GOVERNMENT OF PAKISTAN
FERTILIZER POLICY,1989

Pakistan is facing a shortage of fertilizer. Due to a gradual increase in the off-take of fertilizer in the recent past, the short-fall has further been increased. To cope with the problem, the Government has decided to further encourage the local manufacture of fertilizers in the country. To achieve the objective, following concessions and facilities have been allowed to new projects and existing units envisaging expansion:-

i. **Assured supply of gas at existing prices for the purpose of feed-stock for a period of 10 years from the date of operation of plants.**

ii. **Duty-free import of machinery not manufactured in the country. This exemption will include Iqra and Import surcharge.**

iii. **Duty-free import of phosphate rock. This exemption will include Iqra and Import surcharge.**

iv. **In the unlikely event of imposition of price control, the ex-factory price will be so fixed that a minimum return of 20% on equity after tax at 90% capacity utilization is assured.**

v. **The entrepreneurs would be allowed to import second-hand machinery, if they so desire.**

vi. **The gas used in the reforming furnace for heating will be treated as feedstock.**

vii. **Assured supply of gas used as fuel at least for 9 months in a year.**

viii. **All the fertilizer producers domestic and foreign, public and private will be treated equally.**

ix. **It would be the responsibility of the DFIs to check the economic and financial viability of the projects before providing finance.**

x. **Expansion would be treated as new plants and be entitled to the same concessions as allowed to new plants.**

Apart from Nitrogenous Fertilizer (Urea), manufacture of DAP/Phosphatic fertilizer was, also lagging behind. The project proposals approved in the past were not making any progress towards implementation for want of protection against dumping. The government has decided to provide necessary protection and safeguards to make them compete the imported fertilizer, therefore, following pricing measures for Phosphatic Fertilizer have been taken:

i. **In order to avoid any ambiguity, import duties if any, will be so adjusted that the C&F price plus duty plus the costs of bagging (but excluding other incidentals) does not fall below the equivalent of US $ 250 per ton.**

ii. **Iqra and import surcharges on sulphur specifically used for the manufacture of fertilizers are waived.**

iii. **If any change is made in government levies on the basic raw materials (import duties, sales tax, surcharges, etc) or any levy imposed on local production of DAP (such as excise duty, sales tax, surcharges etc.) there would be corresponding change in the floor price of US $ 250 per ton.**

iv. **In line with the current policy, the projects would enjoy three to eight years tax holiday from the date of commercial production, dependingupon the areas where such projects are set up.**

FERTILIZER POLICY,2001

Whereas the Fertilizer Policy announced by the Government of Pakistan in 1989 was successful, assuring reasonable prices of fertilizer to farmers below import price and in bringing substantive investment to enhance domestic production and has completed its stipulated time frame and whereas it is felt that further investment in fertilizer production is required keeping in view the importance of fertilizers in increasing the country's agricultural output, a need is felt to review and update the policy to encourage new and existing investors to come forward to invest. Accordingly, the following policy is adopted, after due authorization by the Cabinet with effect from 1st july,2001.

1. EXISTING PLANTS;

1.1 **(a) To enable local fertilizer price to stay below imported fertilizer prices, the escalation of existing feed gas prices will be as follows :**

DATE	ANNUAL INCREASE(%)
1.07.01	Nil
1.07.02	5.0
1.07.03	7.5
1.07.04	10.0
1.07.05	12.5
1.07.06	15.0

(b) Thereafer, the price is to be $ 1.10/MMBTU or prevailing Middle East price determined in accordance with 2.1.2 whichever is higher, only for those existing investors who bring in new plant (minimum) capacity 0.5 MT/year) under clause 2.

(c) Fuel gas price will be the same as for other industrial consumers in the country. Fuel gas will continue to be defined as gas which is used for generation of electricity and steam and for usage in housing colonies.

(d) Concessional feed gas allowed under the 1989 Fertilizer Policy to companies that undertook expansion will be continued until their 10 year period is exhausted. Thereafter the feed gas price will be same as in 1.1 (a) and (b)

2. NEW INVESTMENT

2.1 NATURAL GAS

2.2 **It is the intent of this policy to provide investors in new fertilizer plants in Pakistan a gas price that enables them to compete in the domestic market with fertilizer exporters of the Middle East so that indigenous production able to support the agricultural sector's requirement by fulfilling fertilizer demand.**

2.2.1 The price of feed gas will be the Middle Eastern Price prevailing on the date of singing of the GSA or $0.77/MMTU which ever higher (less the discount of 10% mentioned in 2.1.3) and shall remain fixed at such price till the expiry of 10 years from the date of commissioning. This price will be determined by the Gas Regulatory Authority of Pakistan, from the published international data, in dollar terms, on the principle of general parity with the price prevailing in Middle East.

2.2.2 A discount of 10% will be allowed on such determined price as at 2.1.2 to facilitate new investment. The discount price i.e. the price fixed as per 2.1.2 and 2.1.3 will remain fixed, for a period of 10 years from the date of commissioning, in dollar terms. The rupee parity will be determined as defined in para 2.1.6. The price will be inclusive of all taxes, duties, levies, fees and charges whatsoever, whether local, federal or provincial. However, GST or similar duty may be imposed on such determined price provided it is adjusted against GST, payable on the fertilizer produced.

2.2.3 The investor may avail this opportunity to sign GSA (Gas Sales Agreement) as detailed in 2.1.2 % 2.1.3 by 30th June,2005.

2.2.4 Fuel gas prices shall continue to be treated as at par wit other industrial consumers.

2.2.5 For billing purposes, the price fixed in dollars will be calculated in Pak-Rupees, at the average interbank rate. The average interbank rate shall be fixed twice in a year i.e. on 1st January and 1st July, based on the average of the previous six months daily interbank rate.

2.2.6 Gas Companies will build adequate safeguards in the GSA to ensure that the investor proceeds without delay in installing the plant after signing of the GSA, so as not to pre-empt the use of available gas to another investor. The Government will ensure that Gas Companies to not cause under delays in signing of GSA.

2.2.7 Gas will be allocated to new fertilizer plants on the principle of first com,e first served. Recognizing the expected growth in fertilizer demand, the importance of steady supply and the suitability of Mari Gas production, the government has decided to dedicate the shallow reservoir of Mari gas field to the Fertilizer Industry while the new deep reservoir is to be developed for power sector as it is suitable for power generation.

2.3 <u>IMPORT AND LOCAL MANUFACTURE OF PLANT</u>

2.3.1 The Government of Pakistan encourages investment and a number of concessions are available as per the Investment Policy and applicable Tariff Structure. Investors may avail these concessions with reference

to import and local manufacture of plant, equipment and machinery, including deferred duty payable through customs debentures.

2.4 IMPORT OF SECOND HAND PLANT

2.4.1 Investors will be allowed to relocate second hand plant, equipment and machinery, with the same concession/exemption as applicable to new plants.

2.5 EXPANSION/BMRDE-BOTTLENECKING

2.5.1 If an investor undertakes an expansion, major BMR or de-bottlenecking of an existing plant, which results in increase in the production capacity of the plant, such additional feed gas shall be treated at per with a new plant for 5 years for purposes of concessions/exemptions outlined in 2.1,2,2.1.3.,2.1.4,2.1.5 and 2.2.1, 2.2.2 and2.3.

In a subsequent decision, ECC enhanced the period for the projects as mentioned in 2.4.1 from 5 years to 7 years

2.6 EQUAL TREATMENT

All the fertilizer producers, domestic and foreign, public and private will be treated equally in commercial, fiscal, corporate and contractual matters.

3. PHOSPHATIC FERTILIZER

3.1 Considering the importance of Phosphatic Fertilizer, the Government plans to continue to encourage its local production. For the said purpose, the following measures shall be take;

3.1.1. Rock phosphate and phosphoric acid importable by manufacturers of fertilizer shall remain importable free of duty and sales tax.

4. N.P.K.

4.1.1. All raw materials required to NPK production i.e. Di-Ammonia Phosphate (DAP), Mono-Ammonia Phosphate (MAP). Triple Super Phosphate (TSP),MOP,SOP and micro nutrients are allowed to be imported free of duties & taxes.

4.1.2 Import and local manufacture of plant, equipment and machinery shall be treated as per Section 2.2.1 for concessions and exemptions.

5. G E N E R A L

5.1 Selling price of fertilizer shall remain deregulated on the understanding that while manufacturers will allow free market forces to prevail they will pass the benefits in the form of lower price of fertilizer to the farmers. In order to ensure this objective is achieved a Committee will be set up and shall meet as and when required, but at least on a regular quarterly basis and take appropriate steps as necessary. The Committee will be headed by the Minister for Industries & Production and will include Minister for Food , Agriculture, Livestock as well as a senior representative from the Ministry of Finance.

5.2 Withholding tax collected at the time of import of fertilizer, shall be adjusted against assessed income tax of the year during which such import takes place, in case the fertilizer is imported by a manufacturer of fertilizer.

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Case No.ECC-58/4/2004 **Review of Fertilizer Policy 2001**
Dated 17-06-2004

D E C I S I O N

The Economic Coordination Committee (ECC) of the Cabinet considered the Summar dated 3rd June 2004 submitted by the Ministry of Industries & Production on :Review of Fertilizer Policy 2001" and took the following decisions.

(i) The feedstock gas should be supplied to the new and existing Plants on the already approved price

(ii) For the pricing of fuel gas, the current policy should continue.

(iii) The pricing as at (i) and (ii) above should remain fixed for 7 years in case of BMRE of the plants and for 10 years in case of new plants

(iv) New duties/taxes on import of machinery/raw material has already been announced in the Budget 2004-05 for the fertilizer sector.

(v) Mari Gas to give a presentation to the ECC on the plans and Proposals for expansion in their gas fields.

(vi) Ministry of Commerce in consultation with Ministry of Industries and Production and Ministry of Food, Agriculture and Livestock should determine the quantum of urea surplus, if any, for export next year And seek approval of the ECC. Permission to export fertilizer will However, as a policy be granted to the fertilizer manufacturers only.