

Fertilizer Scenario during 2022-23

Frank Notes



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India's gross domestic product grew by 7.2% during 2022-23 and 7.8% during the April-June quarter of current fiscal (2023-2024). The economy is expected to grow at 6.5% in the current fiscal notwithstanding deficient monsoon rains. There has been 4% and 3.5% growth in the agriculture sector in 2022-23 and April-June quarter of 2023-24, respectively. Fertilizer sector also showed positive growth. Use of fertilizer is indispensable for development of agriculture.

Southwest monsoon is important for agriculture as 50% area is still rainfed. 2022-23 was the fourth successive southwest monsoon year when the country witnessed a normal rainfall. Southwest monsoon 2022 set in over Kerala on 29th May, 2022 against normal date of 1st June but covered the entire country by 2nd July, 2022. The cumulative rainfall during the season was 6% above the long period average (LPA). However, there had been very uneven inter-month variations in the distribution of rainfall. Out of 36 meteorological sub-divisions, 30 received normal to excess rains and remaining 6 received deficient rains during the period. Rainfall during the post-monsoon season 2022 was 19% higher than the LPA. Water storage position in major reservoirs was comfortable in 2022.

As a result of the normal monsoon, comfortable water and fertilizer availability, and sown area, production of food grains touched a record level of 330.5 million MT in 2022-23 representing a growth of 4.7% over 2021-22. Production of oilseeds, sugarcane and cotton are also estimated to increase during the year. Production of horticultural crops also touched to a record level of 350.9 million MT in 2022-23.

Three new urea plants of HURL contributed about

1.2 million MT to the urea production of 28.5 million MT thereby resulting a growth of 13.6% in urea production in 2022-23 over 2021-22. Production of phosphate (P_2O_5) showed healthy increase by 6.3% during the year. Production of urea could have been more but some plants suffered due to equipment and maintenance related problems and constraint in availability of working capital. Production of P_2O_5 could also have been more but some plants suffered due to lack of availability of sufficient quantity of imported raw materials/intermediates and high cost.

Natural gas is essential input both as feed and fuel for production of nitrogen containing fertilizers. The natural gas from new findings is auctioned and given to the highest bidder. The share of supply of domestic gas to fertilizer plants has dwindled gradually over the years. Domestic gas share declined from 17.7% in 2021-22 to 15.7% in 2022-23. Government of India has established a pool account for supply of natural gas to urea sector. The cost of pooled gas has been going up due to increase in share of imported LNG which is usually more expensive than domestic gas. GAIL as pool operator should be mandated to maximize the supply of domestic gas to fertilizer sector. This will help to reduce the cost of domestic urea and eventually the out go from public exchequer on account of subsidy.

About 30% of the total requirement of finished fertilizer products is fulfilled through imports. During 2022-23, there had been increase in import of DAP and NP/NPK complex fertilizers and decline in import of urea and MOP. Due to increase in domestic production mainly from the new plants, import of urea declined during 2022-23. Import of MOP declined considerably due to high international prices.

Consumption of total fertilizer nutrients, estimated at 29.84 million MT during 2022-23, registered a marginal growth of 0.2% over 2021-22. Consumption of N and P_2O_5 registered increase of 4% and 1.2%, respectively, over 2021-22. However, consumption of K_2O witnessed a sharp decline of 32.2%. India is import dependent to a great extent to meet its fertilizer demand either through import of finished products or raw materials. International market is quite volatile and prices depend on demand supply positions and geopolitical situations. This happened in 2022-23 also when the industry procured the materials at exorbitantly

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high prices of finished products, and raw materials used for production of fertilizers. Despite high prices of fertilizers and raw materials in the international market, Government of India and fertilizer industry spared no efforts in arranging supplies of fertilizers in every nook and corner of the country for use by the farmers. In 2022-23 also, Government of India came to the rescue of the farmers and increased subsidy on fertilizers so that farmers remain unaffected from the skyrocketing prices of fertilizers.

Policy for minimum fixed cost and updation of fixed cost for urea units remained under consideration of the Government. A separate Committee in DoF has been constituted to review the fixed cost issues and the same has been carrying various exercises. There has been a considerable escalation in fixed cost elements over the benchmark year of 2002-03 for the NPS-III policy, which has persisted for about two decades without recognition. Furthermore, though the government has acknowledged improvements in energy efficiency under the NPS policy, the fixed costs associated with investments made in energy improvement projects have not been incorporated into the overall fixed cost structure. There is an urgent need for comprehensive update of all aspects of fixed costs to ensure viability of existing urea production units. We are hopeful for early resolution of the issue. Regarding production of urea beyond reassessed capacity, removal of ceiling for reimbursement of variable cost plus minimum fixed cost in view of sudden decrease in prices of imported urea and gas prices staying high will enable the urea producers in planning of production schedule.

Basic economic principle of keeping import duty on inputs lower than finished products has been defied in the phosphatic sector as customs duty on input and output is same. Higher GST on ammonia and sulphuric acid has given further blow to domestic production of P&K fertilizers. The long pending issues on GST *inter-alia* include non-refund of accumulated ITC due to subsidy under inverted

duty structure, non-refund of ITC due to services, etc. are under the consideration of the Government.

Fertilizer industry welcomes the steps of the Government on continuation of ongoing urea subsidy scheme upto 31st March, 2025 at a total estimated outlay of Rs. 3,68766.70 crore for the financial year 2022-23 to 2024-25 and also recent initiatives for better nutrient management.

In the current year, sufficient rains in July and early August in most parts of the country helped in sowing of *kharif* crops. Total area sown under the *kharif* crops was 105.4 million hectares as on 25th August, 2023 compared to 105.0 million hectares on the same date of previous year. Skewed distribution of rains (excess and deficient rains in different areas) and huge deficiency in the month of August in northern states has affected *kharif* crops.

Domestic production of urea, DAP and NP/NPK complex fertilizers increased during April-July 2023 over April-July 2022. Growth in production of urea was due to higher contribution of new plants compared to the same period of the last year. There has been increase in production of DAP and NP/NPKs due to considerable decline in prices of raw materials in the international market. However, production of SSP showed a decline during the period. Import of urea and NP/NPKs reduced whereas DAP and MOP increased during April-July 2023 over April-July 2022.

There has been comfortable availability of fertilizers from both domestic and imports for use by the farmers. The sale of urea, DAP and NP/NPKs increased during the period. Sale of MOP and SSP showed decline. Retail price of MOP continues to be disproportionately higher than other products, affecting its sales.

It is hoped that normal southwest monsoon rains in the current month will leave good moisture contents in the soil for ensuing *rabi* crop season. Water availability in the reservoirs at the end of *kharif* season is also likely to be comfortable. Overall growth in consumption of fertilizers in the entire year of 2023-24 is expected to register an increase over the previous year.

The Annual Review of Fertilizer Production and Consumption 2022-23 is being published in this issue. This is also a marketing special issue and includes 7 papers. It is hoped that all those concerned with fertilizer and agriculture sectors will find the content of the special issue with Annual Review relevant and useful. ■