food Security Mission should provide some help but much more needs to be done.

Fertilisers have a crucial role to play in accelerating agricultural growth. Fertiliser industry has partnered Indian farmers in accelerating agricultural growth during Green Revolution which helped India migrate from a situation of ship-to-mouth till the 60s to near self-sufficiency in foodgrains. The role of fertilisers has increased further today, as the entire increase in future agricultural production, especially foodgrains, has to essentially come by way of increased yields from the shrinking land and water resources available for agriculture. Quality seeds and balanced use of fertilisers with improved farm management practices supported by adequate investment in infrastructure and effective extension services hold the promise for accelerating agricultural growth.

Unfortunately, the domestic fertiliser industry is incapacitated to play the desired role. It is currently struggling for its own survival. Immediate Government attention is, therefore, needed not only for reviving its sagging health, but also for formulating policies to attract fresh investment in the sector which has dried up completely. While other industrial sectors are flooded with funds, including FDIs, no major investment has taken place in the fertiliser sector for about a decade or so. It is perhaps the only industry which has not benefited from the current high growth of the economy despite demand for fertilisers outstripping supplies and increasing gap between indigenous production and demand. The fertiliser industry can play its role in achieving targeted growth in agriculture provided it is helped to survive and grow. The Government has a crucial role here, especially in a highly regulated environment under which the fertiliser industry has been operating.

The recent policies with excessive regulations and controls have stifled the domestic fertiliser industry. It has been saddled with uncertain policy direction, frequent changes in pricing parameters and micro-management, primarily aimed at reducing the burden of subsidy without increasing the MRP of fertilisers and/or containing the runaway increase in prices of major inputs and services. This has seriously affected the health of the industry. A number of units have been closed and the remaining are struggling to survive.

In fact, Indian fertiliser industry has been sandwiched between rising prices of inputs and relatively insignificant increase in MRPs of fertilisers. The rise in subsidy is not because of the inefficiency of the industry as is often perceived. Indian fertiliser industry is acclaimed to be one of the most efficient industries of the world. More than 81% of the total increase in cost of urea production and distribution between 1995-96 and 2005-06 was on account of rise in prices of feedstock alone. The industry has in fact, been, squeezed to the extent of about Rs.16 billion during the same period due to disallowance of genuine costs actually incurred by urea units, severely affecting their bottomlines.

Today, the situation is extremely critical with sharp increase in cost of imported raw materials, intermediates and finished fertilisers. The figures of the prices of imported fertilisers, raw materials and intermediates are mind-boggling. CFR price of urea which was US$ 117 per tonne during 2001-02, increased to US$ 234 per tonne in the last year (2006-07) and is over US$ 400 per tonne now. DAP which was US$ 174 per tonne during 2001-02, increased to US$ 294 per tonne in 2006-07 and currently, it is US$ 625 per tonne. MOP, which was US$ 121 per tonne in 2001-02, is now US$ 360 per tonne. CFR price of sulphur was US$ 85 per tonne in the last year, has risen to US$ 400 per tonne now. Prices of rock phosphate have doubled over the last year. International price trend is rising and is expected to be worse in the next year.

Coupled with this, the issue that needs urgent attention is inadequate allocation of funds in successive Union Budgets for fertiliser subsidy. Of late, it has become a practice rather than an exception to carry forward a large amount of unpaid subsidy dues from one year to the next for want of adequate budget provisions. Even during the current year, the allocation made so far is only about Rs.365 billion including Rs.140 billion allocated in the 1st supplementary grant. This is against an estimated requirement of over Rs.480 billion. Out of Rs.140 billion allocated in the 1st supplementary, Rs.75 billion is being given in the form of bonds. In view of the severe liquidity crunch, industry would have to sell these bonds in the market at discount, further eroding the viability of the industry.

If the bonds are not tradable due to certain conditions attached, industry would have to borrow funds for working capital at much higher interest rates, making a still deeper dent on the finances of the companies. Even after the 1st supplementary grant, there is likely to be a gap of Rs.100-120 billion between the allocation and requirement

of fertiliser subsidy for the current year. It is unfortunate that nothing has been provided in the 2nd supplementary grant in spite of the best efforts of the Department of Fertilizers. We request you Sir, to ensure uninterrupted payment of subsidy to the industry in order to meet the production targets. Adequate budgetary provisions need to be made for the next year when fund requirement is going to be much higher than the current year. Rough estimate is that it is going to be of the order of Rs.70,000 crore (i.e. Rs. 700 billion).

It needs to be appreciated that fertiliser Industry is only a conduit for routing the subsidy on fertilisers given by the Government to farmers. It first passes on the benefit to the farmers and then claims reimbursement from the Government and it does not benefit from it in any way. Industry will welcome if the Government develops an alternative mechanism for disbursement of fertiliser subsidy.

The industry is also suffering due to short-term Government policies resulting in persistent uncertainty, especially since 1991. Even the policy for Stage-III of the NPS for urea units, notified in March, 2007, has been made applicable only for three and a half years starting from October, 2006, thus leaving the future beyond March, 2010 uncertain. The policy pronouncements for P and K segment have also been in piecemeal. Even at present, the policy has been announced only for the current year. The report of Tariff Commission on Cost Price Study for P and K segment is awaited. The policy for SSP is also under consideration of the Government for quite some time and a decision is still awaited. In such a scenario, industry finds it difficult to take investment decisions and make long-term agreements for purchase of feedstock, raw materials and intermediates.

Allocation of gas to fertiliser sector on a priority basis at reasonable prices will go a long way in not only reviving fertiliser sector, especially urea, but also in reducing subsidy on urea and attracting fresh investment in the sector. Priority allocation of APM gas to fertilisers will not tantamount to going back on reforms, rather it will, to some extent, correct the current structural mismatch created by deregulation of prices of liquid hydrocarbons without deregulating fertiliser prices. Deregulation of gas and petroleum prices should not be decided in isolation without evaluating its impact on its dependent industries like power and fertilisers. Allocation of energy resources is a national issue and involves policy making at the highest level. It is even more important for an energy deficient country like ours. We appreciate the efforts being made by the Department of Fertilizers and the Hon'ble Minister for earnestly pursuing these issues with the concerned ministries of the Government.

The last three years have witnessed sharp increase in fertiliser consumption in the country. Unfortunately, the increase in fertiliser consumption has not been accompanied by corresponding increase in foodgrain production. Besides other factors, the degradation in the soil health due to imbalanced and inefficient use of plant nutrients including the secondary and micro- nutrients, negligence of organic manures and other sources of nutrients has been identified as the major factor responsible for stagnation in crop productivity. It is heartening to note that both the Department of Fertilizers and Department of Agriculture are addressing the issues related to soil health enhancement and accordingly are evolving policies which will encourage balanced and efficient use of plant nutrients. The consideration of nutrient based pricing and encouraging the development and use of crop specific, location specific customized fertilisers fortified with secondary and micronutrients is a step in the right direction and it will go a long way in overcoming the problem of current imbalance in plant nutrient use and declining nutrient use efficiency.

Fertiliser and water use efficiency go hand in hand. Moreover, both fertilisers and water are becoming increasingly scarce as well as expensive. Therefore, there is need to improve use efficiency of water. For this purpose, we need to popularize fertigation i.e., application of fertiliser along with irrigation. We not only need to increase the quantum of production but also improve the quality of produce, particularly to tap export potential in flowers, fruits and vegetable crops. Production and use of speciality fertilisers i.e. liquid fertilisers, and 100% water soluble fertilisers needs to be promoted and encouraged. Liberal pricing and approving policies which encourage the production and use of speciality, value added and customised fertilisers without any complexity of subsidy are urgently needed.

Sir, the fertiliser industry, despite thin margins, is playing a catalytic role in transfer of improved farm technology to the farmers through a variety of programmes like village adoption, farmers field days, crop seminars, demonstrations, film shows, distribution of literature etc. However, these efforts can only supplement the extension work to be carried out by the Government and can in no way replace them. Extension machinery of the Government needs to be rejuvenated to encourage the balanced, efficient and integrated use of plant nutrients.

Shortage of fertilisers and foodgrains is looming large. We have already started importing wheat on a large scale at exorbitant prices. Last year it crossed 5 million tonnes. The shortage of rice is also emerging with a growth in demand by 1-1.5 million

tonnes per annum and stagnation in production at about 92-93 million tonnes for past several years. While consumption of nitrogen and phosphate has increased by about 30% between 2000-01 and 2006-07, the production of these fertilisers has increased by 9% only. Potash is entirely imported. The widening gap has resulted in sharp rise in imports. Import of urea was nil during 2000-01 which has increased to 4.7 million tonnnes during 2006-07. Similarly, import of DAP increased from 0.86 million tonnes to 2.9 million tonnes during the same period. Imports of urea and DAP during the current year are likely to be much more. The country is paying much higher prices on imported food and fertilisers than to its own farmers and industry with soaring subsidy bills.

The current supply demand gap has already increased to about 10 million tonnes of fertiliser material. This is likely to increase further and cross 16 million tonnes by the end of the 11th Five Year Plan. These quantities would have to be imported in addition to import of raw materials and intermediates. Such heavy imports would lead to serious infrastructural bottlenecks in terms of port capacity, rail and road transportation, storage and inland distribution. Increasing domestic capacity and production are essential for assured supply of fertilisers in adequate quantities.

Hence, there is an urgent need for addition to domestic capacity. Fertiliser is a capital intensive industry and it would require huge capital outlay to build required additional capacity. Unless enabling policies are introduced to allow reasonable rate of return comparable to other investment avenues in the country, investment is not likely to flow into this sector. Capacity addition through debottlenecking of existing plants has the potential of generating additional production of about 3 million tonnes within the shortest time span and with minimum investment. The Government should, therefore, expedite the investment policy to encourage capacity additions within the country. All additional production beyond 100% of existing assessed capacity whether it is through debottlenecking, revamp, retrofit, etc., of existing units or by setting up Brownfield, Greenfield projects; should be encouraged under a liberalised policy based on international benchmark like import parity price (IPP). The capital incentive scheme for conversion of non-gas based urea units to gas, as proposed in the policy for Stage-III of NPS for urea units also needs to be expedited to facilitate early conversion. Incentives like tax holiday, exemptions from excise and customs duty on project imports, spares, etc., and exemption from customs, excise and state VAT to major fertiliser inputs will go a long way in reducing cost of fertiliser projects and in attracting fresh investment in the sector. These measures will also help in reducing cost of production and, consequently, containing subsidy under the present policy regime and in making industry competitive in deregulated environment.

Similarly, a comprehensive long-term policy for the entire P and K sector is overdue. Industry would prefer a long-term policy free from controls and restrictions based on international benchmarks and far from the cost based policy. However, in the meantime, if the Government has to continue with the cost based formula, then the policy should refrain from micro management and ensure reasonable return with achievable norms and a provision for periodic review of all cost components. The proposed policy should also take care of discrimination meted out to SSP, and it should be treated at par with other P&K fertilisers. While, investment friendly policies are needed to generate additional capacities, the profitability of existing plants needs to be improved, as most of these are quite old. For sustaining production and ensuring safety as well as environmental aspects, substantial capital investments will have to be made and the same have to come from industry's own resources.

What needs to be appreciated is that the industry has to operate on sound commercial principles and compete for funds in a highly competitive environment to remain in business and service its shareholders. As it is, investors have been shying away from fertiliser sector. The real test of the policy would lie in how much investment it attracts in this sector. Unless returns from this sector are at least comparable to other sectors, if not better, nobody will put in his money. Hence, industry must be allowed to recover its cost with reasonable margins. Fertiliser policy cannot be decided in isolation; it has to be a part of the overall economic policy, particularly agricultural policy, and needs to be properly aligned with the policies for the energy and other sectors having forward and backward linkages. It needs an integrated and inclusive approach.

Against this backdrop, the FAI Annual Seminar this year has been devoted to the theme of ***Holistic Approach to Agriculture and Fertilisers***. The deliberations during the Seminar would cover various aspects of agriculture, fertiliser and energy sectors. I am sure the deliberations during the next two days will generate useful suggestions to resolve the problems facing Indian agriculture and fertiliser sectors. With this hope, I now welcome you all once again to the deliberations of the Seminar.