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Fertiliser Policy: Need For A Review

LAST WORD

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Under the contemplated package for the eighth pricing period i.e., from 1.4.2000 to 31.3.2003, the Government is reported to have proposed the following changes in the policy parameters. First, that there would be a reassessment of the production capacity of plants based on Dr Alagh Committee recommendations (reassessment is mooted even for plants for which the Committee did not make any such recommendation).

Second, it refers to the withdrawal of the vintage allowance currently available in respect of capacity utilization and energy consumption for plants more than ten years old. Thirdly, that there would be a revision in the consumption norms based on the performance during 1999-2000 or 'actual' for the relevant year whichever is lower. Fourthly, it refers to the increase the capacity utilization norm by 5 per cent per annum to reach 100 per cent by the year 2003-04 for gas based plants and 2004-05 for plants based on naphtha and fuel oil.

To get an idea of the likely impact of the proposed changes in the policy parameters, let us consider a typical gas based plant of 1350 tons per day ammonia capacity and commensurate urea capacity. In May, 2000, the Government had issued a notification to 'provisionally' reassess the capacity of such a plant to 1500 tons per day ammonia. On an annual basis, this is 4.95 lakh tons (330 stream days). In terms of urea, the capacity works out to 8.53 lakh tons per annum. For a vintage plant, the capital related charges (CRC) and other fixed costs are reimbursed at 85 per cent of this level; for others, this is 90 per cent.

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As per Dr Alagh Committee recommendations, the ammonia plant capacity will be revised from 1500 tons per day to 1520 tons per day. Correspondingly, the reassessed capacity of the urea plant will increase from 8.53 lakh tons per annum to 8.65 lakh tons per annum.

Following withdrawal of the vintage allowance from 2001-02, the normative production level will be 90 per cent of this. During 2002-03, this will be increased to 95 per cent and by 2003-04, this will reach 100 per cent of reassessed capacity or 8.65 lakh tons per annum. In view of the above, from 2003-04 onwards, the manufacturing unit will have to produce 8.65 lakh tons of urea per annum to ensure full recovery of the CRC and other fixed costs.

Further, it will have to sustain the energy consumption level achieved during 1999-2000 to prevent any under-recovery of energy cost. This by itself will not ensure the promised return of 12 per cent unless reasonable costs incurred by the unit under various heads are allowed in full. On all the three fronts, the prospects are bleak.

The ability of units to maintain production at 100 per cent of the reassessed capacity is extremely doubtful. This is because while, on the one hand, the demand for urea is unlikely to show an extraordinary growth, on the other, the Government is keen to create space for imports. Further, there will be supplies of 1.5 million tons urea per annum from the Oman joint venturte committed under the buyback agreement. This material will start flowing from the year 2004-05.

Under the new policy, energy consumption norm will be pegged at the 'actual' of 1999-2000. That was a good year when, the units operated at high capacity utilization leading to significant improvement in energy consumption. By definition, the 'best' cannot be achieved on a sustained basis. And, with the imminent cut in ECA allocation (during Rabi, 2001-02, the Government has resorted to significant reduction in view of excess availability), restriction on production is inevitable. This will affect energy consumption.

Finally, the units face substantial 'disallowances' under various cost heads viz., project cost, capital additions, conversion cost, working capital, marketing / selling expenses and taxes/ duties. As a result, the units have not been abe to achieve the promised return despite operating at high efficiency levels (due to imposition a ceiling on production at 100 per cent of the reassessed capacity, since 2000-01, the situation has further deteriorated Given the obsession to rein in subsidy, it is unlikely that all reasonable costs will be allowed in full. In a nutshell, under the proposed policy package, the Government has set very high standards of performance without creating an enabling environment for the manufacturing units to reach these levels. Implementation of this package will seriously erode the margins and push several units in the 'red'. There is an urgent need for review of the package to enable all 'efficiently' operated plants achieve the promised return and ensure continued health and growth of the industry.

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