

ANTICIPATED EVOLUTION OF THE NBS SCHEME IN INDIA: EXPECTED IMPACT ON DOMESTIC FERTILIZER DEMAND



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NEED FOR REFORM

Status of Fertilizer Industry in the Decade of 2000

- Fertilizer industry in India remained highly controlled over a long period of time
- 'Cost plus approach' with stringent regulation and procedures have not induced any investment in the sector
- Indigenous production capacity of fertilizer remained almost stagnant
- Increasing dependence on imports. Large imports at exorbitantly high prices
- Rising cost of import and domestic production with stagnant MRP led to increasing subsidy burden



NEED FOR REFORM

Status of Indian Agriculture in the Decade of 2000

- Imbalance in fertilizer use
- Growing deficiency of secondary and micro nutrients
- Declining nutrient use efficiency
- Declining crop response ratio
- Stagnation / slow growth in food grain productivity

To ensure balanced application of fertilizers, the Government approved to implement Nutrient Based Subsidy Policy on decontrolled phosphatic and potassic fertilizers effective from 1st April, 2010.



OBJECTIVES OF NBS

- (i) To promote efficiency and competitiveness in the industry
- (ii) To attract fresh investment in the fertilizer sector
- (iii) To induce new and diversified products carrying primary as well as secondary and micro nutrients in appropriate quantities
- (iv) Balanced and efficient use of nutrients
- (v) Government to be relieved of detailed cost based pricing exercise
- (vi) Fiscal management



NUTRIENT BASED SUBSIDY (NBS)

- NBS is the first step in Reforms process in Indian Fertilizer Sector
- To begin with, NBS has been introduced on phosphatic and potassic fertilizers w.e.f. 1st April, 2010 and on SSP w.e.f 1st May, 2010
- NBS is currently applicable on DAP, DAP lite (2 grades), MOP, MAP, MAP (lite), SSP, TSP, 16 grades of NP/NPK complex fertilizers and indigenous Ammonium sulphate (manufactured by GSFC and FACT)
- Subsidy under NBS is same both for domestic and imported fertilizer products
- Primary nutrients, namely N, P and K and secondary nutrient, namely Sulphur (S) contained in the fertilizers are eligible for subsidy
- In addition, primary freight is also borne by the Government.



NUTRIENT BASED SUBSIDY

- 20% of the decontrolled fertilizers produced/ imported in India can be covered under the movement control under the ECA
- Market price of subsidized P & K fertilizers are open and to be announced by the fertilizer companies
- Manufacturers are required to print maximum retail price along with applicable NBS per bag on each fertilizer bag
- Counter Veiling Duty/ Excise Duty as applicable would be recoverable by way of suitable increase in MRPs
- Manufacturers of customized fertilizers and mixture fertilizers are eligible to source subsidized fertilizers as raw material for their products
- Subsidy to be released through the industry.



NUTRIENT BASED SUBSIDY AND TRADE POLICY

- Import of all fertilizer products is under Open General License (OGL) except , urea
- Import of Urea is canalized through State Agencies (IPL, MMTC and STC) for the present
- Applicable rate of Import (Customs) duty on all fertilizer products is 5%
- Countervailing duty as applicable would be recoverable by way of suitable increase in MRPs.



RATE OF SUBSIDY – 2010-11

The per kg NBS for nutrient 'N' 'P' 'K' and 'S' for 2010-11 w. e. f 1st April 2010 were as follows:

Sl no.	Nutrients	NBS per Kg of nutrient	
		In Rs.	In US \$
1	“N”	23.227	0.505
2	“P”	26.276	0.571
3	“K”	24.487	0.532
4	“S”	1.784	0.039

Note: Exchange rate adopted US\$ 1 = Rs.46



NBS MODIFIED FOR JAN/ MARCH 2011

Secondary freight on P & K fertilizers excluded which was earlier included under NBS. Secondary freight to be paid in line with as applicable for urea.

NBS as modified stated below:

Sl no.	Nutrients	NBS per Kg of nutrient	
		In Rs.	In US \$
1	"N"	23.227	0.505
2	"P"	25.624	0.557
3	"K"	23.987	0.521
4	"S"	1.784	0.039

Note: Exchange rate adopted US\$ 1 = Rs.46



ASSESSMENT OF IMPLEMENTATION OF NBS – 2010-11

- NBS scheme well received by the stake holders
- Arrangement of imports of bulk of the finished fertilizers and raw materials at the beginning of the year
- Adequate availability of fertilizers
- Farmers prices have not been impacted
- Fiscal management of subsidy in the Budget within limits
- A few new products brought under NBS



RATE OF SUBSIDY – 2011-12

The per kg NBS for nutrient 'N' 'P' 'K' and 'S' for 2011-12 w. e. f 1st April 2011 are as follows:

Sl no.	Nutrients	NBS per Kg of nutrient	
		In Rs.	in US\$
1	"N"	27.153	0.595
2	"P"	32.338	0.708
3	"K"	26.756	0.586
4	"S"	1.677	0.037

Note: Exchange rate adopted US\$ 1 = Rs.45.65 .



RATE OF SUBSIDY PER TONNE OF P & K FERTILIZERS – 2011-12

Fertilisers	NBS per tonne	
	(in Rs.)	in US\$
DAP (18-46-0-0)	19763	432.9
DAP lite (16-44-0-0)	18573	406.9
DAP lite Grade II (14-46-0-0)	18677	409.1
MAP (11-52-0-0)	19803	433.8
MAP lite (11-44-0-0)	17216	377.1
TSP (0-46-0-0)	14875	325.8
MOP (0-0-60-0)	16054	351.7
SSP (0-16-0-11)	5359	117.4
NPS :16-20-0-13	11030	241.6
NPS: 20-20-0-13	12116	265.4
NP: 20-20-0-0	11898	260.6

Note: Exchange rate adopted US\$ 1 = Rs.45.65.



RATE OF SUBSIDY PER TONNE OF P & K FERTILIZERS – 2011-12

Fertilisers	NBS per tonne	
	(in Rs.)	in US\$
NP: 23-23-0-0	13683	299.7
NP: 24-24-0-0	14278	312.8
NP: 28-28-0-0	16657	364.9
NPK: 10-26-26-0	18080	396.1
NPK: 12-32-16-0	17887	391.8
NPK:14-28-14-0	16602	363.7
NPK:14-35-14-0	18866	413.3
NPK:15-15-15-0	12937	283.4
NPKS:15-15-15-09	13088	286.7
NPK: 16-16-16-0	13800	302.3

Note: Exchange rate adopted US\$ 1 = Rs.45.65.



RATE OF SUBSIDY PER TONNE OF P & K FERTILIZERS – 2011-12

Fertilisers	NBS per tonne	
	(in Rs.)	in US\$
NPK: 17-17-17-0	14662	321.2
NPK: 19-19-19-0	16387	359.0
NPS:13-33-0-6	14302	313.3
Ammonium Sulphate (20.6-0-0-23)	5979	131.0

Note: Exchange rate adopted US\$ 1 = Rs.45.65.



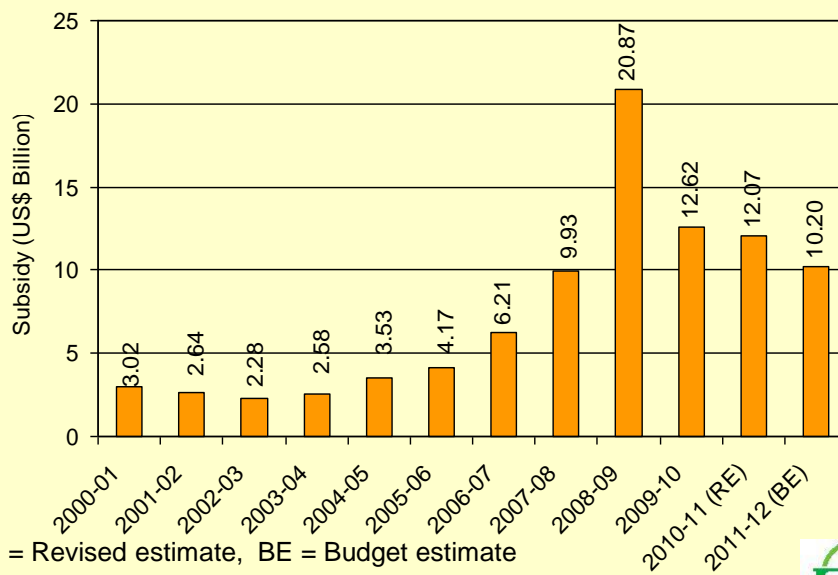
ADDITIONAL SUBSIDY PER TONNE FOR FORTIFIED FERTILISERS – 2011-12

Sl. No.	Nutrients for fortification as per FCO	Additional subsidy per tonne of fortified fertilisers	
		(In Rs.)	in US\$
1.	Boron 'Bn'	300	6.572
2.	Zinc 'Zn'	500	10.953

Note: Exchange rate adopted US\$ 1 = Rs.45.65.



TOTAL SUBSIDY ON FERTILIZERS



ASSESSMENT OF IMPLEMENTATION OF NBS – 2011-12

- High international prices
- Subsidies determined at lower IPP than the prevailing international prices
- Delay in arrangement for imports of the finished fertilizers and raw materials
- Increase in exchange rate
- Import likely to be lower than the previous year



PROSPECTS OF NBS

- Fertilizer Subsidy is no more open ended. Rate of subsidy is pre-determined and a fixed amount
- MRP cannot be raised beyond certain limits
- High international prices will lead to demand destruction
- De-canalization of import of urea and NBS on urea
- Government encourages Joint Ventures by the Indian companies



NEW PRODUCTS AND NBS

- Basket of products under NBS needed to be extended for balanced fertilization
- Efforts are already made by the Fertilizer Industry and others to market new/ innovative products (e.g., customized fertilizers, water soluble fertilizers, fortified fertilizers, etc.)



PROSPECTS OF UREA INDUSTRY

- Fertilizer sector has been given top priority for gas allocation
- With the availability of gas from RIL and other sources, feedstock availability to existing urea units is comfortable
- A couple of units have expanded capacity through revamp/ debottlenecking, viz., IFFCO-Aonla I & II, Phulpur I & II; Tata Chemicals-Babrala; Chambal Fertilizers I & II, etc.
- Revamp in a few other units are underway, viz., KRIBHCO-Hazira, NFL-Vijaipur and RCF-Thal
- A number of proposed brown field / green field expansion projects are waiting for the announcement of New policy by the GOI and assurance of gas supply
- India may become self-sufficient in urea production in future subject to the availability of gas at reasonable price.



CONCLUSION

- Introduction of NBS on P & K fertilizers is the first major step towards comprehensive reform in the fertilizer sector
- Reform in the urea sector is under the active consideration of the GOI (NBS on urea and New Investment Policy)
- NBS to encourage:
 - (i) Efficient and balanced use of fertilizers
 - (ii) Promote use of new/ innovative products
- Deficiencies of sulphur and micro nutrients being addressed
- NBS is expected to encourage investments in India and overseas
- Reforms will address fiscal management of subsidy bill
- In due course, there can be changes in NBS policy and finally fertilizer prices may be market driven without any subsidy.

