Frank Notes

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Union Budget 2016-17

Focus on Agriculture, Silent on Reforms in Fertiliser Sector

After a long time, the Union Budget 2016-17 provides major focus on agriculture and rural India with special measures to boost infrastructure in the country. In his budget speech, Hon'ble Finance Minister said, "we need to address issues of optimal utilisation of our water resources; create new infrastructure for irrigation; conserve soil fertility with balanced use of fertiliser; and provide value addition and connectivity from farm to markets".

Aiming to double farmers income by 2022, Finance Minister announced an allocation of nearly Rs. 35,984 crore for the farm sector while raising the agri-credit target to Rs.9 lakh crore for the next fiscal. He also allocated Rs.15,000 crore for interest subvention on the farm credit to reduce the burden of loan repayment on farmers. About Rs.5,500 crore has been allocated for the new crop insurance scheme. In addition, Rs.500 crore under National Food Security Mission has been assigned to boost pulses output. He also said that government is implementing the Unified Agriculture Marketing Scheme which envisages a common e-market platform to be deployed in selected 585 regulated wholesale markets. The Soil Health Card Scheme is being implemented with greater vigour. Soil health cards will be provided to all 14 crore farmers by March 2017 to enable farmers get information about nutrient level of the soil and make judicious use of fertilisers. Besides, 2000 model retail outlets of fertiliser companies will be provided with soil and seed testing facilities during the next three years. A policy for conversion of city waste into compost has been approved by the government under the *Swachh Bharat Abhiyan*. Fertiliser companies will also co-market city compost which increases the efficiency of chemical fertiliser.

Stating that irrigation is critical for increasing the agricultural production and productivity, he said that the *Pradhan Mantri Krishi Sichai Yojana* has been strengthened and implemented in mission mode. 28.5 lakh hectare will be brought under irrigation under this scheme. A dedicated long-term irrigation fund will be created in NABARD with an initial corpus of Rs. 20,000 crore to build irrigation facilities.

"Implementation of 89 irrigation projects under Accelerated Irrigation Benefits Programme (AIBP), which have been languishing, will be fast-tracked," he said, adding that this would help to irrigate 80.6 lakh hectare. These 89 projects would require Rs. 17,000 crore next year and Rs. 86,500 crore over next five years. The government will complete at least 23 of these projects before March 31, 2017. Simultaneously a major programme for sustainable management of ground water resources has been prepared with an estimated cost of Rs. 6,000 crore and proposed for multilateral funding. At least 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh composite pits for production of organic manure will be taken up by making productive use of the allocations under MGNREGA.

To increase crop yields in rain fed areas, which account for nearly 55% of the country's arable land, organic farming is being promoted. Towards this end, the Government has launched two important schemes. First, the *'Parmparagat Krishi Vikas Yojana'* which will bring 5 lakh acres under organic farming over a three year period. Second, the Government has launched a value chain based organic farming scheme called "Organic Value Chain Development in North East Region". The emphasis is on value addition so that organic produce grown in these parts find domestic and export markets. A total provision of Rs. 412 crore has been made for these schemes.

To promote the production and use of micronutrients, excise duty on micronutrients has been reduced to 6% from 12.6%.

The government deserves special compliments for various proposals made in the Union Budget to boost the agriculture sector and rural India. The steps outlined to boost rural economy and develop infrastructure are expected to create additional demand and revive consumer and capital goods industry. However, much will depend upon the translation of intent into reality.

But the budget is disappointing as far as fertiliser sector is concerned which provides the vital inputs for increasing agricultural productivity. Expression of reform in the sector is missing except implementation of direct benefit transfer (DBT) in pilot districts.

Economic Survey 2015-16 tabled in Parliament on 26th February, 2016 emphasised on the need for reform in the fertiliser sector. The survey lays down that fertiliser subsidies are very costly, accounting for about 0.8 per cent of GDP (including arrears). Current subsidy policy encourages urea overuse, which damages the soil, agricultural productivity, and thereby economic growth. It concludes that many problems of the industry could be addressed by bringing reforms in the sector. Reforms in the fertiliser sector are needed to enhance domestic availability of fertilisers via less restrictive imports ("decanalisation") and to provide benefits directly to farmers using Jandhan-Aadhar-Mobile (JAM). While Industry is in agreement with the conclusions drawn in the survey, there are issues relating to data and analysis in the body of the survey which is being taken up with Finance Ministry separately.

The survey has suggested decanalisation of urea import. According to the survey, decanalising urea imports would increase the number of importers and allow greater freedom in import decision which would allow fertiliser supply to respond flexibly and quickly to changes in demand. Second important suggestion is to bring urea under Nutrient Based Subsidy program currently applicable to phosphatic and potassic (P&K) fertilisers. This would allow domestic producers a fixed rate of subsidy based on the nutritional content of each fertiliser product, charge market prices and function in competitive environment. Farmers will be benefitted from higher agricultural productivity by application of balanced use of fertilisers.

Third, the survey spells out the need for starting the DBT experiment in fertiliser. This would help the poor farmers, reduce leakage and also reduce the government's subsidy burden, releasing resources to plough back into agriculture in a way that can help a greater number of poor farmers.

In the Union Budget 2016-17, neither the proposal of bringing urea under NBS nor decanalisation of import of urea have found any place. There is no clarity in the budget regarding redressal of long pending demand of the Industry for reduction of customs duty on raw materials for manufacture of fertilisers. Customs and excise duty structure play an important role in in centivizing domestic value addition fulfilling *'Make in India Campaign'* of the government. The budget proposal only states that actual user condition for the imports of phosphoric acid and anhydrous ammonia at concessional basic customs duty / CVD for manufacture of fertiliser being prescribed.

The focus on this year's budget has been on rural sector in general and agriculture sector in particular. However, budget has been disappointing for fertiliser sector with absence of reforms and inadequate provision for fertiliser subsidy.

Above all, severe liquidity problem faced by the industry arising out of under provision in the Union Budget year after year has been left unaddressed. Total requirement of fertiliser subsidy for 2016-17 is estimated to be over Rs.115 thousand crore after including arrears of Rs.45,000 crore. In the budget 2016-17, the government pegged fertiliser subsidy at Rs. 70,000 crore which is Rs.2,438 crore lower than the revised estimate of Rs. 72,437.58 crore for 2015-16. The revised estimates for 2015-16 was already lower by about Rs.531 crore than the Budget estimate of Rs. 72,969 crore. Therefore, compared to Budget Estimate of 2015-16, the reduction in 2016-17 is nearly Rs.2969 crore. Product-wise allocation shows that out of the total provision of Rs. 70,000 crore for 2016-17, Rs. 51,000 crore has been allocated for urea and Rs. 19,000 crore for decontrolled P&K fertilisers. As per the budget document, out of total Rs. 51,000 crore allocated for urea subsidy, Rs 40,000 crore has been earmarked for domestic urea, while the rest is for imported urea. Similarly, for decontrolled P&K fertilisers, Rs. 12,000 crore is allocated for indigenously produced and Rs. 7,000 crore for imported P&K fertilisers. The allocated amount will be exhausted by the middle of the year 2016-17. Thereafter, arrears will start mounting for unpaid arrears of the past and on account payment bills for the remaining period of 2016-17. The arrear may cross Rs. 45,000 by the end of 2016-17. The industry will continue to depend on heavy borrowing to fulfill the working capital requirement, the interest burden of which will be enormous. This will push many more units into the red.

The Finance Bill proposes amendment to Central Sales Tax Act, 1956 regarding interstate sale of natural gas. It is expected that this will address taxation issue on the sale of gas from KG D6 to UP. However, it appears that this may not address the tax implications of swapping of gas from different sources.

The Union Government's decision to try DBT of subsidies in pilot districts and eventually replicating the model countrywide, if implemented, should solve many problems of the ailing fertiliser industry in the long run. The intent of implementation of DBT has been expressed in budgets earlier also but with no progress. What is needed is a clear road map and commitment for implementation of the DBT which is not spelt out in the Budget.

Industry looks forward to the government to address at least the issue of timely payment of subsidy if it is not willing to bring immediate reforms in this sector. ■