Urea Policy(Pricing and Administration)

Urea Policy (Pricing and Administration) and Urea Pricing Policy Section

- At present, there are 31 urea units in the country out of which 28 urea units use Natural Gas (using domestic gas/LNG/CBM) and remaining three urea units use Naphtha as feedstock.
- The MRP of urea is statutorily fixed by the Government of India and at present it is Rs. 268 for a 50 Kg bag of urea/ Rs. 242 for a 45 kg bag of urea which includes Rs. 354/MT as dealer margin for private traders/PSUs/Cooperatives and Rs. 50/MT which is paid to retailers for acknowledging the receipt and reporting the stock in mFMS (iiFMS) as additional incentive. However, in the state of Uttar Pradesh prices due to levy of Additional VAT on natural gas by Government of Uttar Pradesh are Rs. 298 for a 50 Kg bag of Urea and Rs. 269 for a 45 kg bag of Urea. The aforementioned rates are exclusive of the central excise duty, Central Tax, Integrated Tax, Union Territory Tax or Countervailing Duty, state tax and other local taxes wherever levied, whether at the retail sales point or at an intermediate stages and other charges towards neem coating. The difference between the delivered cost of fertilizers at farm gate and MRP payable by the farmer is given as subsidy to the fertilizer manufacturer/importer by the Government of India.
- The following policies regarding subsidy payment to urea units were in place since 2003:

i. New Pricing Scheme (NPS) - I for the period from 01.04.2003 to 31.03.2004.

ii. NPS – II for the period from 01.04.2004 to 31.09.2006.

iii. NPS – III for the period from 01.10.2006 to 01.04.2014.

iv. Modified NPS – III for the period from 02.04.2014 to 31.05.2015

- The current policies by which subsidy is being paid to urea units are as under:

v. NPS-III and Modified NPS – III regarding compensation of fixed cost and variable cost e.g. the cost of bag, water charges & electricity charges to continue till further orders.

vi. New Urea Policy – 2015 for the period 01.06.2015 to 31.03.2019 (Applicable for 25 gas based urea units).

vii. Notification dated 17th June, 2015 – Applicable for Madras Fertilizers Limited- Manali Southern Petrochemicals Industries Corporation (SPIC) - Tuticorin and Mangalore Chemicals & Fertilizers Limited (MCFL).

New Urea Policy (Applicable for 25 gas based urea units)

- The New Urea Policy-2015 (NUP-2015) has been notified by Department of Fertilizers on 25th May, 2015, which was initially made effective from 1stJune, 2015 upto 31st March, 2019, with the objective of maximizing indigenous urea production, promoting energy efficiency in urea production and rationalizing subsidy burden on the government.
- As per NUP – 2015, the preset energy norms for the 25 gas based urea units fixed during earlier policies have been mopped up and they are eligible to get the concession rate on the basis of revised energy norms fixed for each group from 1st June, 2015 to 31st March, 2018 which is the simple average of pre-set energy norms of NPS-III and average actual energy consumption achieved during the years 2011-12, 2012-13 and 2013-14 or the pre-set set energy norms of NPS-III, whichever is lower.
- The urea units were given target energy consumption norms to be achieved in the year 2018-19. For Group-I, target energy norms for the year 2018-19 is 5.5 G Cal/MT (except Tata Chemicals Limited-Babrala for which existing pre-set energy consumption norm of NPS-III i.e. 5.417 G Cal/MT will continue). For Group-II and Group-III, the target energy consumption norms for the year 2018-19 have been 6.2 G Cal/MT and 6.5 G Cal/MT respectively.
- The compensation for other variable cost e.g. the cost of bag, water charges & electricity charges and fixed cost are determined in accordance with existing provisions of NPS-III (notified on 8th March, 2007) and Modified NPS-III (2nd April, 2014).
- For production upto 100% re-assessed capacity (RAC), the 25 gas based urea units are entitled to get total cost of production of urea, which includes fixed cost and variable cost.
- For production beyond RAC, the units are entitled for their respective variable cost and a uniform per MT incentive equal to the lowest of the per MT fixed costs of all the indigenous urea units subject to import parity price plus weighted average of other incidental charges which the government incurs on the imported urea. However, vide notification dated 7th April, 2017, a further amendment was incorporated for production of urea beyond RAC during 2016-17 such that units were entitled beyond their respective variable cost and a uniform per MT incentive equal to the lowest of the per MT fixed cost of all indigenous urea units subject to sum of import parity price, other incidental charges which the Government incurs on the import of urea and weighted average of Central Government levies of urea paid by the urea manufacturing units. Vide said amendment, it has been decided that in event of any fluctuation in Import Parity Price that would have adverse impact on the production beyond RAC by urea units, Department of Fertilizers is authorized to take appropriate decision in consultation with Department of Expenditure.
- Five units namely MFL-Manali, MCFL-Mangalore, SPIC-Tuticorn, BVFCL-Namrup-II and BVFCL-Namrup-III are not covered under this scheme because these units are not connected to gas pipeline network in the country. As per NUP – 2015, Namrup-II and Namrup-III units of BVFCL are proposed to be closed and a new high efficiency unit will be installed, which will be dealt separately under their restructuring proposal. Till then, these two units are functioning under the provisions of Modified NPS-III.

For Naphtha based urea units

- The three Naphtha based urea units viz., Madras Fertilizers Limited- Manali (CPSU), Southern Petrochemicals Industries Corporation (SPIC) - Tuticorin and Mangalore Chemicals & Fertilizers Limited (MCFL) are governed by Policy Notification dated 17th June, 2015, which allows these units to operate urea production using Naphtha as feedstock till gas availability and connectivity to these three units either by gas pipeline or by any other means The Naphtha based urea units are entitled to get subsidy as per the following conditions:

(i) These units will be eligible for subsidy on the basis of the revised energy norms from the date of notification, which would be the simple average of pre-set energy norms of New Pricing Scheme (NPS) – III and lowest yearly specific energy consumption achieved during the years 2011-12, 2012-13 and 2013-14 or the pre-set energy norms of NPS – III, whichever is lower.

(ii) The concession rate for these plants will be determined notionally on the basis of weighted average of the delivered cost of RLNG to recently converted plants after deducting state taxes (VAT, Entry tax) on RLNG or the cost of production of urea from Naphtha/FO after deducting state taxes levied on Naphtha/FO consumed for urea production (VAT, Entry tax) on Naphtha/FO, whichever is lower.

(iii) The compensation for other variable cost e.g. the cost of bag, water charges & electricity charges and fixed cost will be determined in accordance with existing provisions of NPS – III and Modified NPS – III.

- The specific energy consumption norms for these three units from 2018-19 was fixed as 6.5 Gcal/MT.

Amendment to New Urea Policy NUP – 2015

- Vide notification dated 28th March, 2018, Department of Fertilizers has approved the following decisions with regard to Target Energy Norms given to all urea manufacturing units (except BVFCL):

(i) For 11 urea manufacturing units viz., YFIL, NFL-Vijaypur-II, GIL, CFCL-Gadepan-I & II, IFFCO-Aonla-II, RCF-Thal, IFFCO-Kalol, IFFCO-Aonla-I, IFFCO-Phulpur-I&II, the target energy consumption norms as mentioned in Para 3.2 of NUP-2015, will come into force w.e.f. 1st April, 2018.

(ii) The existing norms under New Urea Policy-2015 for remaining 14 urea manufacturing units viz., NFL Vijayppur-I, KRIBHCO-Hazira, KFL-Shahjahanpur, NFCL-Kakinada-I, NFCL-Kakinada-II, GNFC-Bharuchm GSFC-Vadodara, NFL-Bathinda, NFL-Nangal, NFL-Panipat, SFC-Kota, KFCL-Kanpur, RCF Trombay-V, ZACL-Goa are hereby extended for further period of 2 years i.e. till 31st March, 2020 with the following penalities:

(a) Penalty equivalent to 2% energy of difference between NUP Energy norms and Target Energy norms of NUP-2015, for the first year i.e. 2018-19.

(b) Penalty equivalent to 5% energy of difference between NUP Energy norms and Target Enerfy norms of NUP-2015, for the second year i.e. 2019-20.

(c) Urea manufacturing units must achieve Target Energy Norms during the extended period of 2018-19 to 2019-20 failing which additional penalties may be imposed on defaulting units in consultation with the Department of Expenditure.

(iii) The aforesaid target energy norms may be continued upto 31st March, 2025. Meanwhile, an expert body under NITI Aayog would be engaged to recommend the energy norms to be achieved from 01st April, 2025.

(iv) The three Naphtha based urea units viz., MFL, MCFL, SPIC are also allowed the existing energy norms under Para (2) of policy notification dated 17thJune, 2015 for another two years i.e. till 31st March, 2020 or till these units get the gas pipeline connectivity, whichever is earlier. There will be no mopping up of energy efficiency for a fix period of 5 years from date of gas pipeline connectivity as per Para 3 (viii) and 5 (ii) of NPS-III policy dated 8thMarch, 2007.

New Investment Policy – 2012

- The Government has notified New Investment Policy – 2012 on 2nd January, 2013 with the main objective to facilitate fresh investment, make India self-reliant and reduce import dependency in urea sector. The salient features of NIP – 2012 are as follows:-

i. The policy supports gas based plants.

ii. It has structure of a flexible floor and ceiling price calculated at delivered price of gas from US $6.5 to US $ 14/mmbtu.

iii. The floor price has been determined at a Return on Equity (RoE) of 12% and the ceiling price at a RoE of 20%.

iv. For Greenfield/Revival and Brownfield Projects, the floor and ceiling shall increase in tandem with increase in delivered gas price i.e. every USD 0.1/mmbtu increase in delivered gas price will increase the floor and ceiling by USD 2/MT upto delivered gas price of USD 14/mmbtu.

v. Beyond delivered gas price of USD 14/mmbtu, only floor will be increased.

vi. For Revamp Projects, floor and ceiling have been linked to delivered gas price of USD 7.5/mmbtu and floor and ceiling shall increase by USD 2.2/MT for every increase in delivered gas price of 0.1/mmbtu.

vii. It supports revival of closed units.

viii. It encourages investment by Indian industry in Joint Venture abroad in resource rich countries

ix. For units in North Eastern states, the special dispensation regarding gas price that is being extended by GOI/State governments will be available to any new investment. Suitable adjustments will be made to applicable floor and ceiling price in case the delivered price (after allowing for special dispensation) falls below USD 6.5 per mmbtu, subject to approval of Ministry of Finance.

Amendment in NIP-2012

- Vide notification dated 7th October, 2014, the following amendments were made in the New Investment Policy–2012 (NIP-2012):-

(i) Para 8.1 of NIP-2012 is replaced as follows:

'Only those units whose production starts within five years from the date of this amendment notification will be covered under the policy. Subsidy will be given only upon domestic sale as at present for a period of 8 years from the date of start of production. Thereafter, the units will be governed by the urea policy prevalent at that time.'

(ii) To ensure seriousness/credibility of the project proponents under NIP-2012 and for timely execution of the projects, all the project proponents will be required to furnish Bank Guarantee (BG) of Rs. 300 crores for each project. The BG will be linked to milestones in the project cycle. Out of Rs. 300 crores, Rs. 100 crores of BG will be released after finalization of LSTK/ EPCA contractors and release of advance to the contractor's account; Rs. 100 crores of BG will be released on completion of equipment ordering and supply to the site or midpoint of the project cycle, whichever is earlier; and the balance of Rs. 100 crores of BG on completion of the project. PSUs are, however, exempted from furnishing the BG.

(iii) A Committee of Secretaries comprising Secretary (Fertilizers), Secretary (Department of Expenditure), Secretary (MoPN&G), Secretary (Planning Commission) and Secretary (Agriculture) with Secretary (Fertilizers) as Chairman is constituted to take decisions on various issues which will arise during the implementation of NIP-2012.

Uniform Freight Policy

- DOF announced the uniform freight policy (UFP) with effect from April 1, 2008 vide notification dated July 17, 2008 with an objective to ensure the availability of fertilizers in all parts of the country, especially distant/remote corners of the country. The freight subsidy is paid to the urea units for the transportation of urea from Plant/Port to the Block/District.
- Based on the recommendations of Tariff Commission, the slab-wise rates in respect of primary road movement upto 500 Kms were notified for the year 2008-09 vide notification dated 17.6.2015. The said rages are escalated/de-escalated for each financial years.
- Vide Notification dated 1st September, 2011, Department of Fertilizers had issued Normative Per tonne per Km Transportation Rates for the year 2007-08, 2008-09 and

2009-10 based on recommendations made by Tariff Commission in the case of secondary movement of fertilizers from unloading rake point to retail point. The escalated/de-escalated Per Tonne Per kilometre (PTPK) for road transportation in the case of secondary movement of fertilizers are notified by Department of Fertilizers annually.