Supply Chain Management during Lockdown

Public health emergency due to COVID-19 and subsequent nationwide lockdown brought almost all economic activities to a standstill in the last week of March. Essential commodities and services, which included all activities related to fertilizers, were exempted from restrictions. However, there were serious challenges in continuing activities, even in this sector, due to constraints of manpower, logistics and concern about safety of people. For example, plant operators managed to continue production by making all arrangements for food, accommodations, transportation and adhering to standard operating procedures. But there was an issue of movement of fertilizers from Plant sites. Railways rendered yeoman service by providing enough rakes. It also gave concession by extending time for loading and unloading of rakes. But there were problems at destination points due to non-availability of labour for unloading and lack of trucks for transportation of fertilizers from rake points to the godowns.

Industry maintained constant contact with Central and State Governments and District Administrations. Their prompt action ensured that logistics operated almost normally after first week of lockdown. Industry on its part had to arrange for labour and take all safety measures in handling, transportation and storage of fertilizers. Pressure on the industry was high due to heavy demand of fertilizers arising due to early onset of monsoon resulting in early sowing and higher acreage of kharif crops. Area under paddy, a major food grain crop, groundnut, a major oilseed and cotton have shown an increase of 10.0, 35.9 and 2.8 per cent, respectively in 2020-21 up to 28th August compared to corresponding period of 2019-20.

Fertilizer contributed immensely in succesful sowing of kharif crops. But policies related to fertilizer sector for reimbursement of both primary and secondary freight and delay in payment continue to put strains on finances of fertilizer companies.

There are mainly two modes for transportation of fertilizers from plants/ports, i.e. rail and road. Coastal movement of fertilizers is still in its infancy. More than 80% of fertilizers are moved by railway net-work and the remaining by road.

Under the uniform freight policy effective from 1st April, 2008, rail freight for movement of fertilizers from plants/ports up to rake points is reimbursed to fertilizer companies on railway receipt basis as per the actual expenditure incurred. In view of the prevailing situation due to shortage of labour and adoption of all safety measures, the industry had to bear additional financial burden on account of higher cost of labour in loading, unloading, storage, etc.

Railways generally do not provide rakes for two point or three point discharge. Many rake points are not adequately equipped to handle BCNHL rakes. Normative lead for a district is arrived at by considering simple average of lead distances of blocks from the nearest rake points. However quite often, urea is moved to blocks from other than the nearest rake point for a variety of reasons, resulting higher than normative freight which is not recovered under policy for freight reimbursement. Sometimes there are serious problems of availability of rakes for evacuation of fertilizers from plants/ports.

There are two types of movements allowed under freight reimbursement policy i.e. primary movement by rail up to 1400 km and road up to 500 km. Secondary freight is defined as further movement by road from rake points to consumption centres. Freight reimbursement for urea is permitted both for primary and secondary movement. However, P&K fertilizers are reimbursed only primary freight. There is no reimbursement of freight for movement of SSP.

Road freight for direct movement of urea from plants/ports to a block of a district by road up to 500 km is reimbursed the amount derived for the month based on slab rate in Rs.MT\(^{-1}\)km\(^{-1}\) as approved by the Department of Fertilizers or the actual expenditure incurred by the company for the month duly certified by the company’s statutory auditors, whichever is lower.

In case of secondary freight for urea for transportation from rake points to districts, the normative per tonne rates as notified by the Department of Fertilizers or the actual expenditure incurred by the company on secondary freight during the month duly certified by the company’s statutory auditors, whichever is lower, is paid.

As per the uniform freight policy of 2008, the rates for road movement for 2008-09 were notified on 1st September, 2011 based on the report of Tariff Commission. The freight rates continued for number of years. In absence of revision of freight rates, the companies were claiming and getting reimbursed the freight bills from 2008-09 onwards till 2016-17 on the basis of the freight rates of
Freight is an important component of cost in the supply chain. Policies related to reimbursement of primary and secondary freight should be streamlined so that there is no under-recovery in freight and reimbursement should be made in time.

2008-09. Final rates were notified in phases and latest for 2016-17 was announced in March 2018. Even after notification of final rates, companies could not claim differential freight subsidy as the rates were not uploaded in web based Fertilizer Management system (FMS/iFMS). These rates were uploaded only in 2018, enabling the companies to generate differential freight claims up to 2016-17. But differential rates have not been uploaded for P&K fertilizers till today. Final freight rates for urea from 2017-18 to 2019-20 are yet to be notified. This is an example of kind of delay in revision and reimbursement of revised freight.

In case of P&K fertilizers and SSP, the cost of movement not reimbursed by the government can be charged from the farmers because MRP of these fertilizers is decontrolled. However, in case of urea any under-recovery in reimbursement of freight has to be borne by a company since urea has to be sold on controlled MRP.

Further, validity of many lead distances from plants/ports by road on which primary movement freight is paid, has expired. The new ones have not been determined. Thus fertilizer companies are not able to claim freight reimbursement for primary movement. For movement of fertilizers by road, distances provided by the State Governments are compared with Google distances. Google provides lead distances for four wheelers but there are many roads where trucks and other vehicles are either prohibited or too narrow for trucks to ply or pass through cities which may lead to longer distances for actual movement of fertilizers. State Governments, in collaboration with lead fertilizer suppliers, should finalize lead for realistic distances for movement by road. DOF has constituted a committee for a comprehensive review of the primary and secondary lead distances. Industry can only hope that new lead distances are realistic and notified without further delay. In the mean time, industry should be continued to be reimbursed on existing lead distances approved from plants/ports.

The freight reimbursement for primary movement of P&K fertilizers from plants/ports by road is reimbursed on the basis of published rates of railway freight. Railways have revised the freight a number of times but there has not been any revision in freight reimbursement to the P&K fertilizer manufacturers/ importers since 2013. The retail prices of P&K fertilizers are decontrolled, there was a proposal to merge the freight and product subsidy to simplify the mechanism. This was approved by CCEA in 2015 but was never implemented.

There is no freight reimbursement for movement of SSP. This increased the retail price of SSP vis-à-vis other products whose freight for primary movement is reimbursed. Thus a very useful product is facing the unfair competition.

Movement of fertilizers through coastal shipping/inland waterways has not picked up in spite of the efforts of Ministry of Shipping under its Sagarmala Project. Coastal movement has advantage being more efficient and eco-friendly. It also eases pressure on Railways. There have been instances of shortage of availability of railway rakes in busy season. But coastal shipping takes more time and may cost even more than Railways due to multiple handling and multimode transport. Fertilizer industry has been trying to adopt this mode and have moved some quantity of fertilizers. However, reimbursement was inordinately delayed due to lack of procedures defined by the government. There has been some progress but there is a need for separate methodology for reimbursement of freight for movement by this multi-mode model. Further, higher GST @ 12% on multi-mode movement compared to 5% GST on single mode is also hampering the growth of transportation by these modes.

The last mile delivery in supply chain management is managed by the retailers who sell fertilizers to famers through Point of Sale (PoS) machines under Direct Benefit Transfer (DBT) scheme. Operation of DBT system has improved considerably with sustained efforts of the Government, FAI and the industry over a period of time. However, there are still instances of sale without POS machines which cause delay or loss of subsidy payment to the industry. Therefore, amendment in Fertiliser Control Order is necessary to make sale of fertilizers to farmers by the retailers through POS machines mandatory. Many States regulate movement of fertilizers through their respective marketing federations. Such federations make provision for buffer stock in substantial quantity prior to commencement of kharif and rabi seasons. This stock, unless liquidated, holds up subsidy of the concerned company under the present DBT system. Therefore, there is a need for treating the material with marketing federation as sale for buffer stock and fertilizer companies should be paid subsidy without waiting for retail sale.

Fertilizer industry has been performing the onerous task of making fertilizers available across the country to such a large base of farmers even in the present COVID 19 pandemic. Freight is an important component of cost in the supply chain. Policies related to reimbursement of primary and secondary freight should be streamlined so that there is no under-recovery in freight. Reimbursement should also be made in time rather than delay of months and sometimes year. This special issue on marketing includes nine articles contributed by various experts in the field of marketing. It is hoped that all those concerned with availability of fertilizers to the farmers in time will find it useful.