

**1<sup>st</sup> December, 2017**

**Subject: Press Note - FAI Annual Seminar– 2017  
on `Fertilizers and Farm Income`**

**1. Background**

- (i) Fertiliser Association of India (FAI) is a 62 years old organisation established in 1955 under Companies Act, 1913. Among its multifarious activities, FAI organises the Annual Seminar which is the most important event for the sector. The seminar attracts large participants from India and abroad. This year's Seminar will be held during 5<sup>th</sup> – 7<sup>th</sup> December, 2017 in Hotel Pullman & Novotel, Aerocity, New Delhi. This will be the 53<sup>rd</sup> FAI Annual Seminar.
- (ii) The Hon'ble Minister of Chemicals & Fertilizers, Shri AnanthKumar will inaugurate the Seminar. The inaugural function of the seminar will be held between 2.30 p.m. and 4.00 p.m. on 5<sup>th</sup> December, 2017. The inaugural session will include *inter-alia* the release of publications and distribution of awards for extra ordinary efforts of researchers, agricultural scientists and industry personnel for achieving excellence in their respective fields.
- (iii) India is the 2<sup>nd</sup> largest consumer and 3<sup>rd</sup> largest producer of fertilizers in the world. Indian fertilizer sector continues to be the most regulated sector in the country. Government continues to control / regulate every aspect of fertiliser business. The Government provides subsidy to farmers to keep fertilizer prices affordable to the farmers. To keep the prices low and at MRP the subsidy is routed through the industry. Annual subsidy bill of the government on fertilizers is currently Rs.70,000 crores.
- (iv) Major fertilizers used in Indian agriculture are Urea, DAP, NP/NPKs and SSP. These are domestically manufactured as well as imported. MOP, a potassic fertilizer, is also used and is 100% imported.
- (v) The pricing and subsidy policy can be divided in two categories: (i) policy for Urea and (ii) the policy for P&K fertilizers. Under the urea policy, the MRP is fixed by the Government and unit wise cost of production is also determined by the Government. The difference between these two is reimbursed by the government what is known as subsidy.
- (vi) Under the Nutrient Based Subsidy (NBS) policy for P&K fertilizers, subsidy is fixed nutrient wise by the government. Product wise subsidy is paid based on its nutrient content and is the same both for indigenous and imported fertilizers.
- (vii) The present policies for the sector have led to imbalanced use of plant nutrients, usage based on huge difference in prices of different fertilizers, which is detrimental to soil health and sustainable agriculture production.

## 2. Current status of agriculture

India had made significant achievements and higher productivity in agriculture for its growing population. However, over the years, it has fallen behind most developed and developing countries as the productivity levels in India are much lower than even our neighbours China and Bangladesh, let alone developed countries. It is well known that 60% of population of India directly or indirectly depends on agriculture income. A large percentage of India's population suffers from malnutrition and over 300 million live below the poverty line. Small land holding farmers are likely to be the most malnourished.

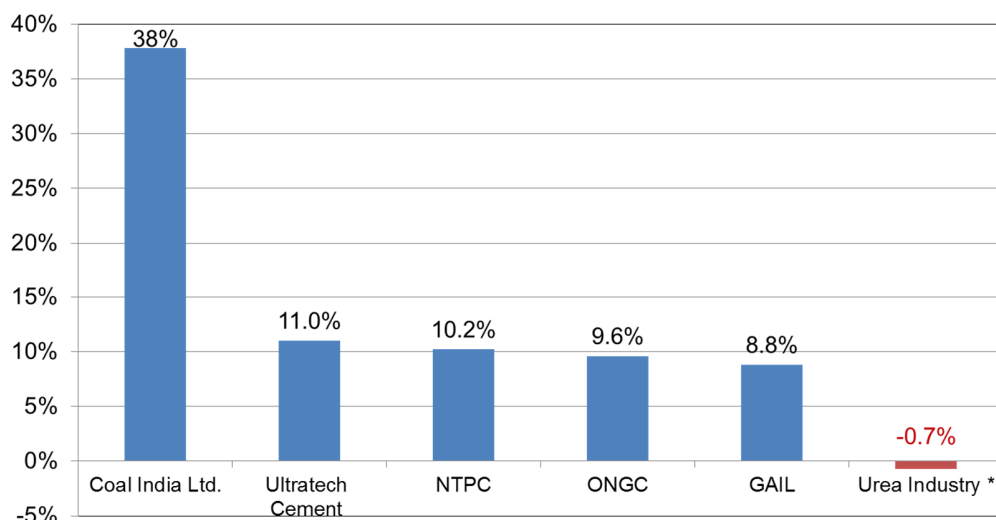
Improving agricultural productivity significantly will enhance farmers' income and ensure food security of the country and its people. To do that, we need to have improved fertilizer products with higher use efficiency and better scientific and management practices for use by the farmers. The fertilizer industry is uniquely placed to contribute in this endeavour and will work in partnership with the government in fulfilling the mission of enhancing farmers' income and higher agriculture production and productivity. To do this, the fertilizer industry has to become both respectable and profitable.

However, the urea fertilizer industry is in a crisis. The average return on net worth for these units were minus 4.43%, minus 1.44% and minus 0.73% during the years 2014-15, 2015-16 and 2016-17, respectively compared to a post-tax return of 12% on net worth based on which investments were made. This has resulted in industry being unable to invest in R&D, new agri technology and introduction of innovative nutrient products to improve farm productivity and has been preoccupied in mere survival.

## 3. Current Issues of the Industry

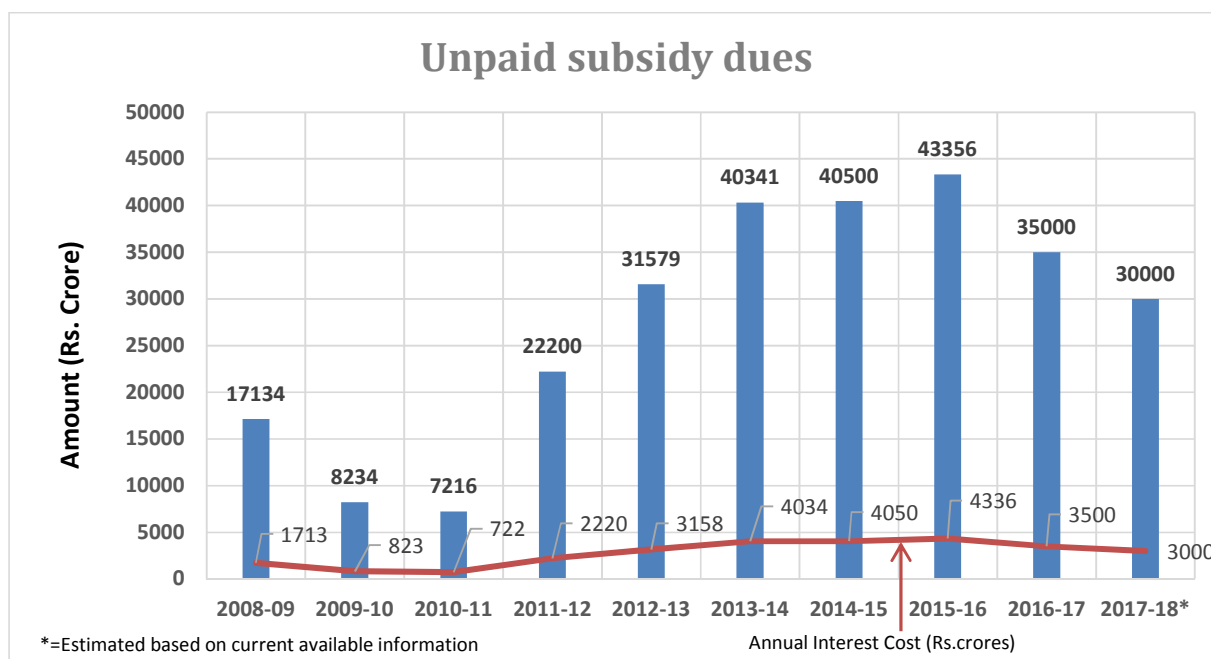
- (i) Urea industry is in the state where more than 50% of urea units are incurring net losses in spite of producing efficiently as per the international benchmarks. Overall return on net worth for the industry as a whole was negative at minus 0.73% for 2016-17. The following chart depicts the negative return from urea business in India in comparison to returns in other core industries.

**Comparison with Other Core Industries Return on Net worth – 2016-17**



\* = Average of urea industry based on data received from 25 units

- (ii) The P&K fertilizer segment continues to be regulated where prices are indirectly regulated. Even though under the policy for P&K fertilizers, the prices are to be fixed by the individual companies.
- (iii) The industry is saddled with large amount of unpaid subsidy and freight bills for past several years as given in the chart below:



- (iv) The rate on GST on fertilizer products is 5%. However, the rate of GST on inputs like ammonia and phosphoric acid is higher at 18%. This results in accumulation of large amount of unutilised input tax credit which has cost attached to it. Natural gas has been kept out of GST. This has cascading effect on cost of production of urea.
- (v) Under the proposed DBT Model, subsidy will continue to be routed through the industry, and not paid directly to the farmers as the move suggests. In the short run this will adversely impact the industry, particularly in absence of adequate budget allocations and lack of adequate trained manpower and adequate technological support.

#### 4. Why a healthy Fertilizer Industry?

- (i) India being the 2<sup>nd</sup> largest consumer of fertilizer, a healthy and robust domestic fertilizer industry is mandatory to meet the needs of higher agricultural production for ever increasing population. The country cannot depend on imports alone for meeting ever increasing demand.
- (ii) The industry has to be healthy and profitable to expand capacities and develop and deploy innovative fertilizer products and extension services for best farm management practices by the farmers. India has to strive to achieve higher productivity levels.

- (iii) For any inclusive growth, lifting the farmers and land less labourers above the poverty line and making agriculture both respectable and profitable the only way forward to substantially increase farm production and incomes.
- (iv) The fertilizer industry can directly contribute in achieving the Government's goal of doubling farmers' income by 2022. It is well acknowledged that fertilizers contribute 50% in the increase in food grain production / productivity.

#### **5. Need of the hour**

- (i) The industry needs to be decontrolled so as to unleash its full potential. In the immediate term, urea policy needs to assure that urea units are able to recover their full cost of production and not incurring losses. In the medium term, NBS policy be extended to urea and thereafter full decontrol of industry and all subsidies directly given to the farmers.
- (ii) The current imbalanced use in favour of one nutrient needs to be addressed forthwith.
- (iii) The rate of customs duty and GST on raw materials for P&K fertilizers needs to be reduced to promote domestic production in the interest of 'Make in India'.
- (iv) Natural gas should be brought under GST to avoid very high incidence of taxation without input tax credit.

#### **6. Vision of the Industry**

- (i) The Indian fertilizer industry is fully committed to the growth and well-being of Indian farming community and will work in tandem with the government in fulfilling the mission of achieving the highest potential of Indian agriculture.

#### **7. FAI Annual Seminar 2017**

- (i) The theme of this year's Annual Seminar is 'Fertilizers and Farm Income'. FAI has selected this theme as part of its overall commitment to work on agricultural productivity.
- (ii) We invite all of you to participate in the 3-day event including inaugural function on 5th December, 2017 followed by technical sessions on the next two days and valedictory session on 7th December, 2017. In all 19 papers will be presented during the technical sessions on 6<sup>th</sup> and 7<sup>th</sup> December, 2017 by eminent speakers from India and abroad.

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