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A wholly unwarranted cut

UTTAM GUPTA

The Centre recently announced reduction in concession amounts on imported and domestic DAP fertiliser, by Rs 250 per tonne each, through an order dated February 3, 1998, retrospectively in respect of sales for the period October 1, 1997 to March 31, 1998. The impression given to the public at large is that reductions were necessitated by decline in international prices of phosphoric acid, ammonia and DAP. This needs careful scrutiny.

During kharif 1997, the relevant benchmark prices on C&F basis were phos acid US $432.5 per tonne, ammonia $220 per tonne and DAP $245 per tone. (Exchange rate: $1 at Rs 36). Using 0.4821 tonnes phos acid and 0.221 tonne ammonia for one tonne DAP, means raw material cost of Rs 9,256 per tonne.

Add conversion cost of about Rs 2,000 per tonne, freight Rs 500 per tonne and distribution margin Rs 300 per tonne, reasonable farm gate cost of domestic DAP was Rs 12,050 per tonne. For imported DAP, add to the rupee cost of Rs 8,820 per tonne, handling and distribution cost Rs 1,730 per tonne, farm gate cost was Rs 10,550 per tonne. These were to be recovered from selling price of Rs 8,300 per tonne (common to both) and concession of Rs 3,750 per tonne on indigenous DAP and Rs 2,250 per tonne on imported DAP.

Against these, the actuals during kharif 1997 were phos acid $432.5 per tonne, ammonia on an average $200 per tonne and DAP $236 per tonne (exchange rate $1= Rs 38). The cost of phos acid was thus higher by Rs 865 per tonne which translates to Rs 417 per tonne DAP. The cost of ammonia was, however, down by about Rs 320 per tonne or Rs 70 per tonne DAP. But on a net basis actual cost of supplying indigenous DAP was higher by Rs 347 per tone. On imported DAP, this was higher by about Rs 150 per tonne. Therefore, manufacturers and importers suffered substantial loss.

During rabi 1997-98, actual cost of phos acid was higher by Rs 1,297 per tonne which translates to Rs 625 per tonne DAP. The cost of ammonia was, however, lower by about Rs 2,070 per tonne or Rs 450 per tonne DAP. On a net basis, actual cost is higher by Rs 175 per tonne.

The cost has also gone up on account increase in railway freight and the price of fuel oil/LSHS. The combined effect of increase in freight and fuel cost is about Rs 200 per tonne. During rabi 1997-98 thus actual cost of supplying indigenous DAP is Rs 375 per tonne more than the reference point.

For the manufacturers of DAP and other complex fertilisers using indigenously produced ammonia, the cost is much more. It has gone up by about Rs 1,000 per tonne for ZACL and Rs 800 per tonne for FACT.

In the earlier order of March 5, 1997, notifying concession rates, these were applicable for the whole of 1997-98, quite in line with past practice all along since introduction of the scheme in 1992. The February 3 move is thus a clear violation of the commitment.

In applying the cuts, the government appears to have been excessively preoccupied with decline in the dollar price of ammonia ignoring other factors.

For manufacturers using domestic ammonia, reduction in price of imported ammonia is not relevant. There are logistical difficulties in importing and storing ammonia. For others like FACT and MFL, due to recently commissioned revamped ammonia plants, there is the huge burden of capital servicing charges.

In fact, the low price of ammonia during current year is an aberration. It is the result of depressed prices of urea, which is produced from reaction of ammonia with CO2 in integrated ammonia/urea plants. China — the single largest urea importer — has temporarily reduced purchases drastically.

But, already, with war clouds clearing in the Gulf, suppliers in the region are no longer under pressure to keep ammonia storage tanks empty. China would soon enter the market. During kharif 1998, C&F urea prices may be $180-200 per tonne.

What is required is that the policy specifying price and concession rates should be announced well before commencement of season, preferably by third week of March, to enable manufacturers/importers do timely planning in regard to production and imports.

Beside, all outstanding payments — about Rs 1,200 crore as on January 31, 1998 — should be promptly released and regular payment of monthly claims made thereafter, to prevent liquidity problems and enable manufacturers/importers maintain supplies.