

**GOVERNMENT OF INDIA
CHEMICALS AND FERTILIZERS
LOK SABHA**

UNSTARRED QUESTION NO:1263

ANSWERED ON:13.08.2013

INVESTMENT IN UREA SECTOR

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Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

- (a) whether the Government proposes to formulate a new investment policy for the urea sector;
- (b) if so, the salient features thereof;
- (c) the amount of investment likely to be made in the said sector and the likely domestic increase in production of urea after implementation of the said policy;
- (d) the present annual quantum of domestic urea production in the country;
- (e) the views of the Fertilizer Association of India regarding the new investment policy and the quantum of fertilizer being procured annually from joint ventures and the extent to which it is cheaper than the joint market imports; and
- (f) the present status of the new policy and the time by which it is likely to be approved?

Answer

MINSITER OF STATE (INDEPENDENT CHARGE) IN THE MINISTRY OF CHEMICALS & FERTILIZERS AND MINISTER OF STATE (I/C) IN THE MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (SHRI SRIKANT KUMAR JENA)

(a): The Government has notified New Investment Policy on 2nd January 2013 in order to facilitate fresh investments in urea sector and to reduce India's import dependency.

(b): The Salient Features of New Investment Policy – 2012 are mentioned below:

The policy supports only gas based plants.

It has structure of a flexible floor and ceiling price calculated at delivered price of gas from US \$6.5 to US \$ 14/mmbtu (Assumption i.e. Exchange rate: Rs. 50 per US \$)

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

For Greenfield/Revival and Brownfield Projects floor and ceiling shall increase in tandem with increase in delivered gas price i.e. for 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.

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

For Revamp Projects, floor and ceiling has been linked to delivered gas price of USD 75/mmbtu and floor and ceiling shall increase by USD 2.2/MT for every increase in delivered gas price of 0.1/mmbtu.

The policy offers different criteria for Revamp, Expansion, Revival and Greenfield projects and pricing thereof; linked with Import Parity Price (IPP) of Urea i.e. 95% of IPP for Greenfield/Revival Projects, 90% of IPP for Brownfield Projects and 85% of IPP for Revamp Projects.

It supports Revival of closed units.

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

The policy incentivizes units to produce urea in granulated form or coated/fortified Urea to improve the efficiency in the use of Urea with additional amount of USD 10/MT allowed in floor and ceiling prices.

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.

The policy is applicable to all units whose production starts within five years from the date of notification.

(c): Approximately Rs. 25,000/- crore of investment by setting up of 6 Brownfield/Greenfield projects is likely to be made in Urea sector which will fill the gap between demand and supply of approximately 7.62 MT of urea.

(d): The annual quantum of domestic Urea production in the country during 2012-13 is 22.575 million MT.

(e): FAI is in favour of implementing the New Investment Policy for urea as notified vide this Department's circular no. 12012/39/2011-FPP dated 2nd January, 2013. The allocation of domestic gas for new urea project should also be ensured. The imported Urea from JV in Oman during 2012-13 was 18.3 MT and the weighted average cost of imported urea was \$ 188.05/ MT.

(f): As per deliberation and discussion held in the meeting on 01.07.2013 in PMO, it was decided to move an amendment in NIP 2012 through CCEA for substituting the phrase "guaranteed buyback" with expression that subsidies will be given only upon domestic sale as at present with proper safeguards. The Department is in process of placing the matter before CCEA shortly.