

No. 12019/11/2003-FPP (1)  
Government of India  
Ministry of Chemicals & Fertilizers  
Department of Fertilizers

Shastri Bhavan  
New Delhi, the 29<sup>th</sup> January 2004

To

The Executive Director,  
Fertilizer Industry Coordination Committee,  
Department of Fertilizers,  
Sewa Bhavan, R.K. Puram,  
New Delhi.

Sub: Pricing policy for investment made in new and expansion projects of urea -  
regarding

Madam,

The Government have approved a pricing policy for investment made in new and expansion projects of urea, the salient features of which are as follows:

2. The new and expansion urea projects will be based on Natural Gas (NG)/ Liquefied Natural Gas (LNG) only.
3. The investment made in new and expansion projects of urea will require prior approval of the Department of Fertilizers (DoF) for becoming eligible to receive concession from the Government against sale of urea for agricultural purposes.
4. The new and expansion urea projects will be given concession on the principle of Long Run Average Cost (LRAC) determined on project life of 15 years.
5. The concession based on the LRAC price so determined will be available for a period of 5 years from the date of commercial production. The Government will review the concession after 5 years to evaluate the option between LRAC based price and the import parity price of urea exclusive of freight and dealer's margin. The import parity price of urea will be notified by DoF on a quarterly basis. In the event of de-control of urea pricing before this period of 5 years, the

concession to be given to new and expansion projects will be reviewed separately by DoF.

6. The LRAC based concession will be paid exclusive of the dealers' margin and the freight, which will be paid separately.

7. The LRAC of the project will be determined by DoF based on the approved project cost and other parameters.

8. The LRAC of the new and expansion projects will be determined, *inter alia*, on the basis of debt equity ratio subject to financing institutions' guidance (indicative 2.5:1), capital cost, applicable depreciation, 12% post tax return on equity, interest on borrowings - both long and short term, repayment period of the loans, working capital norms as applicable and discount factor calculated on the basis of weighted average cost of equity and loans etc. The applicable tax and prevailing exchange rates will be reckoned for such estimation.

9. There shall be no re-determination of LRAC as a result of increase in project cost during implementation. However, any downward revision in the project cost during implementation shall be reckoned for the calculation of LRAC. The cost of facilities shared in common with the original plant will be discounted while assessing the capital cost of an expansion project.

10. The specific energy consumption norm of the project shall be as per the design figure based on energy efficiency of international standards or the norm established on the basis of stabilized production, whichever is lower and in no case shall it be more than the group average energy norm of the post-1992 gas-based group under the New Pricing Scheme (NPS) for urea units.

11. It is expected that the investors in the new and expansion projects will negotiate the best terms and conditions from their NG/LNG suppliers in the interest of ensuring viability of the urea units and reduction of concession burden on the Government.

12. The new and expansion projects of urea will be given concession based on their LRAC price upto the delivered cost of NG of US \$ 3.0/mmbtu and US \$

3.5/mmbtu in case of LNG, calculated on the basis of net calorific value (excluding State taxes and levies) or lower. However, if this delivered price of NG exceeds US \$ 3.0/mmbtu or of LNG exceeds US \$ 3.5/mmbtu, the project will get concession based on the escalated LRAC based price or the prevailing import parity price of urea, whichever is lower, with the originally determined LRAC based concession acting as the floor concession rate, for the initial period of 5 years.

13. The additional urea capacity, created by new and expansion projects, will be used for sale for agricultural purposes within the country. The units may also export or sell to complex manufacturers or for any other industrial use with the prior permission of DoF. However, concession on the urea produced from new and expansion units will be admissible only on direct sale for agricultural purposes.

14. The Government reserves the right to mop up the urea produced from the new and expansion units under the Essential Commodities Act, 1955 (ECA) allocation, if exigencies on the demand and supply situation so warrant.

15. The decision of the Fertilizer Industry Coordination Committee in the implementation of this policy shall be final.

Yours faithfully,

Sd/-  
(B.K. Sinha)  
Joint Secretary to the Government of India  
Tel: 23381294

Copy to: Director General, Fertilizer Association of India, 10, Shaheed Jit Singh Marg, New Delhi-110 067.