Annexure-I

No. 12019/5/98-FPP
Government of India
Ministry of Chemicals & Fertilizers
Department of Fertilizers

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Shastri Bhawan, New Delhi.
January 30, 2003

To,

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

Subject: Pricing policy for urea manufacturing units

Madam,

RPS = Retention price Scheme.

I am directed to say that the Government have approved a new pricing policy for urea units which will replace the existing Retention Price Scheme and will come into effect from 1.4.2003. Salient features of the policy as also the modalities for implementation of the Scheme are as follows:

1. The primary consideration and goal of the new pricing policy is to encourage efficiency parameters of international standards based on the usage of the most efficient feedstock, state-of-art technology and also ensure viable rate of return to the units. The new scheme will come into effect from 1.4.2003 and will be implemented in stages. Stage-I would be of one year duration, from 1.4.2003 to 31.3.2004. Stage-II would be of two years duration, from 1.4.2004 to 31.3.2006. 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.

2. There will be six groups based on vintage and feedstock for determining the group based concession under the new Scheme, namely, 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. Classification of units among different groups so determined shall remain unchanged during Stages-I and II.

3. During Stage-I, following measures would be put into effect:

3.1. Rates of concession for the units in each group to be determined in two steps. In Step-I, the weighted average retention price and the dealer's margin of the units in the respective group as applicable on 1.4.2002 would be computed. Units having exceptionally high or low retention price, i.e. deviation of 20% and above with reference to group average computed in Step-I are to be treated as outliers in their respective groups. In Step-2, the final weighted average group retention price after excluding the outliers will be computed.

3.2. The group concession rate on 1.4.2003 would be computed on the data of the units on 31.3.2003 as applicable. To determine that, the retention prices as notified for the half year up to 30.9.2002 would be taken as the base and the adjustment on the basis of 8^{th} pricing period for the remaining period, i.e. 1.10.2002 to 31.3.2003, shall be made before the end of financial year 2003-2004.

3.3. Effective 1.4.2003, the units in each group would receive the concession after adjustment on account of escalation/de-escalation in the variable cost related to changes in the price of feedstock, fuel, purchased power and water. The modalities for this purpose will be worked out by DOF for Stage-I and Stage-II on the basis of group energy data and efficient consumption patterns of the units keeping in view the data of 8^{th} pricing period.

3.4. Those units which have lower retention price than the weighted group average (estimated after excluding the outliers as final group retention price) are to get the concession as per their individual retention price. The remaining units (excluding outliers) are to get the concession based upon the weighted group average retention price computed after excluding the outliers. This basis would be valid for Stage-II also.

3.5. After commencement of Stage-I and also beyond Stage-II, there shall neither be any reimbursement of the investment made by a unit for improvement in operations nor any mopping up of gains of the units as a result of operational efficiency. The parameters outlined in the new scheme shall be the inputs for computation of concession.

3.6. The outliers having a retention price higher than 20% or more from the group average in their respective group would be granted an adjustment phase of one year, i.e. Stage-I. During Stage-I, such outliers will get a rate of concession based upon the group weighted average (after excluding outliers) and a structural adjustment which will be 50% of the difference between their respective retention price and the group average computed as Step-II mentioned in para 3.1.

3.7. Group concession rates will be calculated excluding the incidence of sales tax on inputs which will be computed and compensated on the basis of rates effective on 1.4.2002 for each unit. However, the compensation would be proportionately reduced if the rates are reduced by any State.

4. During Stage-II, i.e. from 1.4.2004, the following measures shall be put into effect :

4.1. There will be no special treatment for the outliers and all the units will get the group rate of concession as outlined earlier for Stage-I. The units having lower concession rate than the group average shall continue to get the concession as per their individual concession rate. The six groups would remain as in Stage-I.

4.2. The concession rates shall be adjusted for reduction in capital related charges. Further, the group energy norms would be enforced on efficiency considerations. The Department of Fertilizers would take into consideration the recommendations of the Gokak Committee in determining the group energy norms. The scale of reduction on account of capital related charges (CRC) would also be finalized by the Department of Fertilizers. Thus, the adjustments on account of CRC and group energy norms effective in Stage-II would be made known to the units so that they have reasonable time for making necessary technological and other structural adjustments.

5. Under the new Scheme, there will be no capping on production of urea. The use or sale of by-products such as ammonia, CO_2 etc. will be permitted in case considered surplus beyond the reassessed capacity for urea production. The final concession would be determined on the reassessed installed capacity. The additional production beyond the installed capacity would receive concession if it is mopped up under the ECA allocation. The feedstock/fuel ratio for the entire production would be taken into consideration for assessing the concession.

6. **Phased decontrol of urea distribution/movement**

6.1. In Stage-I, i.e. from 1.4.2003 to 31.3.2004, the allocation of urea under the Essential Commodities Act 1955 (ECA) will be restricted up to 75% and 50% of installed capacity (as reassessed) of each unit in Kharif 2003 and Rabi 2003-04, respectively. The Department will be free to make necessary adjustments in determining ECA allocation in case the estimated/actual production during the year is below the reassessed installed capacity. The remaining urea production will be available to the manufacturers for sale to the farmers at MRP anywhere in the country. Manufacturers will be entitled to sell urea to complex manufacturing units on the principle of import parity price or to export, with the condition that no subsidy/concession will be payable on that quantity and it will be computed towards the quantity permitted for decontrolled sale. The DOF will reserve the authority to make suitable adjustments, in view of demand-supply positions in the ECA allocation, and de-controlled urea up to 15% over and above the reassessed installed capacity in case their applicable concession rate is financially and economically efficient thereby contributing to reduce the subsidy burden. During Stage-II, urea distribution will be totally decontrolled after having evaluated the Stage-I and with the concurrence of the Ministry of Agriculture.

7. **Freight**

7.1. During 2003-04, equated freight will be worked out for the urea quantity under ECA allocation on the basis of average normative lead and rail-road mix of each unit for the last three years i.e. 2000-01, 2001-02 and 2002-03. Suitable adjustments will be granted in the event of rail freight revision during the course of 2003-04. Secondary freight will remain the same as fixed for the 8th pricing period. For the quantity outside ECA allocation, a reduction of Rs. 100 PMT will be made from the equated freight. The same levels of payment will be made in Stage-II as well. Regarding the road component of the primary freight, appropriate adjustments will be made as per annual increase/decrease in the Wholesale Price Index of diesel in the previous year for the fuel part and indices of other components will remain unchanged in the composite index.

7.2. The existing scheme for special freight subsidy will continue for supplies to the North Eastern States and Jammu & Kashmir. The Government will also have the right to issue special movement order under the EC Act as per the demand supply situation, particularly for difficult and remote areas.

8. This Department has separately written to the Chief Executives of urea manufacturing companies requesting them to convey their participation in the new pricing scheme by executing an undertaking in the prescribed proforma.

Yours faithfully,

(Sudhir Krishna)

Joint Secretary to the Government of India