

RGICS Issue Brief



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ISSUE BRIEF

19th February, 2015

The Current Scenario of Urea Imports

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PART I. CONTEXT

The current rabi crop season has brought misery for farmers across the country owing to a shortage of urea (the most widely used chemical fertilizer in the country). The situation is a result of India's ill-defined policy on urea imports. Urea has a special status among fertilizers at large. Unlike others fertilizers imports of urea are undertaken solely through the Centre-run State Trading Corporations, MMTC Ltd and Indian Potash Ltd.

Urea Import for Rabi crop sowing - Month-wise imports data reveal the current government's callousness in importing the essential fertilizer. In comparison to 43.82 lakh tons of urea being imported under the UPA regime between April to January 2013-14 only 17.37 lakh tones was imported by the NDA government at the centre in 2014-15. The shortage has led to protests from farmer bodies across the country as the imports did not happen in time for the planting of the rabi season. Even though the government imported heavy amounts of the fertilizer in November it proved to be of no use to farmers for they had already planted their crops.

Month wise imports in 2014-15

TOO LATE TO COUNT

	2013-14	2014-15
APRIL	2.24	8.72
MAY	4.32	6.18
JUNE	4.53	0.78
JULY	9.21	0.97
AUGUST	10.97	4.69
SEPTEMBER	9.80	5.61
OCTOBER	9.31	5.32
NOVEMBER	7.16	16.29
DECEMBER	7.81	14.01
JANUARY	2.63	10.45
APRIL-JAN	67.98	73.02

Figures in lakh tonnes

Import process - The blame falls directly on the Central government. India has a domestic demand of about 300 lakh tons urea, of which 220-225 lakh tones is produced domestically and the rest is imported. When it comes to using urea, timing is essential as it has to be applied within 50 days of sowing.

Import of the fertilizer requires floating tenders in the international market. In India this process is especially unreliable as bidders may not always agree to supply the entire tendered quantity at the lowest price offered. Overall the tendering process is slow and doesn't take into consideration to the global price variations. In the aftermath of the current shortage Union Chemicals and Fertilizers Minister Anantha Kumar decided to blame the

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UPA II government for not placing a tender for urea in May. He has also criticized the earlier government's decision to stop government subsidies for naphtha-based urea plants. Shortage of this essential fertilizer has led to farmers resorting to more complex chemical fertilizers in addition to the urea they got from government sources. The cost of acquiring these other fertilizers had effectively doubled the cost of urea for farmers in the country.

Current shortage can be attributed to a ten year old trend of replacing domestic urea production with imports. The Modi government was only too happy to follow the line. The closure of domestic production units led to an additional import requirement of 20,000 tonnes of fertilizers per annum. To give an example, the production cost of urea at Madras Fertilizers Limited was Rs 46,000 per metric ton at the time of its closure which, though higher than domestically produced gas based urea, was lower than the landed price of imported fertilizers. Till 2004 India was totally self sufficient in production of urea with no imports. The total subsidy on locally produced urea amounted to Rs 8521 crore that year. Presently India imports about a quarter of the urea it consumes and the imported urea is nowhere cheaper than domestically produced variant. As a matter of fact it is more expensive than the urea produced by the naphtha based plants but is heavily subsidized by the Finance Ministry. The subsidy on urea imports was ₹18,016 crore in 2012-13. In 2011-12 the subsidy on imported urea amounted to Rs 17,061 crore, higher than Rs 16,796 crore subsidies for domestically produced urea. This is despite the fact that imports at ₹44.92 lakh MT was a just third of the domestic production of 122.59 lakh tonnes of the nitrogenous fertiliser. Data shows that subsidy per tonne that year on the imported nutrient was ₹37,980 as against 13,700 on the indigenously produced product. Demand for imported urea increased to 14.9 lakh tonnes against 6.56 lakh tonnes in the April-May period of 2013. The demand is further set to increase with the closure of domestic naphtha based urea plants.

PART II: OVER USE OF UREA

One concern that remains is the overuse of urea. The government provides a 90 percent subsidy on cost for urea while it is only 30 percent for other fertilizers, which has led to over-consumption that adversely affects the soil. Another demand doing the rounds is the direct payment of subsidy to the farmers. Currently fertilizer subsidy is paid directly to the manufacturers of the fertilizers. The amount of subsidy is the difference between the cost of production and the government regulated retail price. Fertilizer industry experts have said that this would lead to increased competition and aggressive pricing which would ultimately benefit the farmer.

PART III: PREVIOUS YEAR TRENDS

To understand the demand and supply deficit that leads to recurrent shortages of urea we need to consider the historic trends of consumption, production and imports of fertilizers in the country.

Table 4: Consumption, production and imports of Fertilizers in India since 1980-81 to 2011-12

(In lakh tonnes)

Year	Consumption				Production			Imports			
	N	P	K	Total	N	P	Total	N	P	K	Total
1981-82	40.69	13.22	6.73	60.64	31.44	9.49	40.93	10.54	3.43	6.44	20.41
1990-91	79.97	32.21	13.28	125.46	69.93	20.52	90.45	4.14	10.16	13.28	27.58
2000-01	109.2	42.15	15.67	167.02	109.61	37.43	147.04	1.54	3.96	15.41	20.91
2010-11	165.58	80.5	35.14	281.22	221.56	42.22	263.78	45.64	37.38	38.81	121.83
2011-12	173	79.14	25.26	277.4	122.58	41.03	163.61	55.72	42.98	24.98	123.68

Source: Agricultural statistics, Department of Agriculture & Cooperation, Ministry of Agriculture, GOI

The table above indicates that:

- Consumption of fertilizers in India has always remained higher than the production of fertilizers in India, which implies a clear gap between the domestic demand and domestic supply
- Excess demand is therefore met by the imports of fertilizers

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Table 5: Demand- Supply Gap of Fertilizers in India since 1980-81 to 2011-12

Year	(In lakh tonnes)			
	Total Demand	Domestic Supply (Domestic Production)	Total Supply	Demand- Supply Gap
1981-82	60.64	40.93	61.34	0.7
1990-91	125.46	90.45	118.03	-7.43
2000-01	167.02	147.04	167.95	0.93
2010-11	281.22	263.78	385.61	104.39
2011-12	277.4	163.61	287.29	9.89

Source: Agricultural statistics, Department of Agriculture & Cooperation, Ministry of Agriculture, GOI

The data above represents that:

- Total supply (domestic production and imports of fertilizers) has always remained higher than the domestic demand
- Domestic supply of fertilizers has always remained insufficient to meet domestic demand

Last month the government announced it is considering plans to remove the price control and the import duty of 5 percent. Fertilizers subsidy costs have quadrupled over the past decade. The government is expected to decontrol the maximum retail price (MRP) of urea (current MRP is Rs 5,360, \$87) a tonne. It is also planning to hike the MRP of urea about 20 percent annually over the next 3 years. The government is expected to announce its decisions in the budget. At the same time the Fertiliser Association of India (FAI) has asked for de-canalising urea imports, reasonable prices and timely subsidy payment from the Union budget 2015-16.

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