

An unviable policy option

RECENTLY, the Government constituted the Group of Ministers (GoM) under the chairmanship of finance minister Yashwant Sinha with a mandate to finalise the new fertiliser policy apart from making appropriate recommendations in regard to sick PSUs in the fertiliser sector. The GoM has been asked to submit its report before the monsoon session. The Government has also put on hold divestment of its equity in fertiliser PSUs until the new policy is finalised.

On the core issue of the new fertiliser policy, it may be recalled that in his Budget speech for 2001-02, Yashwant Sinha had announced replacement of the existing unit-wise retention price scheme (RPS) by the urea concession scheme based on Expenditure Reforms Commission recommendations. He had also announced determination and fixation of the concession rates for plants in the naphtha, fuel oil and mixed feedstock groups on the basis of the import parity price (IMPP) of these feedstock.

The unit-wise RPS was introduced in the late 70s and the RPS coverage for all complex fertilisers was withdrawn in August, 1992 following their decontrol. In case of urea however, this dispensation has continued all through, even as the Government has been exploring alternative policy options. In September, 2000, the ERC recommended phased de-regulation of urea over a period of six years with the first stage commencing from February 2001 when, it wanted RPS to be replaced by a uniform urea concession scheme. The announcements in the Budget for 2001-02 essentially pertain to implementation of ERC recommendation for stage-I.

Considering that the proposed concession scheme represents a fundamental change from the existing dispensation, logically, this is nothing but, the new policy. Against this backdrop, the setting up of GoM sounds mysterious! To unravel the mystery, we need to take note of the fact that even before presentation of the Budget, the GoI had received a spate of representations from States highlighting the serious implications of implementing ERC recommendations. As many as six chief ministers had written to Prime Minister and finance minister bringing out the substantial decline in fertiliser consumption and in turn, agricultural production that their adoption would lead to. The wide-

spread protests over ERC have led the government into doing some introspection. The fact that even after three and a half months of the change of policy announced in the Budget, it has still not come out with a notification giving the necessary details viz. the number of groups and concession rates under each, only goes on to reinforce this. The setting up of the GoM thus, gives a clear indication of Governments' keenness to have a re-look at the budgetary announcements in particular, the uniform concession scheme. Recently, the Union Minister for Chemical and Fertilisers expressed doubts about the efficacy of introducing a uniform pricing regime. What he did not say explicitly is this. For a heterogeneous industry such as fertilisers wherein, individual plants vary widely in terms of feedstock, vintage, location, technology and so on, leading to unavoidable differences in reasonable production costs, its adoption will unjustifiably penalise plants whose cost is higher and yield fortuitous gains for those whose cost is lower.

Guest Column

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While, differentiating plants according to feedstock and vintage, ERC failed to take into account the wide variations within each group. Until, these are removed or minimised, a scheme of uniform pricing — whether ERC or in any other form — could play havoc with individual units. Under the RPS, even as the government fixes norms for efficiency in operations (this being within the control of the management), in respect of cost of inputs and capital (these are largely beyond units' control), reasonable actuals are allowed. The scheme has contributed immensely to the health and growth of the industry which has even been recognised by various committees. But, thanks to the euphoria of liberalisation and reform that has gripped our policy makers, there exists a strong urge for switch-over to a dispensation of uniform pricing. It would be a serious mistake to formulate the new policy merely on this basis ignoring the ground realities. A scheme based on such a concept should not be introduced until such time arrangements are made to, at least, achieve a semblance of uniformity in cost of feedstock to various plants (this would require a pro-active intervention by GoI). Is the GoM listening?

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