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Comfort to oil pool at the cost of fertiliser industry

By Uttam Gupta

THE recent steep increases in the prices of naphtha, fuel oil and LSHS, with effect from Sept. 2, 97, have increased the production cost of urea plants using these feedstock by about Rs 1,000 crore per annum. The gas-based plants using naphtha/fuel oil for captive power and steam generation, too, have been hit. Together with the increase in the price of natural gas and transport charge along the HBJ pipeline, with effect from Oct. 1, 97, these plants will have to shell out an additional about Rs 550 crore per annum.

Producers of decontrolled complex phosphatic fertilisers (including DAP) using captive ammonia — based largely on naphtha, fuel oil/LSHS — have had their cost soaring by about Rs 400 crore per annum. The manufacturers of ammonium sulphate (AS), calcium ammonium nitrate (CAN) and ammonium chloride (ACL) — decontrolled in June 1994 — too use domestic ammonia based largely on naphtha, fuel oil/LSHS. They have similarly been affectd by the increase in feedstock/fuel cost.

At the time of announcing the hike, the government said that the burden of subsidising these feedstocks was being shifted from the Oil Pool Account (OPA) to the general budget. The message was that all fertiliser manufacturers affected by the increase would be fully compensated. The promise has been kept only in respect of urea producers who are covered by the retention pricing scheme (RPS) and that too not fully.

The RPS is administered by the Fertiliser Industry Coordination Committee (FICC), a body under the Department of Fertilisers. In the past, the exercise of re-working retention prices (RPs) to reflect increase in production cost took about 6-9 months. As a result, the industry faced serious financial problems. For instance, the impact of steep increase in the prices of feedstock/fuel, with effect from July 3 1996 was notified only in March 1997 This time, however, revised RPs have been promptly notified.

With regard to release of payments, even though initially, the government was contemplating its postponement into the next year — as part of its package to keep fiscal deficit under control — one is pleasantly surprised to see, in the augmented Contingency Fund of Rs 14,700 crore, a provision of about Rs 1,400 crore to cover additional requirements of fertiliser subsidy. This should help in making regular payments to urea manufacturers at the enhanced rates.

Several units will, however, still suffer as, in a recent order, the government has decided not to pay subsidy to producers having RP of above Rs 7,000 per tonne as on Oct 2, '97 — thanks to the feedstock price hike, almost all naphtha/fuel oil-based plants, apart from new gas-based units, fall in this range — on production in excess of 115 per cent of proportionate installed capacity from Oct 1, '97 to March 31, '98. This would virtually cripple the old, depreciated naphtha/fuel oil-based plants having low net-worth, whose profitability is already heavily constrained due to price fixation under RPs being on historical cost principle.

For manufacturers of complex phosphatic fertilisers, covered by the scheme of ad hoc, concession since September 1992, in an order dated Oct. 7, '97, the government maintained selling prices of these fertilisers on sales during Rabi 1997-98 at same level as during Kharif 1997. As regards the concession amount, the order said that it will be notified soon. The revised rates are still awaited.

The rationalisation of the scheme and the increase in the rate of concession announced in March/April, 1997 had created a conducive climate for the much needed recovery in the decontrolled sector. As a result, production of phosphate nutrient increased from 1.15 million tonnes during April-September, 1996 to 1.42 million tonnes during April-September, 1997. Imports (through DAP) increased from only 0.15 million tonnes during April-September, 1996 to 0.71 million tonnes during April-September, 1997.

This momentum is likely to be lost due to continued uncertainty of the policy for Rabi 1997-98 and the contemplated move to reduce the concession amount, far from the necessary increase needed to neutralise higher cost on account of feedstock/fuel price hike and depreciation of the Rupee. In fact, already, due to drastic slowdown in imports and the slower pace of domestic production during October/November, 1997, there are reports of shortages in some states such as Punjab, Bihar, Rajasthan, Gujarat, UP and MP, etc.

Ever since the fertiliser sector policy changes were initiated in July 1991, the AS, CAN and ACL segment of the industry has suffered the most due to a highly unstable and discriminatory policy environment. With effect from July 25, 1991, these were decontrolled and the RPs cover was withdrawn when all other fertilisers continued to be under control, and RPs. Although, based on JPC recommendation, with effect from Aug. 25, '92, these were brought back under control again, with effect from June 10, '94 they were decontrolled. And, all this when urea — the bulk source of 'N' — continues to be under control and is heavily subsidised.

The recent steep increase in the prices of feedstock/fuel has further accentuated this discrimination. This is because while consequential increase in the production cost of urea has been compensated under RPs, manufacturers of AS, CAN and ACL remain unprotected. As a result, the declining trend in their production and consumption will be further accelerated.

Ad hoc and uncoordinated policy decisions, during the 90s, have already inflictd heavy injury on the fertiliser industry, an industry which is so vital for the country's food security. While, on the one hand, overall growth in fertiliser production and consumption has slackened, on the other, imbalance in N. P. K use has aggravated. This was responsible, in no small measure, for the steep decline in foodgrains production by 6.0 million tonne during 1995-96. Besides, damage to soil fertility has undermined the ability of Indian agriculture to sustained a high level of production in the medium-to long-run.

The government should stop treating the fertiliser sector in a casual manner, as that will, ultimately, jeopardise food security. There is an urgent need to withdraw the retrograde order putting a ceiling on capacity utilisation for payment of subsidy to urea manufacturers, suitably increase concession to affected manufacturers of complex fertilisers and compensate producers of AS, CAN and ACL for the feedstock/fuel price hike.

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