1. NOTIFICATION ON NEW PRICING SCHEME (NPS) – III FOR UREA

No. 12012/3/2006-FPP
Government of India
Ministry of Chemicals & Fertilizers
(Department of Fertilizers)

Shastri Bhawan, New Delhi.
8th March 2007

To,
The Executive Director,
Fertilizer Industry Coordination Committee,
8th Floor, Sewa Bhawan,
R. K. Puram,
New Delhi.

Subject : **Policy for Stage-III of New Pricing Scheme for urea manufacturing units.**

Sir,

I am directed to refer to this Department's letter No. 12019/5/98-FPP dated 30th January 2003 and No. 12019/19/2003-FPP, Dated 29-7-2003 vide which the salient features of Stage- I & II of New Pricing Scheme (NPS) introduced w.e.f 1.4.2003, were communicated. It was, inter alia, communicated that the modalities of Stage-III would be decided by the Department of Fertilizers (DOF) after review of the implementation of Stage-I and Stage-II. It has been decided to implement Stage-III of NPS with certain modifications as contained in the succeeding paragraphs.

(A) DURATION.

2. The Policy for NPS Stage-III will be effective from 1.10.2006 to 31.3.2010. Stage-II Policy has been extended upto 30.9.2006. The policy for incentivizing additional production of urea during Stage-III of NPS will be applicable from the date of notification and till then the additional production of urea by units beyond 100% of their capacity will be governed by the existing policy of sharing of the net gain between the Government and the unit in the ratio of 65:35.

(B) GROUPING OF UREA UNITS

3. During Stage-III of NPS, the following measures will be taken to calculate concession rates of urea units :-
   - i) Existing six group classification will continue as given in Annexure. I-A.
   - ii) Group averaging will be done after updation of all costs upto 31.3.2003.
   - iii) Capacity utilization levels of 93% for pre-92 Naphtha and FO/LSHS based plants and 98% for pre-92 gas, post-92 gas, post-92 Naphtha and mixed energy based plants will be considered for calculating the base concession rates of urea units as on 31.3.2003.
   - iv) Transportation cost of gas will be computed and paid separately.
   - v) The updated notional concession rates of all urea units as on 1.4.2003 so determined on the pattern followed during Stage-I of NPS will form the basis to calculate the concession rate payable to each urea unit during Stage-III of NPS commencing from 1.10.2006. No outlier benefit will be admissible to any unit in Stage-III of NPS.
   - vi) On the base concession rate so determined for each unit, only escalation and de- escalation on components of variable cost on actual basis subject to pre-set energy norms given in Stage – III.

vii) A deduction of Rs 50/MT from the concession rates of pre-92 Naphtha and FO/LSHS based and Rs. 75/MT from the other units for the reduced capital related charges (CRC) will be made.

viii) The respective pre-set energy consumption norm of each urea unit during Stage-II of NPS or the actual energy consumption achieved during the year 2002-03, whichever is lower, will be recognized as the norm for Stage-III of NPS.

ix) Saving on energy over the pre-set norms will be paid as per the basic rate of the weighted average of feed/fuel used during Stage-III of NPS.

(C) RESUMPTION OF UREA PRODUCTION BY UNITS UNDER SHUTDOWN.

4. Resumption of production by urea units currently not in production, viz, RCF-Trombay-V, FACT-Cochin and Duncans Industries Limited (DIL)-Kanpur is allowed based on natural gas/LNG/CBM/Coal gas. Upon resumption, the base concession rate of these units will be the Stage-III concession rate of the group to which they belonged, or their own concession rate updated till 31.3.2003 for all costs and thereafter adjusted for the feedstock changeover, whichever is lower.

(D) CONVERSION OF NON-GAS BASED UNITS TO NG/LNG.

6. i) All functional Naphtha and FO/LSHS based units should get converted within a period of 3 years (of these, Shriram Fertilizers & Chemicals Ltd (SFC) Kota is expected to convert by the end of the current financial year). On the expiry of the aforementioned period, the Government will not subsidize the high cost urea produced by the non-gas based urea units and rate of concession of such units will be restricted to the lower of the prevalent import parity price (IPP) or their own rate. Units not able to tie up gas will have to explore alternative feedstock like Coal Bed Methane(CBM) and coal gas.

II) In order to provide incentives for conversion to gas, since there is no recognition of investment made by units for conversion, there will be no mopping up of energy efficiency for a fixed period of 5 years for Naphtha based as well as for FO/LSHS based units. Capital subsidy will be considered for FO/LSHS based units for which DOF will notify a separate scheme in consultation with Department of Expenditure(DOE) Ministry of Finance.

iii) For conversion of the non-gas based Urea Plants to Natural Gas (NG) / Liquefied Natural Gas (LNG), a Committee headed by Petroleum Secretary, comprising of Secretaries of Planning Commission, Department of Fertilizers and Department of Expenditure has been constituted for facilitating the connectivity and supply of gas to non-gas based units converting to gas and to develop appropriate mechanism for fixing the price of gas in a transparent manner.

(E) INCENTIVES FOR ADDITIONAL UREA PRODUCTION.

6. The following measures are decided to be implemented to incentivise additional Urea production in the country:-

i) No permission will be required from the Government for production beyond 100% of re-assessed urea capacity of the unit.

ii) All production between 100% and 110% of the existing reassessed capacity, if so required by the government as per the approved production plan 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 proviso that the total amount paid to the units, after including the component of variable cost will be capped at the unit's own concession rate.

iii) Units increasing production beyond 110% may be compensated at their concession rate, subject to the overall cap of IPP.

iv) While procuring additional urea beyond 100% of the reassessed capacity of urea units, a merit order system of procurement will be followed. In other words, the units which supply urea at the least cost would be given preference in procurement.

v) The cost of feedstock/fuel allowed will be in the ratio of gas/LNG/Naphtha etc. with reference to actual ratio of consumption of annual actual production of urea up to that portion of the incremental production of urea required by the Government for sale to agriculturalists. Energy/inputs for non-agricultural sale/exports and surplus ammonia shall be allocated on costlier feed/fuel basis.

vi) To the extent that the Government does not require any quantities of additional production for direct sale to agriculturalists, the concerned units would be free to dispose of the remaining quantities by way of exports, sale to complex manufacturers etc. without seeking prior permission of DOF.

vii) Government will not subsidize the additional production, if not required by it for agricultural consumption.

(F) DISTRIBUTION AND MOVEMENT ISSUES

7. The following measures have been decided to be implemented for movement of Urea to District level and below :-

(i) The Government will continue to retain the authority to direct movement of urea stock up to 50% of production depending upon the exigencies of the situation.

(ii) States would be required to allocate the entire quantity of planned urea arrivals i.e., both regulated and de-regulated urea in a District-wise, month-wise and supplier wise format.

(iii) Each unit will maintain a district level stock point in the districts where it is required to supply urea. These district level stock points will be the primary Godowns.

(iv) Subsidy to individual units will be reimbursed based on conformity to planned movement up to district level for both controlled and de-controlled urea. The monitoring of the movement and distribution of urea throughout the country will be done by an On-line computer-based monitoring system. The time limit of existing payment system i.e., 45 days will be adhered to. It will be ensured that no certification by State Governments is required for release of subsidy to urea Units. Subsidy will be paid only when the urea reaches the district.

(v) The Department will operate a buffer stock through the State Institutional Agencies /Fertilizer Companies in States up to a limit of 5% of their seasonal requirement.

(vi) The Department will work through the agricultural department of the states to realize the objective of adequate and timely availability of urea at the Block level.

8. The freight reimbursement to urea units under NPS-III will be done as follows:-

(i) Primary Freight will be reimbursed on the basis of actual leads for rail movement;

(ii) Reimbursement of railway freight will be as per the actual expenditure;

(iii) For the road component of the primary freight, road leads will be as per actual distance to the primary godown and per tonne Km. rates will be escalated by the composite road transport index { weighted average of the Wholesale Price Indices (WPIs) of HSD oil, Motor Tyres, Truck Chassis and All Commodities};

(iv) One time enhancement of 33% will be granted on the road component of primary freight to offset the impact of Supreme Court directed maximum truckload limit of 9 MT on road vehicles;

(v) Tariff Commission will be requested to fix average leads and per tonne km base rates for road transportation in the case of secondary movement. These rates will be escalated by WPI (composite road transport index) every year;

(vi) Pending finalization of leads and rates by the Tariff Commission, secondary freight which was frozen at 2002-03 rates during Stages I & II of NPS will be escalated by the increase/decrease in WPI (composite index) since 2002-03;

(vii) The Freight computed and paid as per the policy shall not exceed the actual freight expenditure incurred by the units.

(viii) The existing scheme for special freight subsidy will continue for supplies to the North Eastern States and Jammu & Kashmir.

(G) POLICY IN RESPECT OF HIGH COST UNITS (PRODUCING AT HIGHER THAN IPP):

9. In order to disincentivise high cost production of 8 Naphtha and FO/LSHS based units whose cost of production is higher than the prevalent IPP, to facilitate their early conversion to gas, these units are allowed to produce 100% of capacity should they adhere to an agreed timetable for conversion to gas and tie up of gas/LNG/CBM/Coal gas. If they do not, they will be given only 75% of the difference between the rate of concession and variable cost component (i.e., 75% of the balance fixed costs beyond 93% of capacity utilization) in the 1st year (1.4.2007) and 50% of the fixed cost beyond 93% capacity utilization from 2nd year (1.4.2008) onwards.

(H) POLICY FOR IMPORT OF UREA.

10. The existing system of import of urea through designated State Trading Enterprises (STEs) i.e. Minerals & Metals Trading Corporation (MMTC), State Trading Corporation (STC) and Indian Potash Limited (IPL) will continue.

(I) Policy for Joint Ventures Abroad

11. To encourage setting up of JV fertilizer plants abroad in countries where gas is available in abundance and is much cheaper, the JVs for production of urea will be set up abroad subject to the condition that the Government will enter into / encourage long term buy back arrangements with JVs abroad depending upon merits. Accordingly, suitable mechanisms be evolved for effectively securing long term fertilizer related supplies, including through investments and joint ventures abroad.

(J) OTHER MEASURES

12. Cost of bags

The cost of bags, which was frozen during Stage-I & II of NPS, will now be allowed based on moving weighted average cost of bags to compensate for the rise in prices over the last three years. For the year 2006-07, the weighted average of the cost of bags for each unit will be for the three years beginning 2002-03 and accordingly thereafter.

13. Taxes on inputs

For Stage-III, it is decided that sales tax on inputs and other taxes recognized under RPS will be paid on actual basis. Where Value Added Tax (VAT) has been introduced, such of the above taxes as are subsumed in it will be recognized to the extent they are non-vattable.

In case of any issue/dispute relating to interpretation of the policy, the decision of Department of Fertilizers shall be final. The above provisions will remain in force during the Stage-III of NPS or until further orders, whichever is earlier.

Yours faithfully,

Sd/-
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