

# SECTOR BRIEF

## Fertilizer Industry



By Research and Publications Department, ICMA Pakistan

### Historical Background:

The fertilizer industry constitutes an integral part of Pakistan's economy and this industry produces, imports and distributes various types of fertilizers. After independence, in 1952, the Pakistan Industrial Development Corporation (PIDC) was established which played a pioneering role in setting up the fertilizer industry in the country. In 1955/56, PIDC built the first fertilizer plant viz. Pak American Fertilizer Limited [now Agritech Limited] in Punjab at Daudkhel (Iskandarabad). The trial production of this plant was achieved in 1958 and commercial production started in February 1959. The total outlay of this plant was Rs. 91 million with foreign exchange assistance @ Rs. 43.7 million from the USA. The second fertilizer plant viz. Lyallpur Chemicals and Fertilizers Limited was established by PIDC at Lyallpur (now Faisalabad) in Punjab. The plant was completed at Rs.3.35 million and it started production in August 1957.

The first fertilizer plant in the private sector was built in 1965 by M/s. ESSO (now EXXON Chemicals) at Dharki, Sindh. This plant was commissioned in December 1968 at a total cost of Rs. 425 million. The second fertilizer plant in the private sector was established by Dawood Hercules Chemicals Limited (DH) in 1971 at Chichokimallian (Sheikhupura). This was a joint venture of M/s. Hercules of USA and Dawood Corporation of Pakistan. In 1973, PIDC established the Pak Arab Fertilizer Limited (PFL).

The National Fertilizer Corporation of Pakistan (NFC) was incorporated as a private limited company in August 1973. The three fertilizer plants at that time viz. (1) Pak American Fertilizers Limited, Daudkhel; (2) Lyallpur Chemicals & Fertilizers Limited, Jaranwala and (3) Natural Gas Fertilizer

Factory (now renamed as Pak Arab Fertilizers) having a total capacity of 306,000 metric tons were transferred to NFC by the PIDC. In 1975 a project proposal by NFC to set up a large ammonia/urea plant viz. Pak-Saudi Fertilizer Limited (PSFL) at Mirpur Mathelo was approved by the Government. Financing for this project was arranged through loans from the Saudi Government, Saudi Fund for Development and Asian Development Bank (ADB). The commercial production of PSFL started from 1st October 1980. Two more fertilizer plants viz. Fauji Fertilizer Company (FFC) and Pak-China Fertilizers started commercial production in 1982.

Until 1986, the fertilizer industry was highly regulated. The government fixed prices and the profitability of the manufacturers was capped at 20% of ROE. The regulated environment stifled private sector investment in the fertilizer industry, leading to a widening demand-supply gap that had to be bridged through expensive imports. In 1986, the urea prices were deregulated and in 1991, a new fertilizer policy was announced by the then Government which granted special incentives for setting up new projects and expansions.

Keeping in view the growing demand for fertilizer in the country, NFC undertook the policy of expansion and modernization of the existing plants and added new plants in the next two decades. NFC is presently operating one fertilizer marketing company and two educational, research and training institutes viz (1) National Fertilizer Marketing Limited, Lahore; (2) NFC Institute of Engineering & Fertilizer Research, Faisalabad; and (3) NFC Institute of Engineering & Technology, Multan. As per the privatization policy of the Government of Pakistan, all manufacturing units of NFC have been privatized by the Privatization Commission.

Producing Units	Product	Capacity (M. Tons)	Year of operations	Date of Privatization
Pak-Arab Fertilizers, Multan	UREA	92,400	1980	July 14, 2005
	CAN	450,000	1980	
	NP	304,500	1980	
Pak- Saudi Fertilizers, Mirpur Mathelo	UREA	557,000	1980	May 31, 2002
Pak-American Fertilizers, Daudkhel	UREA	346,500	1999	July 15.2006
Pak-China Fertilizers, Haripur	UREA	95,700	1980	May 25, 1992
Lyallpur Chemicals, Jaranwala	SSP (P)	72,000	1976	February 09, 2007
Hazara Phosphate, Haripur	SSP (G)	90,000	1990	November 28, 2008
		<b>2,008,100</b>		

### Current Scenario:

Fertilizer is the most important and expensive input contributing 30 to 50 percent to crop yield. Its share in the cost of production of major crops is around 10 to 15 percent. There are seven major players in the Fertilizer industry which are as under:

- 1) Fauji Fertilizer
- 2) Pak-China Fertilizer
- 3) Engro Chemicals
- 4) Lyallpur Chemicals and Fertilizers
- 5) Dawood Hercules
- 6) Pak-Arab Fertilizer
- 7) Pak-American Fertilizer

According to Pakistan Economic Survey 2018-19, the domestic production of fertilizers during 2018-19 (Jul-Mar) increased by 2.6% over the same period of the previous year. This increase is due to the functioning of two urea manufacturing plants (Agritech & Fatima Fertilizer) as the supply of LNG was

available on subsidized rates. The supply of imported fertilizer increased by 4.8 percent. Therefore, the total availability of fertilizer increased by 3.2 percent during the current fiscal year.

The Government provided the following types of subsidies to the Fertilizer industry during FY 2018-19:

- a) Implementation of a uniform tax rate of 2% for all type of fertilizers
- b) Ensuring adequate supplies of urea in Rabi Season by providing a subsidy of Rs.1,292 per bag for 105 thousand tonnes of imported urea
- c) Subsidizing the local manufacturers @ Rs.714 per bag of urea and provision of cheaper feed gas
- d) Operationalizing two fertilizer plants, located at the SNGPL network, by providing Rs. 916 per bag of urea subsidy for using LNG.

## SWOT Analysis of Fertilizer Industry

