Challenges in Availability of Fertilizers

Long term contracts for imported gas are linked to crude oil prices. These prices have gone up significantly by about 48%. Natural gas prices in spot market have also followed the similar trend. Natural gas accounts for about 90% of variable cost of urea production. Spot price of LNG on NCV basis has increased from about US$8 per MMBTU in January 2021 to US$14.4 per MMBTU recently. Pool price of gas mainly due to rise in price of imported LNG price has increased by Rs.189 per MMBTU in the past 6 months. This translates into an increase in cost of production of urea by Rs.4400 per MT. For domestic urea industry, not only the prices of imported gas have gone up, but heavy taxation has further pushed up the delivered cost of gas. For instance, the combined incidence of Gujarat VAT, local state VAT and GST on transportation of gas is more than 25% for some units. It adds up to the cost of production because no input tax credit is allowed. In spite of high cost of gas, domestic urea cost is lower than imported urea, which has crossed USD 500 per MT in recent days. Domestic urea production has resulted in cumulative savings of about Rs.1,43,000 crore for the government during 2006-07 to 2019-20.

But finances of domestic industry remain strained due to under-recovery of cost under various heads of expenditure. For example, elements of fixed cost of urea have not been revised since 2002-03 except selected 4 elements which too have not been updated over 2008-09. Simultaneously industry has been continuously squeezed due to repeated downward revision of energy consumption norms. Thus, cost of production and margins of domestic industry are being controlled artificially to control the subsidy on urea.

The situation in case of P&K fertilizers is no different. Prices of imported DAP have gone up from about US$408 per MT in January 2021 to US$597 per MT in recent times. Unlike urea, prices of P&K fertilizers are decontrolled. Therefore, increase in cost of P&K fertilizers would have increased the retail prices proportionately. But, Government of India increased the subsidy on phosphate content of these fertilizers from Rs.14.888 per kg to Rs.45.323 per kg of P$_2$O$_5$, an increase of more than 200 per cent. Government of
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India also allocated additional funds to the tune of Rs.14,775 crore to take care of increased subsidy. This was done in order to prevent any increase in retail prices for farmers. Government expected that industry would ensure sufficient supplies and maintain prices at old levels in view of higher subsidy. Unfortunately, international prices of DAP and of inputs like ammonia and phosphoric acid went up still higher after the increase in subsidy, which further pushed the cost of P&amp;K fertilizers. It became extremely difficult for industry to maintain viability of operations. The misery was further accentuated due to non-availability of sufficient supplies in the international market. While, supplies for Kharif crop season have been ensured, there is a challenge to arrange the import of sufficient raw materials and finished fertilizers to fulfil the requirement of the Rabi crop season.

Ensuring availability of fertilizers involves both short-term and medium-term measures both for urea and P&amp;K fertilizers. Short-term measures for urea have to ensure that production from existing units remain viable. These units are providing urea at two third of the current cost of imported urea. Viability of these units can be revived by approving the pending policy on minimum fixed cost, index based increase in fixed cost beyond 2008-09 and incentive in energy consumption norms for coal using units. Simultaneously, there is need for restoring priority of fertilizer sector in utilization of domestic natural gas. This will ensure competitiveness of domestic urea industry which will in turn ensure meeting large requirement of urea of Indian farmers at reasonable prices.

A medium-term measure for urea involves policy reforms. For quite some time, there has been consensus for bringing reforms in fertilizer sector. Archaic controls are hindering organic growth of this sector. There has been unanimity in High Level Working Groups set up by the government on bringing urea under nutrient based subsidy (NBS) policy and implementation of true DBT for disbursement of fertilizer subsidy directly to the farmers.

For P&amp;K fertilizers segment, it is necessary that there is realistic assessment of demand of these fertilizers. Excess import creates artificial supply constraints in international market. Panic buying by India further pushes up international prices. The widening gap between the total cost of production or import due to continuing rise in international prices and the realization through sale price and revised subsidy needs to be addressed immediately to ensure availability in the ensuing rabi season. Exempting major raw materials and intermediates like rock phosphate, sulphur, phosphoric acid, ammonia, sulphuric acid from customs duty will help to reduce cost of these fertilizers and help to improve the competitiveness of Indian industry. Speedy refund of input tax credit due to inverted duty structure and refund of input tax credit for input services under GST law will also help to reduce the cost of production of P&amp;K fertilizers.

Availability of fertilizers in time and at reasonable prices remains concern of the government. Therefore, it is essential that with the help of the government, we establish some mechanism which can ensure participation in projects for mining rock phosphate and potash in resource-rich countries and manufacturing of phosphoric acid and finished products for long-term supply security for P&amp;K fertilizers. This will help to realize the joint venture projects and ensure availability and stability in prices in medium- and long-term. Exploration for new reserves and exploitation of existing reserves of domestic phosphate rock also require new efforts.

Thus, self-sufficiency in fertilizers requires measures to ensure viability of domestic industry under present policies, reform in policies, investment in joint ventures abroad and last but not the least expediting exploration and exploitation of domestic phosphate reserves.