

**Satish Chander**

Make Fertilisers in India

India is the second largest populous country in the world next only to China. Providing nutrient requirement of 1.25 billion persons is no easy task. The food security hinges on large number of factors which affect agriculture productivity. India has to grow more and more food from shrinking agriculture land. Use of fertilisers is one of the key inputs which helped to increase per hectare productivity manifold. Use of fertilisers continues to play that role and will remain critical input for further increasing land productivity on sustained basis.

Fertiliser industry provides the key input to Indian farmers in every nook corner of this vast country. Fertiliser industry was one of the basic industries encouraged in the era of planned economy after independence. Simultaneously, retail prices of various fertilisers have been controlled by the government since last four decades. This is the only industry which continues to remain heavily regulated because of its linkage to agriculture.

Fertiliser industry can be divided into two broad categories. One, that is producing urea and the other segment that is producing complex fertilisers. Urea carries only one primary plant nutrient nitrogen. Complex fertilisers carry two or all three primary nutrients that is nitrogen, phosphorous and potash. The second segment of the industry producing complex fertilisers is the subject of discussion here.

India lacks the raw materials for producing complex

fertilisers. More than 90% of inputs required to manufacture these fertilisers are imported. India being one of the largest consumers of fertilisers in the world, government consciously adopted a strategy to keep the imports diversified in three categories: namely import of basic raw materials rock phosphate and sulphur, second, import of intermediates like phosphoric acid and ammonia and lastly, import of finished products led by diammonium phosphate (DAP). Based on this strategy, investment was encouraged and large manufacturing capacity was built based on both basic raw materials and intermediate inputs. The total production capacity at present is 14.7 million tonnes of products. India's total consumption of these products was 18.0 million tonnes in 2015-16. Needless to state that there are huge capital assets on the ground and fertilisers are also of strategic importance to the country.

For decades, import of fertilisers raw materials and products remained canalized. Import of raw materials was decanalised in 1992 and import of finished products DAP was also decanalised in 1992. With the introduction of nutrient based subsidy (NBS) policy in 2010, fixed subsidy per tonne of product was provided equally both on imported and domestically produced products. Earlier, there was higher subsidy on domestically produced DAP and there was no subsidy on other imported complex fertilisers in order to encourage domestic production.

Out of total production capacity of 14.7 million tonnes, products, more than 8 million tonnes is based on imported phosphoric acid. The balance is manufactured with domestically produced phosphoric acid. The applicable custom duty on import of phosphoric acid and finished products is same at the level of 5%.

Free imports, same level of customs duty on inputs and finished products and finally same level of subsidy on imported and domestic products has affected the domestic industry very adversely. Same level of import duty on inputs and finished

products has specially posed unfair competition. This is reflected in performance of Indian plants. Capacity utilization of Indian plants came down from 118% in 1997-98 and 79% in 2009-10 to 66% in 2014-15.

There is another strange phenomenon which has been witnessed in last several months. The exporters of raw materials and finished products are same entities. These entities are pricing the raw materials and finished products in a manner that cost of raw materials itself is higher than that of finished product. Prices of raw materials and intermediate are disproportionately high. There seems to be a clear strategy to price the inputs higher and render Indian industry unviable. Once domestic industry is crippled, the second largest consuming and the largest importing country will be left to be exploited by foreign suppliers.

Due to prevailing situation for last 2-3 years, one of the industries has already announced to shut down its DAP plant on the East Coast. Therefore, there is need for the government to pay attention to this sector and take all plausible measures to bring the industry from brink of closure.

Let us consider the options to remedy the situation. One is that the import duty on imported products can be raised. Unfortunately India agreed to a bound rate of duty of 5% on import of DAP under WTO agreement. But this is specific to

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DAP and duty on other products can be raised beyond 5%.

Another option is that there may be quantitative restriction on import of finished products. Whether this option can be exercised within confines of WTO agreement is something which has to be explored, seriously and immediately. Government, in any case should take the matter to WTO and renegotiate the terms of trade so that customs duty on import of DAP can be raised, if required.

The most plausible option which can be exercised immediately is to reduce or eliminate customs duty on import of ammonia, phosphoric acid, rock phosphate and sulphur. Industry has been pleading with the government for exercising this option for several years but to no avail. Simultaneously, import duty on products not covered by bound rate of duty should be raised to a level of 10%.

India is the largest importer of phosphoric acid and needs more than 2.5 million tonnes of this commodity for 100% capacity

utilization. Industry has been steadfastly sticking to its position vis-à-vis foreign suppliers and has not agreed to pay unjustifiably high price of phosphoric acid. According to reports in international press, one of the leading exporter of raw materials and finished products has announced the stoppage of shipment of phosphoric acid to India. However, under sustained pressure from Indian buyers, a few smaller exporters have already brought down the price to US\$ 600 per tonne of acid.

In order to save the country from exploitation in near future, the government needs to implement the suggested measures urgently. Domestic industry not only does the value addition of almost \$ 40 per tonne of product and hence adds to GDP, but also provides employment to lakhs in fertiliser and ancillary industries. Moreover, this can save the capital assets of hundreds of thousands of crores turning non-productive.

While industry is making all efforts to keep the cost of domestic production low, government should extend helping hand not only in the interest of 'Make in India' but even for long term economic and strategic interest of the country. Given the right eco- system, industry can not only meet the full requirement of the country but even export to South and South-East Asian countries.■

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