GOVERNMENT OF INDIA

MINISTRY OFCHEMICALS AND FERTILIZERS

RAJYA SABHA

QUESTION NO04.12.2009

ANSWERED ON

NEW INVESTMENT POLICY FOR FERTILIZER SECTOR .

1719 Shri Nand Kumar Sai

Will the Minister of COALCOALCHEMICALS AND FERTILIZERS be pleased to state :-

(a) whether Government has announced new investment policy for fertilizer sector;

(b) if so, the details thereof;

(c) whether the fertilizer industry has responded positively;

(d) if so, the fertilizer companies that have revamped their units and the companies who have asked Government for assured availability of gas for their plants;

(e) whether retail price of urea has not been revised since 2002;

(f) if so, whether profit margin of manufacturers of urea has remained same as it was in 2002;

(g) if so, the details in this regard; and

(h)the measures taken to safeguard interests of the manufacturers of urea?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF CHEMICALS AND FERTILIZERS

(SHRI SRIKANT KUMAR JENA)

(a) to (h) A statement is attached.

Statement referred to in reply to part (a) to (h) of Rajya Sabha Unstarred Question No 1719 to be answered on 04-12-2009 regarding New Investment Policy for Fertilizer Sector.

The Government has announced a policy for new investments in urea sector on 4th September 2008. The New Investment Policy aims at revamp, expansion, revival of existing urea units and setting up of Greenfield projects. The policy is expected to completely bridge the gap in next five years between the consumption and domestic production subject to confirmed and adequate availability of gas at reasonable prices. The salient features of the new investment policy are as under :-

1. The policy is based on Import Parity Price(IPP) benchmark with suitable floor and ceiling prices.

2. Floor & Ceiling prices: The floor for urea price is be kept at USD 250 per MT and the ceiling for urea price is fixed at USD 425 per MT.

3. Revamp project: Any improvement in capacity of existing plants through investment upto Rs. 1000 crore, in the existing train of ammonia-urea production will be treated as revamp of existing units. The additional urea from the revamp of existing units will be recognized at 85% of Import Parity Price with the floor and ceiling price as indicated above.

4. Expansion projects: Setting up of a new ammonia-urea plant (a separate new ammonia-urea train) in the premises of the existing fertilizer plants, utilizing some of the common utilities will qualify for being treated as expansion project. The investment should exceed a minimum limit of Rs.3000 crore. The urea from the expansion of existing units will be recognized at 90% of IPP, with the floor and ceiling price as indicated above.

5. Revival/Brownfield projects: The urea from the revived units of Hindustan Fertilizer Corporation Limited(HFCL) and Fertilizer Corporation of India Limited (FCIL) will be recognized at 95% of IPP with prescribed floor & ceiling price, if the revival of closed units takes placed in public sector.

6. Greenfield projects: The pricing of Greenfield projects will be decided based on a bidding process which will be for a discount over IPP, after firming up of the location (States) of the proposed new plants.

7 Gas transportation charges: An additional gas transportation cost will be paid to units undertaking expansion and revival on the basis of actuals (upto 5.2 Gcal per MT of urea) as decided by the Regulator(Gas) subject to a maximum ceiling of USD 25 per MT of urea.

8. Allocation of Gas: Only non-APM gas will be considered for the new investment in urea sector.

9. Coal gasification based Urea Projects: The Coal gasification based urea projects will also be treated on par with a revival or a Greenfield project as the case may be. In addition, any other incentives or tax benefits as provided by Government for encouraging coal gasification technology will also be extended to these projects.

10. Joint Ventures abroad: The Joint Venture projects abroad in gas rich countries are also proposed to be encouraged through firm offtake contracts with pricing decided on the basis of prevailing market conditions and in mutual consultation with the joint venture company. However, the principle for deciding upon the maximum price will be the price achieved under Greenfield projects or 95% of IPP as proposed for revival projects (in absence of any Greenfield projects) with a cap of USD 405 CIF India per MT and a floor of USD 225 CIF India per MT (inclusive of handling and bagging costs) 11. Time period for proposed investment policy: Only those revamp projects which start production of additional capacities within four years of notification of the new policy would qualify for the dispensation recommended above. Similarly production from expansion and revival (brownfield) units that come about within five years of notification of the new policy would qualify for dispensation provided in the policy. If the production does not come through within the stipulated time period, such brownfield projects will be treated similar to a Greenfield projects wherein price will be decided through limited bidding options. The time period for setting up of new Joint Ventures would also be five years under the new investment policy. The fertilizer Industry has responded positively towards the New Investment Policy by initiating investment decision for revamp/expansion of existing capacities. IFFCO-Aonla – I & II, IFFCO-Phulpur – I & II, Chambal Fertilizers and Chemicals Limited (CFCL) – Gadepan – I&II, Nagarjuna Fertilizers and Chemicals Limited (NFCL) – Kakinada – I & II and the unit of Tata Chemicals Limited - Babrala have informed regarding additional production of urea after revamp. Further, RCF, Thal; KRIBHCO- Hazira and NFL, Vijaipur have undertaken revamp of their units. Six companies viz. IFFCO, KRIBHCO, Rashtriya Chemicals and Fertilizers Limited, INDO-GULF Fertilizers Limited, TATA Chemicals Limited and Chambal Fertilizers and Chemicals Limited have requested for firm availability of gas for taking final investment decision to undertake expansion of their existing units There is no change in the MRP of Urea since March 2002. The urea units are allowed 12% post tax return on capital employed in the costed year for arriving at the retention price before group averaging. The return allowed is not dependent on MRP of urea It is based on costed year capital employed/networth of the units. The Government has taken various measures to encourage efficiency and safeguard the interest of urea producing units. Under NPS-III, pre-set energy norms have been notified for all the urea units. Savings in energy consumption achieved by the urea units with respect to pre set energy norms are incentivized by payment at the weighted average basic rate of inputs consumed.