No.12012/12/2007-FPP
Government of India
Ministry of Chemicals & Fertilizers
(Department of Fertilizers)
******

4/9/2008

Shastri Bhawan, New Delhi.
Dated the 4th September, 2008.

To,

CMD/MDs

RCF/MFL/BVFCL/NFL/KRIBHCO/IFFCO/GSFC/GNVFC/SFC/NFCL/
CFCL/TCL/ZIL/INDO-GULF/SPIC/KSFL/MCFL/FACT/FCIL/HFCL/IPL

All Urea manufacturing units

Subject: **Policy for new investments in urea sector and long-term offtake of urea from joint ventures abroad.**

Sir,

I am directed to convey the approval of the Government on policy for New Investments in Urea Sector both indigenous and abroad, in supersession of the existing policy for investment made in new and expansion projects of Urea issued vide letter No.12019/11/2003-FPP(I) dated 29th January,2004. The salient features of the New Investment policy are as under:

1. Import parity price: Import Parity Price for a month would be derived based on the prevailing prices in three months preceding the month under consideration as indicated below.

Import Parity Price (IPP): The import parity price (IPP) for a particular month will be the lower of the actual average CIF price of urea imported in India during preceding three months and the IPP reported in the fertilizer magazines for the same preceding three months, as detailed below:

IPP x = FOB Arabian Gulf + Freight

Where,
IPP x = Import Parity Price for month (x)
FOB Arabian Gulf = Average FOB reported price of urea for AG in the three magazines as listed below, during preceding three month (x - 1) to (x - 3).

Freight = Average freight for AG in the three magazines listed below, during preceding three month (x - 1) to (x - 3).

The exchange rate will be taken as the average of preceding three months for arriving at the price in INR. The three fertilizer magazines to be used for arriving at IPP prices will be as below:

(a) Fertiliser Market Bulletin, UK;
(b) Fertiliser Week by British Sulphur, UK; and
(c) Fertecon Weekly Nitrogen Fax, UK.

2. Floor & Ceiling price: The floor for urea price be kept at USD 250 per MT. The ceiling for urea price is fixed at USD 425 per MT. The floor and ceiling prices are based on the feedstock price of USD 4.88 per MMBTU, which is the price of RIL gas plus estimated taxes. In case of any sharp increase (more than double the current price) in price of feedstock in future, the floor and ceiling will be adjusted to take care of increased cost of production. Further, the above will be reviewed after five years keeping in view the prevailing gas prices and the investment costs. In the event that Government guarantees an assured price (subsidized price) of gas to the fertilizer sector/unit, then for the period for which that the assured price prevails, the floor and ceiling will be accordingly recalculated.

3. Revamp projects: Any improvement in capacity of existing plants through investments 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 recognised at 85% of Import Parity Price with the floor and ceiling price as indicated in para-2 above. The urea produced from existing units **beyond,** their reassessed capacity under NPS or the maximum achieved capacity by a unit for 330 days in last four years (2003-07), whichever is higher (cut off quantity), will be recognised as the production under revamp of the existing unit. However, the urea produced under revamp quantity will only be eligible for the above dispensation once the **total production** of the unit crosses 105% of the cut off quantity or 110% of the reassessed capacity, whichever is higher. The cut off quantities for various units can be seen at **Annexure-I**.

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 an expansion project. The investment should exceed a minimum limit of Rs.3000 cr. The urea from the expansion of existing units will be recognised at 90% of IPP, with a floor and ceiling price as indicated in para-2 above.

5. Revival/Brownfield projects: The Urea from the revived units of HFCL and FCIL will be recognised at 95% of IPP, with floor and ceiling as indicated in para-2 above, if the revival of closed units takes place in public sector.

6. **Greenfield projects:** The price of Urea from the Greenfield projects will be determined through a bidding route. The following will be followed incase of Greenfield projects.

i) The Department will identify the location (deficit States) for setting up of Greenfield projects, or in coastal areas, encourage the urea units to add DAP/Complex fertilizers to their product lines.

ii) The Greenfield projects will be offered for bidding with a minimum floor price {of USD 250 per MT} and an appropriate ceiling price {of USD 425 / MT}, which will be decided at the time of bidding based on domestic gas prices and the IPP. A commitment to offtake a minimum of 50% of production of the unit in case of IPP falling below the floor price will be provided by the Government.

iii) The bidder will have to indicate the price as a percentage discount below the prevailing IPP for urea. The feedstock linkage and price has to be entirely on the account of the bidder.

iv) The detailed guidelines in the matter will be circulated separately.

7. **Gas transportation charges: A**n 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. The cap will be subject to Composite Road Transport Index as applied in case of road transportation costs under the freight policy. However, in case of each revival project, the DPR should justify the higher gas transportation costs, if any, in terms of other savings accruing as a result of the location choice.

8. **Allocation of gas:** No APM gas will be allocated towards production from the new investments as discussed above. All APM gas will be allocated towards production in existing plants under the currently approved New Pricing Scheme Stage-III and its subsequent modifications. The actual mix excluding APM gas will be provided towards production under revamp.

9. **Coal Gasification based Urea Projects:** The same will be treated on par with a brownfield 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 will 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 applicable to brownfield projects (in absence of any Greenfield project) 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). The offtake commitments from new JV projects abroad would be limited to a maximum of 5 million tonnes. However this ceiling can be reviewed, and additional committed offtake and any deviation of price principle thereof can be decided upon by Department of Fertilizers in consultation with the Department of Expenditure keeping in view that this does not constrain setting up of Greenfield projects in the country.

11. **Time period for proposed investment policy:** It is proposed that 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, only production from expansion and revival (brownfield) units that comes 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 project wherein price will be decided through limited bidding options. The time period for setting up of new JVs would also be five years under the new policy. Once the production under various projects start within the given time period, the pricing dispensation will be available till the continuance of the fertilizer subsidy regime and sale of urea under the same.

12. The policy will be effective from the date of notification. However, the additional production under revamp beyond cut-off quantities will be computed on an annual basis.

Yours faithfully,

(Rajesh Agrawal)
Deputy Secretary to the Government of India
Tel No. 23381294

Copy to:

1. Secretaries of the Department of Expenditure, Department of Revenue, Department of Economic Affairs, Department of Agriculture & Cooperation, Department of commerce, Department of Industrial Policy & Promotion, Planning Commission.
2. Director General, Fertilizer Association of India, 10, Shaheed Jit Singh Marg, New Delhi – 110 067
3. All Officers/Sections in the Department of Fertilizers and Office of FICC.

Copy also to:

Smt. Vini Mahajan, Joint Secretary, Prime Minister's Office, South Block, New Delhi.

Annexure-I

Statement indicating unit-wise details of cut off for revamp capacity						
Sl. No.	Name of fertilizer unit	Reassessed/ 8th PP urea capacity	Highest rate of production achieved 2003-07	Maximum achieved production for 330 days (2003-04 to 2006-07)	Cut off for revamp capacity	Target production for receiving IPP based price beyond cut off quantity
1	2	3	4	5	6	2
		(MT/yr.)	(MTPD)	(MT/year)		
Group-I : Pre-1992 gas						
1	BVFCL - Namrup-III	315000	855	**256500**	**315000**	**346500**
2	IFFCO - Aonla-I	864600	2783	**918390**	**918390**	**964310**
3	Indo-Gulf -Jagdishpur	864600	3000	**990000**	**990000**	**1039500**
4	Kribhco - Hazira	1729200	5335	**1760550**	**1760550**	**1902120**
5	NFL - Vijaipur-I	864600	2731	**901230**	**901230**	**951060**
Group-II : Post-1992 gas						
1	NFCL-Kakinada-I	597300	2173	**717090**	**717090**	**752945**
2	CFCL Gadepan-I	864600	2862	**944460**	**944460**	**991683**
3	TCL-Babrala	864600	2901	**957330**	**957330**	**1005197**
4	KSFL-Shahjahanpur	864600	2757	**909810**	**909810**	**955301**
5	NFCL-Kakinada-II	597300	2083	**687390**	**687390**	**721760**
6	IFFCO-Aonla-II	864600	2776	**916080**	**916080**	**961884**
7	NFL-Vijaipur-II	864600	2731	**901230**	**901230**	**951060**
Group-III : Pre-1992 naphtha						
1	SFC-Kota	379500	1158	**382140**	**382140**	**417450**
2	IFFCO-Phulpur-I	551100	1764	**582120**	**582120**	**611226**
3	MCFL-Managalore	379500	1228	**405240**	**405240**	**425502**
4	MFL-Madras	486750	1480	**488400**	**488400**	**535425**
5	SPIC-Tuticorin	620400	2036	**671880**	**671880**	**705474**
6	ZIL-Goa	399300	1330	**438900**	**438900**	**460845**
Group-IV : Post-1992 naphtha						
1	IFFCO-Phulpur-II	864600	2864	**945120**	**945120**	**992376**
2	CFCL-Gadepan-II	864600	2731	**901230**	**901230**	**951060**
Group-V : FO/LSHS						
1	GNVFC-Bharuch	636900	2050	**676500**	**676500**	**710325**
2	NFL-Nangal	478500	1548	**510840**	**510840**	**536382**
3	NFL-Bhatinda	511500	1589	**524370**	**524370**	**562650**
4	NFL-Panipat	511500	1629	**537570**	**537570**	**564449**
Group-VI : Mixed feedstock						
1	GSFC-Baroda	370590	1155	**381150**	**381150**	**407649**
2	IFFCO-Kalol	544500	1707	**563310**	**563310**	**598950**
3	RCF-Thal	1706760	5363	**1769790**	**1769790**	**1877436**
Note :		**19461600**		**20638620**	**20697120**	**21900516**
2. The figures of actual rate of urea production (in MTPD) for all the units for the years 2003-04 to 2006-07 have been rounded-off to respective nearest integer.						