No. 12012/39/2011-FPP
Government of India
Ministry of Chemical & Fertilizers
Department of Fertilisers

Shastri Bhavan, New Delhi
Dated the 02nd January 2013.

To

All Chief Secretaries of State Governments

CMD/MDs

RCF/MFL/BVFCL/NFL/KRIBHCO/IFFCO/GSFC/GNVFC/SFC/NFCL/CFCL/TCL ZAL/INDO-GULF/SPIC/KSFCL/MCFL/FCIL/HFCL/FACT/IPL/MATIX/KFCL

All Urea Manufacturing units

Subject: **New Investment Policy - 2012**

Sir

I am directed to convey the approval of Government of India for New Investment Policy–2012 (NIP-2012) in order to facilitate fresh investments in urea sector. The salient features of the NIP-2012 are as under:-

1 It provides a structure of a floor price and a ceiling price for the amount payable to Urea units, which will be calculated based on the delivered gas price (inclusive of charges & taxes) to respective urea units. The floor and ceiling price of each urea unit shall be operative with respect to the computed Import Parity Price (**IPP)** (**Annexure-1)**. The IPP defined for urea under the investment policy of 2008 is the average C&F price without any applicable custom duties and handling and bagging charges at the port. If the computed IPP (payable) is between the floor and the ceiling price for that gas cost, it is the IPP (payable) which will be used. If the IPP (payable) is above or below the ceiling or the floor respectively, it is the ceiling or floor price that will be acceptable as the case may be.

2 The criteria according to which plants will qualify under different categories namely Revamp, Expansion, Revival and Greenfield shall be as below:

2.1 **Revamp projects:** Any improvement or incremental increase in capacity of existing plants by way of capital investment in the existing train of ammonia-urea production will be treated as revamp of existing units.

2.2 **Expansion or Brownfield 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 crore.

2.3 **Revival of closed urea units**: The three closed urea units of Hindustan Fertilizer Corporation Ltd. (HFCL) at Barauni, Durgapur and Haldia, and five closed urea units of Fertilizer Corporation of India Ltd. (FCIL) at Sindri, Talcher, Ramagundam, Gorakhpur and Korba being proposed for revival shall fall under 'Revival of closed urea units'.

2.4 **Greenfield Projects**: Any urea unit which shall be set-up at the project site where no previous similar manufacturing facilities existed i.e. acquisition of land followed by construction of an ammonia-urea plant with storage facilities, transportation facilities, water and sewage treatment etc. shall be treated as a Greenfield project.

3 Greenfield /Revival of Closed HFCL & FCIL Projects

(i) At a delivered gas price of up to USD 6.5 per mmbtu for Greenfield/Revival Urea units

(a) the Floor price is fixed at **USD 305** per MT of Urea

(b) the Ceiling price is fixed at **USD 335** per MT of Urea

(ii) For each 0.1 USD per mmbtu revision in delivered gas price, it will correspondingly change the

(a) Floor and Ceiling price by USD 2 per MT up to a delivered gas price of USD 14 per mmbtu.

(b) Floor by USD 2 per MT for delivered gas price exceeding USD 14 per mmbtu.

(iii) The urea from Greenfield/Revival of closed urea units of HFCL and FCIL units will be recognized at a uniform rate of 95% of IPP (C&F) subject to floating floor and ceiling prices mentioned at 3 (i) and 3 (ii) above.

4 Substantial Expansion or Brownfield Projects

(i) At a delivered gas price of upto USD 6.5 per mmbtu for Expansion/Brownfield Urea units

(a) the Floor price is fixed at **USD 285** per MT of Urea

(b) the Ceiling price is fixed at **USD 310** per MT of Urea

(ii) For each 0.1 USD per mmbtu revision in delivered gas price, it will correspondingly change the

(a) Floor and Ceiling price by USD 2 per MT up to a delivered gas price of USD 14 per mmbtu.

(b) Floor by USD 2 per MT for delivered gas price exceeding USD 14 per mmbtu

(iii) The urea from Expansion / Brownfield Urea units will be recognized at a uniform rate of 90% of IPP (C&F) subject to floating floor and ceiling prices mentioned at 4 (i) and 4 (ii) above.

5 **Revamp Projects**

(i) At a delivered gas price of upto USD 7.5 per mmbtu for new Revamp Urea units

(a) the Floor price is fixed at **USD 245** per MT of Urea

(b) the Ceiling price is fixed at **USD 255** per MT of Urea

(ii) For each 0.1 USD per mmbtu revision in delivered gas price, it will correspondingly change the

(a) Floor and Ceiling price by USD 2.2 per MT up to a delivered gas price of USD 14 per mmbtu.

(b) Floor by USD 2.2 per MT for delivered gas price exceeding USD 14 per mmbtu.

(iii) The urea from Revamp Urea units will be recognised at a uniform rate of 85% of IPP (C&F) subject to floating floor and ceiling prices mentioned at 5 (i) and 6 (ii) above. These will be applicable for all output above the “cut-off” point.

(iii-a) Cut-Off Quantity - 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), is 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 per cent of the cut off quantity or 110 per cent of the reassessed capacity, whichever is higher.

(iv) No Administered Pricing Mechanism (APM) gas shall be considered for allocation for production beyond cut-off quantity.

(v) The Urea units, which have undertaken revamp and are already availing the provisions of the Investment Policy of 2008, will remain under the Investment

Policy of 2008. In the event of doubling of gas price from USD 4.88 per MMBTU (base price including applicable taxes) for a unit under the Investment Policy of 2008, appropriate revision will be worked out under that Policy, in consultation with the Department of Expenditure.

(vi) Any further revamp undertaken by an already revamped unit, will be considered to be eligible under the same Revamp policy as that applicable to the original revamp. In case a unit under the policy of 2008 undertakes further revamp and the additional quantity is more than 10% of the present production (maximum production in any continuous one year period of the last three years, which should not be less than the quantity produced in similar period of previous years after implementation of NIP-2008 policy), the Urea unit may opt for the dispensation as mentioned at 5 (i, ii and iii). Once new investment policy gets applied on the unit for the extra production beyond 10% of existing production as discussed above, the entire revamp production from the unit (existing & new combined) will be recognised as per NIP-2012. The option will have to be exercised by the unit within three months of start of new increased production.

6 <u>Non-operation of ceiling price and IPP if delivered gas price exceed USD 14 per mmbtu.</u>

In the event the delivered gas price crosses USD 14 per mmbtu, the units (whether revamp, expansion, brownfield, greenfield or revival) shall be paid only the floor price based on the delivered gas price as mentioned at 3(ii)(b), 4(ii)(b) and 5(ii)(b). All other conditions like ceiling price and recognition of urea w.r.t IPP shall become non-operational.

7 <u>Operational Principles</u>- The following is adopted for operating the policy:

7.1 The increase/decrease of the floor and ceiling price will be calculated at the end of each quarter, on the basis of average gas price of previous three months. Accordingly, IPP shall also be calculated for each quarter for each plant.

7.2 The price of the delivered gas will be calculated based on delivered gas price as certified by MoPNG/Central PSU/State PSU.

7.3 The policy shall be applicable to urea units to be based on gas i.e. natural gas (domestic/RLNG) and CBM. In case of CBM, price of NG equivalent of CBM as given by Public agency will be considered. For revival of closed urea units based on coal gasification and Greenfield projects based on coal gasification, a dispensation that is the same as that of CBM will be extended after arriving at equivalent NG price.

7.4 While fixing the floor and ceiling price of Greenfield, Revival, Brownfield and Expansion urea units, It has been presumed that the delivered cost of CBM/Actual mix of gas to the urea unit shall not be less than USD 6.5/mmbtu.

8 Time period for the investment policy

8.1 It is proposed that only those units whose production starts within five years from the date of notification of the policy would be covered under the policy. The dispensation of guaranteed buy-back under this policy will be available to the units for a period of eight years from the date of start of production. Thereafter, the units will be governed by the Urea policy prevalent at that time.

9 Mandating of Granulated Urea / Coated Urea

9.1 In order to improve the efficiency in the use of Urea, as a part of product management strategy, all new urea capacities in the country are mandated to produce Urea in granulated form or coated/fortified Urea. Taking into account the additional investment on account of a granulation plant and the incremental operating costs, an additional amount of USD 10 per MT, is allowed in the floor and ceiling prices for all plants – Greenfield/Revival/ Brownfield–producing Granulated Urea.

9.2 As part of the present policy, an additional 5% / 10% additional MRP may be allowed in case of Neem coated / Zincated Urea.

10 Joint Venture Units

10.1 Decision regarding Urea off-take agreement for Joint Venture units set up abroad shall be taken on case-to-case basis, based on the prevalent IPP of Urea, price and availability of indigenous gas, cost of gas being offered to the JV and demand supply gap of Urea in the country. The guiding principle shall, however, be that the offered supply on C&F basis from the JV should be equal to or less than the floor price for domestic Greenfield units at a gas cost of USD 6.5 per mmbtu. Thus extending the floor price corresponding to a gas price of USD 6.5 per mmbtu to the JV's abroad will actually mean getting imported gas at a delivered price of USD 6.5 per mmbtu which will result in substantial saving to GOI. While fixing the floor and ceiling price for a JV abroad, subject to a maximum floor price corresponding to a delivered gas price of USD 6.5 per mmbtu for domestic units, a higher return may be considered keeping in view factors such as risks involved, likely time and cost overruns, etc. Approval of CCEA would be obtained in each case.

11 Dispensation for Units in North East

11.1 For units coming up in the North Eastern States, the special dispensation regarding pricing of gas that is being extended by the Central Government/

State Government will also be available to any new Investments in the region as well. Suitable adjustments will be made to the applicable floor and ceiling prices in case the delivered price (after allowing for the special dispensation) falls below USD 6.5 per mmbtu, subject to approval of Ministry of Finance.

12. As per the budget provisions announced for 2012-13, capital investment in fertiliser sector has been made eligible for Viability Gap Funding (VGF) under the Scheme for Support to PPP in infrastructure sector. However no VGF shall be allowed to Urea units in Public or Private sector. In case incentives under VGF are required to be extended to Fertilizer units being set up in remote areas/difficult terrains like north east or units which are based on coal gasification, where the capex involved is substantially higher, the same will be examined by DOF in consultation with DoE on case to case basis.

13 The broad stages for setting up a urea project are given at **Annexure–2**. Since the policy envisages payment of subsidy/ incentives to the urea units by the Government, all the urea units who plan to set-up urea units in the country should mandatorily provide information at beginning and completion of each stage of the project as given at **Annexure–2**. This is also required to assess the demand and production gap in the country as well as the cost of gas expected to be used in production of urea from new investments.

14. The policy will be effective from the date of notification.

Yours sincerely

(Satish Chandra)
Joint Secretary to the Government of India
Tele : 23386800

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, Ministry of Petroleum & Natural Gas .
2. Director General, The Fertilizers Association of India, 10-Shaheed Jit Singh Marg, New Delhi-110067
3. All Officers/Sections in the Department of Fertilizers and office of FICC, RK Puram, New Delhi
4. Director(NIC)

Copy also to :-

Smt. Anu Garg, Joint Secretary, Prime Minister’s Office, South Block, New Delhi.

Annexure-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.

Annexure-2

Broad stages of a urea project

Following are the broad stages for setting up an Ammonia-Urea Project:-

a) Pre-feasibility Report
b) Techno Economic Feasibiltiy Report & its approval from the company's Board of Director.
c) Finalization of Project site.
d) 1st Stage Environment Clearance from MoEF
e) Technology Evaluation and Selection or EPC (LSTK) bid preparation & Evaluation.
f) Detailed/Bankable Project/Feasibility Report preparation and approval from the company's Board of Director.
g) Environment Impact Assessment Report preparation and final clearance from MoEF
h) Raw Material and Utilities tie-up for the project
i) Finalization of EPCM or EPC (LSTK) Contractor.
j) Achieving Financial Closure
k) Award of job to EPCM or EPC Contractor.
l) Signing of Agreement between various agencies
m) Mobilization Advance to EPCM or EPC Contractor.
n) Physical Progress Achieved - 25%
o) Physical Progress Achieved – 50%
p) Physical Progress Achieved – 75%
q) Commissioning of Project & Start of commercial production.

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