

5<sup>th</sup> December, 2022

**Subject: Press Note – FAI Annual Seminar – 2022 on  
Fertilizer Sector by 2030**

**1. Introduction**

- 1.1. The world is facing unprecedented food, fuel and energy crisis with skyrocketing commodity prices. Increasing concerns regarding climate change and emphasis on reduction in emission of greenhouse gases have impacted the fertilizer, agriculture and industrial policies across the globe. India too has made time bound commitments in Conference of Parties (COP) 26 in Glasgow to meet certain targets by 2030 and progressively move ahead to finally achieve net zero emission by 2070. The targets for 2030 include creation of 500GW non-fossil energy capacity, meeting 50% energy requirement from renewable sources, reduction in carbon emission by 1 billion tonne and reduction of carbon intensity of Indian economy by 45% from the level of 2005. Fertilizer sector will also have to contribute its share in this pursuit. Accordingly, FAI Annual Seminar 2022 has been devoted to the theme of '**Fertilizer Sector by 2030**'.
- 1.2. The Seminar will be inaugurated on the 7<sup>th</sup> December, 2022 at Hotel Pullman at 02.30 PM by the Hon'ble Minister for Chemicals & Fertilizers and Health & Family Welfare Shri Mansukh Mandaviya Ji. Hon'ble Minister for State for Chemicals & Fertilizers and New & Renewable Energy Shri Bhagwanth Khuba Ji will also grace the inaugural function as Guest of Honour. Secretary, Department of Fertilizers, Ministry of Chemicals & Fertilizers Shri Arun Singhal will be the Special Guest. The Hon'ble Ministers will also distribute the awards of excellence in various fields during the inaugural function. There are 20 company awards, 2 for individual scientists and U S Awasthi IFFCO Awards (for development of agriculture and industry) and for progressive producer of crop nutrients.
- 1.3. Next two days *i.e.*, 8<sup>th</sup> and 9<sup>th</sup> December, 2022 will be occupied by 4 technical sessions where 16 presentations will be made by eminent speakers from India and abroad. The presentations will *inter-alia* cover road maps for fertilizer sector for sustainable agriculture, innovation in agriculture, greening fertilizer production including green ammonia. Deliberations will include reduction in energy consumption, increasing use of renewable energy, efficient fertilizer logistics management and use of digital technologies in agriculture and fertilizer application including use of drone. Issues of financing Environmental Social and Governance (ESG) projects to align with country's overall commitments towards de-carbonization will also be deliberated.

**2. Fertilizer Situation**

**2.1. Production import and DBT sales of major Fertilizers**

- 2.1.1. **Production:** Production of major fertilizers increased during April-October 2022 except NP/NPK complex fertilizers. Production of urea, DAP and SSP recorded increase of 16.0%, 14.2% and 9.2%, respectively, during April/October 2022 over April/ October 2021. Production of NP/NPK complex fertilizers registered a decline of 5.2% during the period.

2.1.2. **Import:** Import of DAP and NP/NPK complex fertilizers increased by 45.2% and 76.1%, respectively, during April/October 2022 over April/October 2021. However, import of urea and MOP reduced by 12.9% and 7.3%, respectively, during the same period.

2.1.3. **Sale:** Among the major fertilizers, DBT sale of urea and DAP recorded positive growth while MOP, NP/NPKs and SSP marked negative growth during April/October 2022 over April/October 2021. Sale of urea at 19.31 million metric tonnes (million MT) and DAP at 6.50 million MT during April/October 2022 recorded increase of 3.7% and 16.9%, respectively, over April/October 2021. However, DBT sale of NP/NPK complex fertilizers at 5.76 million MT, MOP (for direct application) at 0.88 million MT and SSP at 3.17 million MT witnessed decline of 19.9%, 47.9% and 9.0%, respectively, during the same period.

2.1.4. DBT sales of all fertilizers during April-October, 2022 have also been higher than April-October, 2019 (prior to COVID Pandemic) except MOP. Sales of MOP have been down by about 39% during April-October 2022 over April – October 2019 due to high international prices of potash. MRP of MOP has been higher than that of DAP in the recent months, which traditionally used to be the other way round. This has severely impacted consumption of potash. This has further aggravated the NPK use ratio, which was already imbalanced.

2.1.5. Ideal average NPK use ratio for the country is 4:2:1. This ratio was almost near to ideal at 4.3:2:1 in 2009-10 but got distorted to 8.2:3.2:1 in 2012-13. This got corrected to 6.5:2.8:1 during 2020-21. However, again widened to 7.7:3.1:1 in 2021-22. This ratio has been further distorted to 12.8:5.1:1 for Kharif 2022 compared to 6.8:2.7:1 for Kharif 2021 due to steep reduction in sales of K, which declined from 1.4 million tonnes in Kharif 2021 to 0.77 million tonnes only for Kharif 2022.

### 3. **International Prices**

3.1. We have witnessed unprecedented international price rises for fertilizers and fertilizer raw materials including natural gas / LNG during the past 2 years. It is good to note that prices of some of the commodities have started coming down in the recent months but still remain significantly higher than pre pandemic period. International price of DAP (CFR-India) increased from USD555/MT for April, 2021 to USD945/MT for July, 2022. It has declined to USD722 for October, 2022. Similarly, price of phosphoric acid increased from USD876/MT in April, 2021 to USD1718/MT by July 2022, although it has declined recently to the level of USD1355 for October, 2022. CFR-India price of imported urea increased from about USD400/MT in April 21 to more than USD1000/MT by Dec.2021, thereafter, there this has been declining slowly and has reached of about USD600/MT as per recent tenders. International price of ammonia, however, continues to rise. It increased from USD545/MT in April, 2021 to USD1175/MT in October, 2022. The pool price of gas has also increased steeply during the past one year and has reached Rs.2370/MMBTU for November, 2022 on net Calorific Value (NCV) basis. At this price of gas, average energy cost for urea works out to more than Rs. 54,000/MT.

### 4. **Issues of Fertilizer Industry**

4.1. Viability of urea industry is affected because of delay in approval of minimum fixed cost and non-revision of fixed cost since 2002-03, except nominal increase allowed under Modified NPS-III policy since 2014. Fixed cost of urea has gone up drastically over 2002-03 and are significantly higher than the level being reimbursed. It does not take into account large investments made in recent years in energy reduction projects and plant reliability expenditures. Similarly, energy consumption norms revised in

2018 over 2015 has impacted the performance of several urea units. It is encouraging to note that the government has allowed further extension of 2015 energy norms for 14 urea units, which are yet to achieve 2018 energy norms for two and half years till March 2023. The P&K fertilizer units have been pleading for excluding indirect taxes while computing reasonableness of MRP and restoring market determined MRP, as allowed under NBS policy. The government is considering these issues. We are hopeful of suitable measures soon on all these issues.

## **5. Poor Profitability of Indian Fertilizer Sector**

5.1. As per data provided by 24 fertilizer companies, profit after tax from fertilizer business as percentage of turnover for the industry for past five years have been 0.61%, 0.39%, 0.64%, 2.47% and 1.39% for the financial years 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22, respectively. Such wafer thin margins are grossly inadequate to service the investments already made, what to talk of attracting fresh investment in the sector, particularly, private sector investment.

## **6. Government Initiatives**

6.1. Government of India has been very supportive especially during the period of crisis of past 3 years in ensuring smooth production, import and movement of fertilizers. It has arranged significantly higher allocation for fertilizer subsidy for the past two years and also for the current year. The amount of fertilizer subsidy has been increased from a level of about Rs.80,000 crore for pre-pandemic year 2019-20 to Rs.1.3 lakh crore for 2020-21 and Rs.1.4 lakh crore for 2021-22. The subsidy bill for the current year is estimated to be cross Rs.2.3 lakh crore. This has helped insulate the farmers from the impact of steep increase in cost of all fertilizers due to sharp rise in international prices of fertilizers and raw materials.

6.2. Revival of 5 closed urea plants of FCI and HFC will make India self-sufficient in urea production by 2025. Extension of 2015 energy consumption norms for 14 urea units till March 2023 will provide much needed relief to these existing urea units, many of which are still struggling to achieve the target energy norms.

6.3. Government has also been helping the industry in entering long term purchase agreements for fertilizers and raw materials to ensure sustained supply of fertilizers to Indian farmers at reasonable prices. An integrated separate policy has also been notified for encouraging production and consumption of SSP.

## **7. Agenda Ahead for the Industry**

7.1. Once the enabling policies for use of green ammonia are put in place by the Government, Indian fertilizer industry will start using green ammonia in manufacture of P & K complex fertilizers and will gradually increase its use in progressive stages to replace about 3 million tonnes of traditional ammonia by 2030. One tonne of ammonia through traditional routes emit 2 tonnes of carbon dioxide. Replacement of 3 million tonnes of traditional ammonia through green ammonia by 2030 will reduce carbon emission by two times.

7.2. Side by side, efforts for increasing use of nano fertilizers and other more efficient fertilizer products like liquid fertilizers, specialty fertilizers, etc. are continuing, which will improve use efficiency of fertilizers and reduce greenhouse gas emission. Increasing use of liquid fertilizers, water soluble fertilizers and application through drones will improve fertilizer use efficiency. Additional urea production capacity and use of nano urea will make India self-sufficient in urea very shortly. Fertilizer units are also

investing in energy saving projects, which will reduce overall energy consumption of the sector. Industry has already reduced its energy consumption by 40% during past 4 decades and Indian urea industry is one of the most efficient urea industries of the world.

- 7.3. Addressing the issue of imbalanced use of major nutrients N, P and K by suitably adjusting the subsidy on N *vis-à-vis* P & K nutrients to encourage increased use of phosphate and potash will improve overall agricultural productivity. This will also improve nutrient use efficiency.
- 7.4. Now that the international prices have started coming down, industry expects restoration of market determined reasonable MRP for P & K fertilizers.
- 7.5. As the country is slowly gaining normalcy, it is expected that the issue of minimum fixed cost and updation of fixed cost will be addressed.
- 7.6. Similarly, the issue of exemption of customs duty on major raw materials and non-refund of unutilized input tax credit due to subsidy on fertilizers are also expected to be resolved soon.
- 7.7. Redressal of the above issues will improve the industry's viability and enable it to generate funds for investment in energy reduction projects, development of innovative and more efficient fertilizer products like nano urea, nano DAP, etc. This will also enable them to invest in farmers' education and promotion of balanced use of fertilizer nutrients including secondary and micro nutrients.
- 7.8. The industry is working with the Government to ensure adequate availability of fertilizer nutrients for Indian farmers. It is also working in line with government's commitments to reduce greenhouse gases and gradually increase use of green ammonia in manufacture of complex fertilizers.

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