MANAGEMENT OF FERTILIZER MARKETING – SOME KEY ISSUES

IV.1 Introduction:

The increasing population and economic growth are the major forces driving the demand for increased food production, crop production and fertilizer use (FAO 2011). In view of increasing population pressure ways must be found to increase the supply of food through the increased use of fertilizer, technology etc. (Baserup 1965). In order to attain food self-sufficiency, ‘Green Revolution’ was introduced in Asian countries during 1960’s. Farmers shall have awareness on the use of chemical fertilizers i.e., how much to use and when to use.

Fertilizer marketing has been the vital part of marketing of inputs in Indian agricultural sector. Agricultural sector’s productivity largely depends on the application of chemical fertilizers on the crops considering the soil characteristics. The demand for chemical fertilizers in Indian Agriculture has been continuously increasing. However, the demand supply gap of fertilizers in India has increased in recent times. The demand for fertilizers is a derived demand. It depends on the other inputs such as irrigation, seeds, support price for agro-produce and also the prices of fertilizers. Increased fertilizer consumption has been instrumental in the success of green revolution and helped improve agricultural productivity and farm incomes in the country. Fertilizer subsidies in India have increased significantly during the last decade. As in many developing countries, use of agricultural subsidies is highly political and very sensitive issue in the country. (Vijay Paul Sharma 2012).

IV.2 Management of Fertilizer Marketing:

The farmer has been the foundation and target of the fertilizer sector and hence his needs, aspirations must be fulfilled by the fertilizer marketers by taking into consideration of farmers’ socio-economic background. The timely supply of chemical fertilizers at required quantities and also at reasonable prices depends on the efficient management of fertilizer marketing. In the fertilizer marketing process, it is
not just selling fertilizer products but selling of concepts too for the farmers. Fertilizer is an expensive cost component of cultivation as the fertilizer cost consists of 50% to 60% of the total cost on various crops. The fertilizer consumption significantly vary from crop to crop, area to area. The management of fertilizer marketing by manufacturers of fertilizers shall concentrate more on existing potential demand rather than creating new and basic demand in new areas and unfertilized crops. Till recently in India, fertilizer marketing was considered synonyms with distribution and as a result of this, promotion, extension, marketing research continued to be at low ebb and the concern for the marginal and small farmers has not been adequate. It can be straight way stated that for the efficient fertilizer marketing it is essential to understand properly, all the factors influencing fertilizer consumption by farmers.

The marketers of fertilizer shall possess thorough knowledge on: Land holdings by farmers, Irrigation facilities, socio-economic profiles of farmers, dealer network, pricing, subsidies, farmers’ awareness on different grades and brands of fertilizers. They should also know the visits of agricultural officials to farmers, soil conditions, extension service etc.

**IV.3 Conceptual Issues in Fertilizer Marketing:**

The Indian rural environment, socio-economic demographic characteristics of farmers, role of fertilizer as an agricultural input for enhancing the productivity, logistics management of fertilizer have been the important issues in management of fertilizer marketing. “It is the customer who determines what a business is, It is the customer alone whose willingness to pay for a product or for a service converts economic resources into wealth, resources to products and services. What the consumer thinks he is buying, what he considers value, is decisive – it determines what a business is, what it produces and whether it will prosper”. (Philip Kotter). The farmer is thus the foundation of the fertilizer industry. His needs, aspirations, must be met by the fertilizer marketers based on his economic, social, educational background.

Fertilizer marketing is a vital part of Marketing of Agricultural Input Marketing in rural India. The consumer, the farmer is the backbone of Indian Agriculture and
that of Fertilizer Industry. In India, the rate of growth in agricultural productivity has not achieved the expected levels, although there has been a considerable progress in technology, adoption of high yielding varieties, increased application of fertilizers, and plant protection measures. This has been due to the fact that not much attention has been devoted towards creating awareness, facilities and services to the farmers (Subash.C.Mehta). Timely supply of fertilizers and other farm inputs to the farmers at reasonable prices depends on the existence of an efficient marketing system. The application of chemical fertilizers largely depends on the awareness about them and the logistics part. Marketing men have to adopt persuasive methods to induce the farmers to use fertilizers in the right quantity. Hence an efficient channels of marketing of fertilizers is essential.

In Indian agriculture sector fertilizer has been an expensive input component which costs about 70 per cent of the total cost for principal crops. Profitable agriculture comes only through achieving higher productivity by proper consumption of fertilizers by the farmers. Fertilizer marketing management shall ensure the economies of fertilizer usage. There has been vast scope for fertilizer marketing not only in irrigated areas but also in the rain fed area which is about 70% of the cultivated land. The studies on Village Adoption Programme (VAP) conducted by Fertilizer Association of India revealed that it is through efficient marketing system, the farmers can achieve higher productivity. Effectiveness of fertilizer marketing system requires efficient marketing strategies. Productivity is the ratio of sales or net profit to the marketing costs (Philip Kottler). The marketing costs of fertilizer include costs of promotion, research, and training of salesmen. In fertilizer marketing, the major factor to be taken into consideration is the existence of small and uneconomical land holdings. The farmers with meager land holdings cannot be motivated for using fertilizer unless the economies of use of fertilizers is properly communicated.

The farmers fertilizer consumption pattern vary from area to area depending on soil conditions, crop pattern, irrigation facilities, government policies, and the socio-economic conditions. As per the National Council of Applied Economic Research (NCAER) survey report, even today in India about 25% of the cropped area was unfertilized. Usually the marketers involved in fertilizer marketing focus on existing potential demand. Several times, the major reasons identified by the committees
appointed by the Government of India, for farmers inability to use fertilizers includes, non-availability of credit, lack of irrigation facilities, and not aware of fertilizers. At the same time majority of the non-users had marginal and small operational holdings. In view of the large scale imbalance between production and consumption of fertilizers, the fertilizer marketing assumes special significance.

IV.4 Farmers’ Behaviour and Fertilizer Marketing:

In marketing management the most crucial task is to know what the consumer needs? And more particularly the changing market opportunities and challenges through proper investigation. In the process of knowing consumer behavior, the marketer should understand thoroughly, who are the customers, what they buy, thereby better management of marketing mix. Understanding the farmers attitude towards the application of fertilizers, and their buying pattern is fundamental to the management of fertilizer marketing. Hence effective marketing research is essential in this regard. In the Indian fertilizer industry, the fertilizer manufacturing units have established marketing research cells and put forth efforts to change farmers buying behavior through creating awareness on application of fertilizers. Huge demonstration is going on and as a result farmers who had been traditionally using only organic manure have adopted to chemical fertilizers. The expectations of fertilizer marketing organizations, dealers, fertilizers sales personnel are also the important factors.

The studies conducted by the fertilizer companies shall focus on small and medium farmers who account for nearly 70 per cent of the total farming community. The marketing strategies must also be based on this target group. Marketing efforts shall first consider the farmers with irrigated land, for increasing awareness towards balanced application of fertilizers and also on adoption of high yielding varieties (HYV). In an attempt to know the farmers behavior, the selection of communication media, the socio-economic profiles of the farmers also holds the key. The buying patterns of farmers can be influenced through innovation in agriculture, training programmes, and improved agricultural practices.

The fertilizer dealers, officials of agricultural department, fertilizer salesmen and media together form the main source of information to farmers towards fertilizer
consumption. As per the surveys of Fertilizer Association of India, even today only 60 per cent of the villages had adequate dealer network, points out the need for motivating the dealers to be active in the fertilizer marketing system. The fertilizer application on non-irrigated crops is considered risky and not economical by a large majority of farmers. Fertilizers should be promoted for rainfed crops which has a large potential. The better understanding of the farmers awareness of right product is not there with about 20% of the farmers. The farmers behavior of fertilizer consumption is also influenced by soil testing facility as large proportion of the farmers still do not avail it. For economical use right use of fertilizers, testing the soils for its nutrient levels is essential. Lack of sufficient funds has also been a significant factor impacting the fertilizer consumption behavior of farmers especially in the case of majority marginal and small holdings farmers.

IV.5 Pricing Policy in Fertilizer Sector:

A pricing policy was announced by government for setting up new urea projects and expansion of existing urea projects for augmenting the domestic production capacity of urea to meet the growing demand for enhancing the agricultural production in the country. The new policy aimed at enabling the entrepreneurs to decide about their investment plans in the fertilizer sector. The new policy was expected to encourage setting up of plants with international efficiency standards for fresh investment in new projects and expansion of existing units. The policy was based on the principle of Long Run Average Cost (LRAC).

The above policy was not successful in attracting investment in this sector. The non-availability of natural gas, which is the critical feedstock for production of urea, has also been one of the major constraints in further addition of indigenous capacity for production or urea. However with the projected improved availability of gas from 2009 onwards, it is expected that investment in fertilizer sector will also take place.

The New Investment Policy aims at revamp, expansion, revival of existing urea units and setting up of Greenfield/ Brownfield projects. The policy was notified keeping in view adequate availability of gas at reasonable prices for new investments, which may result in bridging the gap between the consumption and domestic consumption. The policy has to lead to savings to the Government in the form of
availability of Urea at a price below IPP. The salient features of the new investment policies are as under:-

The policy is based on Import Parity Price (IPP) benchmarked with suitable floor and ceiling prices of USD 250/MT and USD 425/MT respectively.

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 IPP with the floor and ceiling price as indicated above.

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.

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 places in public sector.

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.

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.

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

Joint Ventures abroad: The Joint Venture projects abroad in gas rich countries are also proposed to be encouraged through firm off take 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).

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.

IV.6 Fertilizer Subsidy System:

Subsidy on fertilizers has been considered as the most significant factor for stimulating fertilizer production and consumption. Fertilizer subsidy affects the fertilizer pricing policies by the fertilizer manufacturing companies. In India, the fertilizer pricing system for nitrogenous and complex fertilizers producing units is monitored by the Fertilizer Industry Coordination (FICC) working in the Ministry of Chemicals & Fertilizers, Government of India. As per this system the maximum selling prices of the fertilizers are fixed by the Government and the prices that each production unit will get called the ‘Retention Price’ (Ramabhadran). The chief objective of the subsidy policy is to encourage private investment in fertilizer industry.
and to hold the prices below the cost of production and marketing for stimulating fertilizer consumption by farmers. In India the subsidy system has played an important role in increasing agricultural productivity by promoting the use of fertilizers (Morris et.el. 2007)

Fertilizer subsidies in India have increased significantly during the last decade as India spent nearly 100 per cent of total subsidies on fertilizers in 2008-09 which was more than 3-5 times the total public investment in agriculture (GOI 2012). The Government of India continue to allocate a significant share of budget to agricultural subsidies, which is evident from the allocation of Rs.190015 crore to subsidies food, fertilizers, petroleum, credit, edible oils etc, of which the first two accounted for bulk of resources (about 72 per cent) (Vijay Paul Sharma 2012). The steep increase in cost of inputs to fertilizer production, high import prices of fertilizers and constant farm gate prices led to substantial increase in subsidy. The fertilizer subsidy systems have been widely criticized as being in-efficient and leading to fiscal burden. The Prime Ministers Economic Advisory Council in its statement “dismantling of fertilizer subsidy because agricultural input subsidies are progressively losing their relevance, becoming an unbearable fiscal burden and their role in contribution to productivity enhancement is fast disappearing”. (PMEAC, 2012). The data on fertilizer consumption show that in India reveals that the marginal and small farmers use more fertilizers compared to large farmers, and thereby they have a significant share in fertilizer subsidy, which supports the argument that public spending on fertilizer subsidy is desirable as benefits goes to this section of farmers.

The Government of India implemented the Nutrient Based Subsidy (NBS) policy from 1.4.2010 for phosphatic, potassic, and complex fertilizers and from May 1, 2010 for single super phosphate (SSPP. The fertilizer companies shall print Maximum Retail Price (MRP) alongwith allowed subsidy on fertilizer bags. The Government of India has introduced New Pricing Scheme (NPS) for urea from April 1, 2003 based on the recommendations of several expert committees appointed for the purpose of suggesting alternative fertilizer policies. The policy expected to allow subsidy through group-based concession scheme for urea units based on feed-stock and vintage of plants to create more competitive environment and improve efficiency. There has been a debate on fertilizer subsidy is benefitting farmers or fertilizer
industry. Gulati and Sharma (1995) and Gulati and Narayanan (2003) calculate the implicit fertilizer subsidy accruing to industry and farmers and argued that about half of fertilizer subsidy goes to fertilizer industry. There is a need to contain subsidies without effecting small land holders and tenant cultivators. The withdrawal of fertilizer subsidies will lead to cultivation by small farmers and particularly less developed areas unprofitable. However, studies in this concern stated that there is a need for period and affordable increase in fertilizer prices to contain subsidy and promote balanced use of nutrients.

For sustained agricultural growth and to promote balanced nutrient application, it is imperative that fertilizers are made available to farmers at affordable prices. The subsidy on fertilizers is passed on to the farmers in the form of subsidized MRPs. The selling prices as notified by Government for the subsidized fertilizers are much lower than the normative delivered cost of these fertilizers at farm gate level. The difference between the normative delivered cost at farm gate level and the notified selling prices is paid as subsidy to manufacturers/importers on sale of fertilizers to the farmers at the subsidized prices.

The increase in rate of subsidy on fertilizers combined with increase in consumption of fertilizers has led to a substantial increase in requirement of subsidy. In spite of increase in cost of fertilizers, the Government has completely kept the farmers insulated from this increase in cost and have increased the subsidy allocations to meet the consumption needs of the farmers at subsidized level of prices. The subsidy on fertilizers has been increased sharply over the last few years. The details of fertilizer subsidy over the last few years is presented in Table IV.1.
Table IV.6
Fertilizer Subsidy in India: 2001-02 to 2011-12

<table>
<thead>
<tr>
<th>Years</th>
<th>Concession of decontrolled fertilizers P&amp;K</th>
<th>Subsidy on Urea</th>
<th>Total fertilizer subsidy</th>
<th>Share (%) in Total Subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>4504</td>
<td>8192</td>
<td>12696</td>
<td>40.4</td>
</tr>
<tr>
<td>2002-03</td>
<td>3232</td>
<td>7800</td>
<td>11036</td>
<td>25.3</td>
</tr>
<tr>
<td>2003-04</td>
<td>7356</td>
<td>8529</td>
<td>15855</td>
<td>26.7</td>
</tr>
<tr>
<td>2004-05</td>
<td>5142</td>
<td>10985</td>
<td>16127</td>
<td>34.6</td>
</tr>
<tr>
<td>2005-06</td>
<td>6586</td>
<td>12794</td>
<td>19390</td>
<td>38.8</td>
</tr>
<tr>
<td>2006-07</td>
<td>10298</td>
<td>17721</td>
<td>28019</td>
<td>42.0</td>
</tr>
<tr>
<td>2007-08</td>
<td>42932</td>
<td>11575</td>
<td>54507</td>
<td>43.7</td>
</tr>
<tr>
<td>2008-09</td>
<td>65555</td>
<td>33940</td>
<td>99495</td>
<td>59.1</td>
</tr>
<tr>
<td>2009-10</td>
<td>39452</td>
<td>24580</td>
<td>64032</td>
<td>43.3</td>
</tr>
<tr>
<td>2010-11</td>
<td>41500</td>
<td>24336</td>
<td>65836</td>
<td>44.2</td>
</tr>
<tr>
<td>2011-12</td>
<td>34787</td>
<td>36783</td>
<td>71570</td>
<td>46.7</td>
</tr>
</tbody>
</table>

Source: Compiled from Agriculture Statistics at a Glance 2012, Department of Agriculture & Cooperation, Ministry of Agriculture, Government of India.

The steady increase in fertilizer subsidies over the years has largely been the result of increasing production / consumption and increases in the costs of inputs of indigenous fertilizers and prices of imported fertilizers from time to time. The cost of various inputs / utilities, such as coal, gas, naphtha, rock phosphate, sulphur, ammonia, phosphoric acid, electricity, etc., as also the cost of transportation, went up significantly during the eighties. The gas-based fertilizer units commissioned during this period also involved higher capital investment per ton of installed capacity, necessitating constant upward revision in the retention prices. The selling prices of fertilizers to the farmers, however, remained almost at the same level between July, 1981 and July 1991. The Government effected an increase of 30% in the issue prices of fertilizers in August, 1991 after a gap of a decade. The selling price of urea, which was reduced by 10% in August 1992, was
revised upwards by 20% in June 1994 followed by another increase by 10% with effect from 21.2.1997. The prices of urea were again revised in February 2002 by 5% and by Rs. 240 PMT of urea w.e.f. 28.2.2003. The price increase made effective from 28.2.2003 was, however, later withdrawn w.e.f. 12.3.2003. The MRP of urea i.e. Rs. 4830 per tonne exclusive of local levies continued upto 31-03-2010. With effect from 1-04-2010, MRP of urea increased by 10% i.e. from Rs. 4830 per MT to Rs. 5310 per MT.

Until 31.3.2003, the subsidy to urea manufacturers was being regulated in terms of the provisions of the erstwhile Retention Price Scheme (RPS). Under RPS, the difference between retention price (cost of production as assessed by the Government plus 12% post tax return on networth) and the statutorily notified sale price was paid as subsidy to each urea unit. Retention price used to be determined unit wise, which differed from unit to unit, depending upon the technology, feedstock used, the level of capacity utilization, energy consumption, distance from the source of feedstock/raw materials, etc.

Given the importance of fertilizer pricing and subsidization in the overall policy environment, which has direct implications with reference to the growth and development of agriculture and sustainability of the fertilizer industry, the need for streamlining the subsidy scheme in respect of urea producing units had been felt for a long time. A High Powered Fertilizer Pricing Policy Review Committee (HPC) was constituted, under the chairmanship of Prof. C.H. Hanumantha Rao, to review the existing system of subsidization of urea, suggest an alternative broad-based, scientific and transparent methodology, and recommend measures for greater cohesiveness in the policies applicable to different segments of the industry. The HPC, in its report submitted to the Government on 3rd April 1998, inter-alia, recommended that unit-wise RPS for urea may be discontinued and, instead, a uniform Normative Referral Price be fixed for existing gas based urea units and also for DAP and a Feedstock Differential Cost Reimbursement (FDCR) be given for a period of five years for non-gas based urea units.

The Expenditure Reforms Commission (ERC), headed by Shri K.P. Geethakrishnan, had also examined the issue of rationalizing fertilizer subsidies. In its report submitted on 20th September 2000, the ERC recommended, inter-alia,
dismantling of existing RPS and in its place the introduction of a Concession Scheme for urea units based on feedstock used and the vintage of plants. The recommendations of ERC were examined in consultation with the concerned Ministries/Departments. The views of the fertilizer industry and the State Governments/Union territories, and economists/research institutes were also obtained. After due examination of all these views, a New Pricing Scheme (NPS) for urea units for replacing the RPS was formulated and notified on 30.1.2003. The new scheme took effect from 1.4.2003. It aims at inducing the urea units to achieve internationally competitive levels of efficiency, besides bringing in greater transparency and simplification in subsidy administration.

New Pricing Scheme (NPS) for urea was introduced w.e.f. 1st April, 2003. The Stage-I of NPS was of one year duration from 1st April, 2003 to 31st March, 2004 and Stage-II was of two year duration from 1 April 2004 to 31 March, 2006. With the Stage-III of NPS being implemented w.e.f. 1st October, 2006, the Stage-II of NPS stands extended upto 31st September, 2006.

Under NPS, the existing urea units have been divided into six groups based on vintage and feedstock for determining the group based concession. These groups are: Pre-1992 gas based units, post-1992 gas based units, pre-1992 naphtha based units, post-1992 naphtha based units, fuel oil/low sulphur heavy stock (FO/LSHS) based units and mixed energy based units. The mixed energy based group shall include such gas based units that use alternative feedstock/fuel to the extent of more than 25% as admissible on 1.4.2002. Under NPS, escalation/de-escalation is given in respect of variable cost related to changes in the price of feedstock, fuel, purchased power and water. Under the scheme, no reimbursement is allowed in respect of investment made by a unit for improvement in its operations nor are the gains as a result of operational efficiencies to be mopped up.

Phased Decontrol of Urea Distribution: As per the New Pricing Scheme for urea units, it was also envisaged that decontrol of urea distribution/movement will be carried out in a phased manner. During State-I, i.e., from 1.4.2003 to 31.3.2004, the allocation of urea under the Essential Commodities Act 1955 (ECA) was restricted up to 75% and 50% of installed capacity (as reassessed) of each unit in Kharif 2003 and Rabi 2003-04, respectively. The total decontrol of urea distribution was deferred
initially for a period of six months w.e.f. 1.4.2004 i.e., up to Kharif 2004, which has been subsequently deferred up to Rabi 2005-06 i.e., up to 31.3.2006. The existing system of 50% ECA allocation and 50% outside ECA allocation has been extended upto 31-3-2010.

The pricing policy for urea units for Stage-III of New Pricing Schemes (NPS) which is effective from 1.10.2006 to 31.3.2010 has been formulated keeping in view the recommendations of the Working Group set up under the Chairmanship of Dr. Y.K. Alagh. The Stage-III policy seeks to promote usage of most efficient and comparatively cheaper feed stock natural gas/LNG for production of urea in the country. The policy lays down a definite plan for conversion of all non-gas based urea units to gas. At present, there are 8 urea units (MFL, SPIC, ZIL, MCFL, GNFC, NFL-Nangal, NFL-Bhatinda, NFL-Panipat) in the country which are based on naphtha or FO/LSHS as feed stock. All these 8 units are required to switch over to natural gas/LNG within a period of next three years.

The availability of gas is critical to the growth of urea industry in the country. Presently, the indigenous availability is not sufficient to meet the demand of existing gas based urea units in the country. To this end, the Department of Fertilizers constituted a Committee under the chairmanship of Secretary (P&NG) with Secretary(Fertilizers), Secretary (Expenditure), Secretary (Planning Commission) as its members to deliberate upon various issues relating to connectivity and assured supply of gas to the fertilizer sector. The Committee will also develop an appropriate mechanism for fixing the price of the gas in a transparent manner. It was expected that the availability of gas in the country will improve from 2008-09 onwards and the new policy, taking into account the above fact, has laid down specific timelines for conversion of all non-gas based units in the country to gas.

In order to incentivize conversion of non gas based units to gas, the policy provides for a regime where there will be no mopping up of energy efficiency for a fixed period of five years for naphtha based as well as FO/LSHS based units. The policy also recognizes the comparative higher cost of conversion of FO/LSHS based units to gas and provides for one time capital investment assistance to these units for conversion to gas during the next three years. A specific policy to this effect has been announced by the Government on 6th March 2009.
Considering the likely growth in consumption of urea in the years to come, the policy seeks to encourage the existing urea units to produce beyond 100% of their installed capacities by introducing a system of incentives for additional urea production subject to merit order procurement. The policy of requiring prior Government permission for additional urea production has been dispensed with. All production between 100% and 110% of the existing reassessed capacity will be incentivized on the existing net gain sharing formula between the Government and the unit in the ratio of 65:35 respectively with the provison that the total amount paid to the units after including the component of variable cost will be capped at the units own concession rate. The units increasing production beyond 110% will be compensated at their concession rate subject to the overall cap of Import Parity Price (IPP). To the extent Government does not require any quantities of additional production, the urea companies would be free to dispose of the remaining quantities by way of export or sale to complex manufacturers without any permission. The policy also encourages setting up of Joint Venture projects abroad where gas is readily available at reasonable prices. The policy seeks to rationalize distribution and movement of urea and the system of freight reimbursement with the objective of ensuring availability of urea in all parts of the country. The Government will continue to regulate movement of urea up to 50% of production depending upon the exigency of the situation. The State Governments will be required to allocate the entire quantity of planned urea arrivals including both regulated and de-regulated urea in district-wise, month-wise and supplier-wise format.

The units will be required to maintain a district level stock point and the subsidy will be paid only when the urea reaches the district. The monitoring of movement and distribution of urea throughout the country up to the district level will be done by an Online Web based monitoring system. To facilitate movement of fertilizers to far flung area, the reimbursement of freight will be based on actual leads for rail and road movement. The rail freight will be reimbursed as per the actual expenditure and the road freight will be escalated as per composite road transport index every year. One time enhancement of 33% will be granted on the road component of primary freight to offset the impact of Supreme Court directive regarding maximum truck load limit of 9 MT on road vehicles. The existing special freight subsidy scheme will continue for supply of urea to the North Eastern States except Assam and Jammu & Kashmir. In
addition, the Department will operate a buffer stock through the state institutional agencies/fertilizer companies in major urea consuming States up to a limit of 5% of the seasonal requirement.

It is expected that the policy will encourage increase in indigenous production from the existing urea units in the country and facilitate early conversion of non-gas based units to gas leading to substantial savings in subsidy. It is also expected that with the launch of Fertilizer Monitoring System (FMS) to monitor movement of fertilizers up to district level and the freight rationalization proposed in the new policy, the distribution of fertilizers in remote corners of the country will improve considerably without any complaints of shortages in future. The Department of Fertilizers will continue its endeavour to promote the growth of fertilizer industry in the country and ensure adequate availability of fertilizers to the farmers.

**IV.7 Supply chain and logistics management in Fertilizer Marketing Systems:**

In the fertilizer marketing systems the supply and logistics management is mainly confines to distribution activities. In India, fertilizer marketing has been mainly passing through public distribution system. The supply chain management in fertilizer industry includes the activities like inbound logistics, operations, outbound logistics, sales and services. In the fertilizer industry the supply chain management works like a blood circulation through heart in the human body. The fertilizer industry is mainly impacted by the key inputs like Natural gas, Naptha and fuel, chemicals, consumables and packing materials. The allocation of natural gas has been under the government control. The fertilizer production largely depends on the supply of natural gas. The fertilizer marketers should implement the supply chain management strategies in an effective and efficient manner to meet the demand from the industrial users and the ultimate end user, the farmer. If the fertilizer companies maintain their own logistics and operations it will be more advantageous for reducing the value of distribution expenses to the considerable extent.

The supply chain and logistics management aspect of fertilizer marketing should always take into consideration the demand supply gap of fertilizer marketing. If the inputs to the company are not regular it forms a bottleneck in the output. The
firms manufacturing specialty fertilizer are facing the output problems, and that output is input to many fertilizer companies. Hence fertilizer manufacturing companies are required to adopt the strategies to meet the demand from industrial users. The fertilizer companies are trying to reduce the value of catalyst which plays a vital role in the chemical reactions for manufacturing fertilizers. As regards the packaging materials, the fertilizers companies shall manufacture the PVC bags so that it leads to cost competitive advantage in the industry.

IV.8 Government Regulations and Policy Changes – Impact on fertilizer marketing:

The need for increased productivity from the available land, leading to growing demand for fertilizers in India, mainly for three nutrients for plant growth i.e., Nitrogen (N), Phosphate (P) and Potash (K). India is importing fertilizers to meet the demand. The fertilizer sector has been highly regulated in India, because of its connection, with national food security. The production, distribution and pricing of fertilizers have been controlled by the Government of India. In view of demand-supply mismatch, deregulation is needed in this sector, but considering the socio-economic profile of farmers and other sensitivities complete deregulation by the Government remains a critical issue. The main reason for the sufficient capacity addition by the fertilizer companies is unavailability of natural gas at competitive rates. Indian companies are encouraged to invest in gas rich countries through off-take agreements. Government regulations on expansion and cash flow challenges continue to hinder new investment in urea. Indian fertilizers companies are also considering the option of setting up capacities overseas to serve the Indian market.

As regards phosphatic fertilizers, India does not offer itself a lucrative investment destination due to unavailability of rock phosphate reserves. At present, the Indian fertilizer companies with favourable government policies, can invest or alliance with foreign companies as far as the fertilizer production is concerned. However, in setting up operations overseas, the biggest challenge is the political risk associated with foreign countries. Despite of plethora of schemes introduced by Central and State Governments, agriculture is becoming non-remunerative and farmers are not willing to stay in agriculture.
IV.9 Fertilizer Marketing Strategies:

Marketing management should continuously evaluate the changing trends for achieving the objectives. This is so essential in the fertilizer marketing system and suitable marketing strategies shall be evolved. The fertilizer marketers shall take into consideration several important aspects like, agricultural scenario, fertilizer consumption trends, subsidy system, land use patterns, land holding, socio-economic profile of farmers, fertilizer production, soil fertility and rainfall, and also the Government policies towards farm sector. The strategy shall aim at promoting proper application of fertilizer by the farmers and also enhancing agricultural productivity from the use of fertilizers. In this process, a marketing research of the consuming points will help in making the promotional programs more relevant to the consumer, thereby eliminate the unproductive programs. An extensive situation analysis shall be made in order to tailor make the programs which can be field specific.

In the fertilizer marketing, segmentation has been viewed as an effective marketing strategy, as much variation in the use fertilizers exists based on soil conditions, crop varieties, logistics, irrigation and also the buying capacity of the farmers. Surveys revealed that the needs, attitudes with regard to fertilizer use from small, medium, large farmers. Hence the type of fertilizer products required, the prices they can afford, the technology for the target groups are different. With the increased production at plants, and expanding marketing territory there is a growing responsibility on fertilizer marketers to meet the challenges. An innovative marketing strategy is to be adopted for effective fertilizer marketing.
IV.10 References:


