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"AN ANALYSIS OF INDIAN FERTILIZERS INDUSTRY "

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ABSTRACT

The Indian Fertilizer Industry has come a long way since its early days post-independence. India today is one of the largest producer and consumer of Fertilizers in the world. Fertilizers Industry, given its strategic importance in ensuring self-sufficiency of food grain in the country, has for decades, been under government control. The government has over the years provided subsidies/concessions through the fertilizer companies to farmers and the manufacturers have been compensated through various schemes. In this research Paper discuss the challenges and problems faced by the fertilizer sector highlighting on the activities which are anti-competitive. Starting with a brief overview of the Agriculture, I take into consideration the Fertilizer sector specifically wherein I discuss about the present status, growth of the industry and foreign trade of fertilizers. The last part of the report brings out the study of the sector under the ambit of Porter's Five

Forces Model followed by the challenges and problems in fertilizer sector. Lastly discussing what can be the role of CCI in solving the issues discussed. Government has opted new regime of subsidy regime and has also new price policy regime aimed at achieving to total deregulation in the sector. Practice of collusion and abuse of dominance are the cases which this sector can be prone to, reason being the less number of players in this market and also the bargaining power of buyers(here farmers) is low, also lack of monitoring lead to anti-competitive at the level of distribution of fertilizers to end consumers. Since fertilizer sector directly influences in agriculture, impacting prices and making food more expensive, thus the fertilizer study becomes of the utmost importance.

Keywords: - Fertilizer, subsidy, bargaining.

INTRODUCTION

India is primarily an agriculture based economy. The agricultural sector and its other associated spheres provide employment to a large section of the country's population and contribute about 25% to the GDP. Fertilizers are the chemical compounds which are used for increasing plant production efficiency, production quality, & for maintaining soil fertility over the period. The **Indian Fertilizer Industry** is one of the allied sectors of the agricultural sphere. India has emerged as the third largest producer of nitrogenous fertilizers. The adoption of back to back Five Year plans has paved the way for self-sufficiency in the production of food grains. In fact production has gone up to an extent that there is scope for the export of food grains. This surplus has been facilitated by the use of chemical fertilizers. The large scale use of chemical fertilizers has been instrumental in bringing about the green revolution in India. The fertilizer industry in India began its journey way back in 1906. During this period the first Single Super Phosphate (SSP) factory was established in Ranipet in Chennai. It had a capacity of producing 6000 MT annually. In the pre and post-independence era a couple of large scale fertilizer units were established namely the Fertilizer Corporation of India in Sindri, Bihar and the Fertilizer & Chemicals Travancore of India Ltd in Cochin, Kerala.The Indian government has devised policies conducive to the manufacture and consumption of fertilizers. Numerous committees have been formed by the Indian government to formulate and determine fertilizer policies. The dramatic development of the fertilizer industry and the rise in its production capacity has largely been attributed to the favourable policies. This has resulted in large scale investments in all three sectors viz. public, private and co-operative.

At present there are 57 large scale fertilizer units. These manufacture an extensive range of phosphatic, nitrogenous and complex fertilizers. 29 of these 57 units are engaged in the manufacturing of urea, while 13 of them produce Calcium Ammonium Nitrate and Ammonium Sulphate. The remaining 20 fertilizer plants manufacture complex fertilizers and DAP. There are also a number of medium and small scale industries in operation, about 72 of them.

FERTIZERS OVERVIEW:-

The fertilizer industry is one of the most energy intensive sector within Indian economy and is therefore of particular interest in the context of both local and global environment discussions. Increase in productivity of this good with the use of cleaner and more efficient technologies in the manufacturing sector will be most effective immerging economic, environment and social development objectives. Being the backbone of agricultural productivity, the role of fertilizers will

always remain crucial. In developing countries like India, with increase in demand for food the demand for fertilizer supply has experienced an upward shift. There is little doubt that improved productivity can only be attained through better management of inputs, including fertilizers. Fertilizers production in India is nutrient wise. The three main nutrients- Phosphate, Potash and Nitrogen (Urea) are used for fertilizers creation. Urea, ammonium sulphate, calcium ammonium nitrate (CAN) and ammonium chloride are the nitrogenous fertilizers produced in India and single superphosphate (SSP) is the only phosphate fertiliser that is produced in India. Additionally, nutrients are combined to produce several complex fertilizers. Production of complex fertilizers include DAP (Diammonium Phosphate), several grades of nitro phosphates and NPK complexes. Urea, DAP; SSP and Muriate of Potash (MOP) are the most commonly used fertilizers. Among these, urea and DAP are the main fertilizers that are produced indigenously. Due to the lack of viable resources or reserves of potash 8 in India, the entire feedstock requirement for potassic fertilisers are imported. Thus, Potash based fertilizer demand is entirely met by imports, for Phosphate fertilizer raw materials are imported and lastly Natural Gas and LNG is being imported for Urea fertilizer production. In India, technical problems, power shortages and stringent government policies lead to problems in production expansion and high import prices is a matter of concern especially for farmers. Fertilizer in the agricultural process is an important area of concern. Fertilizer industry in India has succeeded in meeting the demand of all chemical fertilizers in the recent years. The Fertilizer Industry in India started its first manufacturing unit of Single Super Phosphate (SSP) in Ranipet near Chennai with a capacity of 6000 MT a year. The Fertilizer & Chemicals Travancore of India Ltd. (FACT) at Cochin in Kerala and The Fertilizer Corporation of India(FCI) in Sindri in Bihar were the first large sized plants set up in forties and fifties with a view to establish industrial base and attain self-sufficiency in food grains. An impetus to the growth of fertilizer industry in India was given by Green revolution in Sixties. Further a significant addition to the production was witnessed in seventies and eighties. The fertilizer industry has played an pivotal role in achieving self suffiency in food grains as well as in rapid and sustained agricultural growth. India is third largest producer and consumer in the world after China and the United States. According to Given Statistics, total capacity of the industry as on 30.01.2003 has reached a level of 121.10 lakh MT of nitrogen (inclusive of an installed capacity of 208.42 lakh MT of urea after reassessment of capacity) and 53.60 lakh MT of phosphate nutrient.

The growth of Indian fertilizer has been largely determined by the policies pursued by the government which mainly confine to controls on the pricing, distribution and movement of

fertilizers. The industry is capital intensive and the production process energy intensive with the combined cost of feedstock and fuel accounting for anywhere between 55 and 80 per cent of cost of production, depending on the type of fertilizers.

PRESENT STATUS OF FERTLIZER INDUSTRY

India being the third largest producer and consumer of fertilizers in the world with an installed capacity of Nitrogen (N) and Phosphate (P) nutrients at 14 million tonnes p.a. Urea, a nitrogenous type of fertilizer, is most widely consumed in India. Currently the urea capacity is 20.2 million tonnes while consumption is 21.7 million tonnes.

Fertilizer production is highly energy intensive with cost of feedstock and fuel alone accounting for between 55 to 80 per cent of the cost of production. Plants in India is based primarily on three feedstock – naphtha, fuel oil and natural gas with a significant proportion of domestic capacity of urea plants based on naphtha or fuel oil which cost more than natural gas. High cost feedstock and increased production/consumption have caused a steady increase in fertilizer subsidy.

GROWTH OF THE INDUSTRY

As on 31st January 2008, the country has installed capacity of 120.61 lakh MT of nitrogen and 56.59 lakh MT of Phosphate. Presently, there are 56 large sized fertilizers plants in the country manufacturing a wide range of nitrogenous, phosphate and complex fertilizers. Out of these 30(as on date 28 are functioning) units produce urea, 21 units produce DAP (Di-ammonium phosphate) and complex fertilizers, 5 units produce low analysis straight nitrogenous fertilizers and the remaining 9 manufacture ammonium sulphate as-product. Besides there are about 72 medium and small scale units in operation producing SSP (Single Super Phosphate).

The fertilizer production increased from 9.04 MMT in FY91 to 14.63 MMT in FY02. However, during the Tenth Plan Period, the fertilizer production registered a moderate growth and along with it the capacity expansion of the industry had also remained by and large stagnant. Fertilizer production grew by an average 2.0% during FY03-FY07 which could be mainly attributed to the absence of fresh investment and non-implementation of a number of projects that were envisaged to be implemented during the Tenth Plan. While the growth in production has been sluggish during the Tenth Plan period, growth in the fertilizer production declined successively during FY08 and FY09; as a result, capacity utilization witnessed moderation over the last few years. Nonetheless, the domestic industry's capacity utilization was more or less at a par with the global fertilizer industry's level of capacity utilization.

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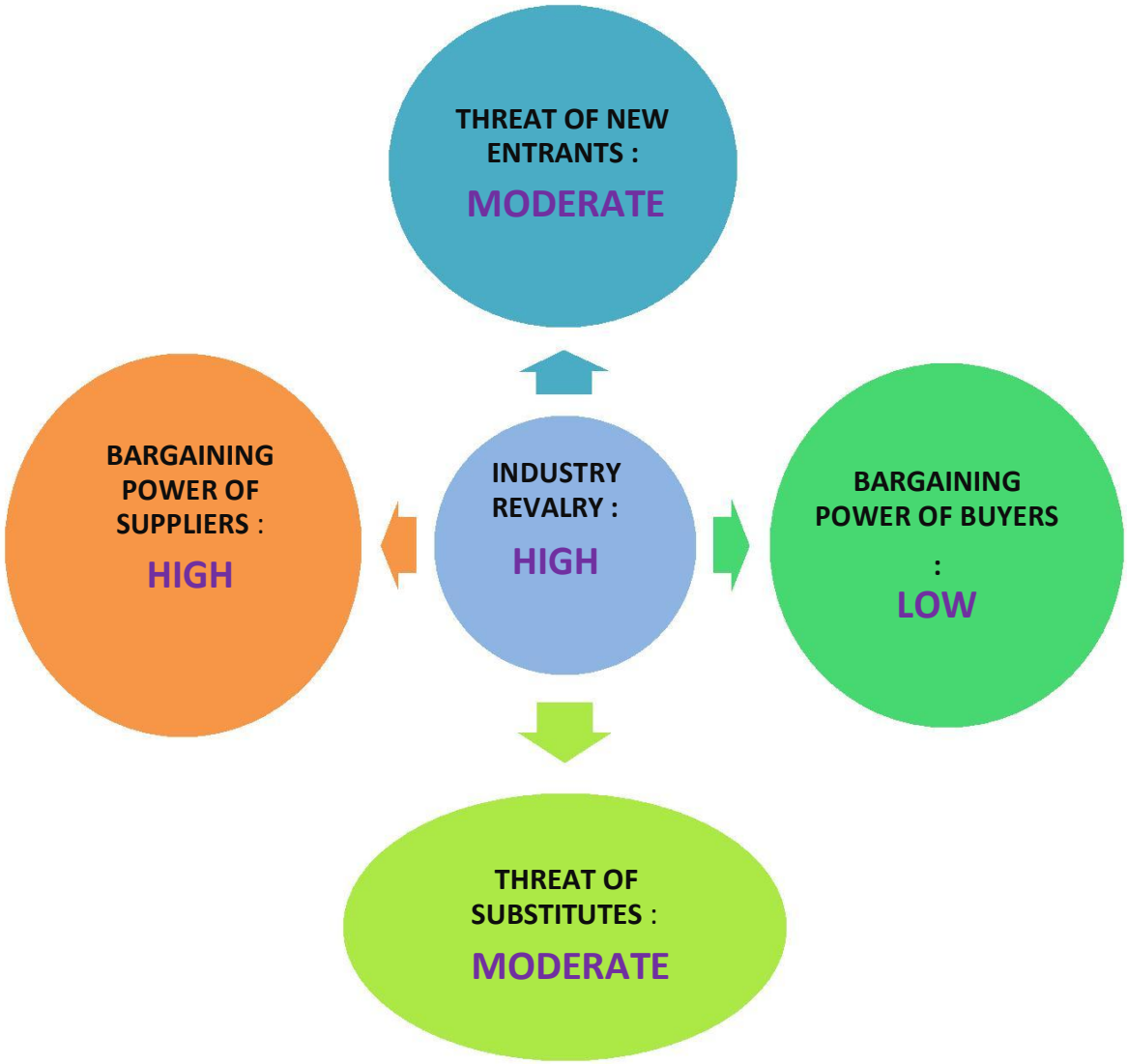
COMPETITION ACT, 2002

The Competition Act, 2002 which replaced MRTPA, 1969 in its preamble highlights the idea of promoting competition and also ensures to protect anti- competitive practices in Indian market. The Act prohibits anti-competitive agreements, abuse of dominant position by enterprises, and regulates combinations (consisting of acquisition, acquiring of control and M&A) wherever such agreements, abuse or combinations cause, or is likely to cause, appreciable adverse effect on competition in markets in India.

The preamble also mandates that the economic development of the country needs to be kept in view, in implementing the objectives of the Act.

PORTERS FIVE FORCES FOR INDIAN FERTILIZER INDUSTRY



CONCLUSION

There is little doubt that competitive markets make a vital contribution to economic growth, poverty Alleviation and employment generation. They do this by driving innovation, productivity and increased efficiency in the economy. Competition itself could be defined as the process of rivalry between firms, as means to gain market share, improved sales and higher profits by using innovation and greater efficiency to this end. However, the fact remains that competitive markets do not, by and large, exist in reality. Market failures, inefficiencies and structural weaknesses in this regard often lead to anticompetitive practices by the participating firms. Even then, a part of the problem lies with how effectively the government copes with such situations and whether its policy framework adequately prevents such practices. This issue is further underlined when considering the case of developing economies such as India. Since economic cycles tend to be more erratic and external shocks often have a deeper impact on fiscal and trade balances, the room for inefficient markets to thrive is thereby ever-present in the economy. Even when markets are reasonably competitive, this may not be reflected in outcomes.

Privatization and deregulation can be considered as the means to remove state-backed barriers to competition but monopolization by private enterprises can re-emerge, as not only cartels but market dominance could become widespread in many sectors where the minimum scale of production is large. The fertilizer sector was deregulated and state- owned companies were handed over to private enterprise. However, the fruits of deregulation have not been forthcoming as a high degree of concentration in the sector prevails and could potentially intensify once additional capacities of existing players come on stream.

Since fertilizers are key inputs in improving crop yields, the regulators should ensure that supplies are not disrupted and the process of capacity addition is carried out through appropriate investment oriented policies. Furthermore, food security is a fundamental issue in India and policy-makers should ascertain that farmers' interests are well- protected while meeting food security challenges in the long run. This makes the structure of the fertilizer sector critical in combating food and related development challenges. The need to ensure competition and monitor it from a regulatory perspective is heightened and a well-argued competition assessment of the fertilizer sector is not only justified but is critical.

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