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FERTILISER

Foreign exchange connection

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Concern is mounting over the grim balance of payments position. The importance the government attaches to the urgent need for retrieving the situation may be seen from the fact that a high level committee headed by the cabinet secretary continuously monitors on a weekly basis, the developing import-export profiles to assess the performance in relation to the targets. In fact, in a bid to reach the export level of Rs 20,000 crores for 1988-89, apart from intensified liberalisation in trade policy and procedures and relaxation in CCS for a number of thrust commodities, exports are sought to be pushed up even at the expense of domestic availability of a wide range of commodities including agricultural products.

Unfortunately however, this aspect has not got the attention it deserves, while planning for the development and management of some of the key sectors of the economy. The story of fertilisers vividly illustrates this point. First, it was excessive imports of fertilisers during 1984-85, 1985-86 and the first half of 1986-87 despite substantial increase in domestic production, on the one hand, and visible signals of demand not coming up to the projected levels, on the other, which entailed an avoidable foreign exchange loss to the economy while creating a glut in the market and consequential resource loss in terms of the reduced profitability. Undoubtedly, those were the years of relatively encouraging foreign exchange position which started deteriorating w.e.f. 1.4.1987. Nonetheless, reserves conserved then by avoiding unnecessary fertiliser imports, could have been of tremendous value now in the face of heavy demand on account of re-payment of IMF loan, increased imports of chemicals and petro-chemicals and the requirements thrown up by inevitable imports of essential raw materials, components and capital goods to make a success of the liberalised policy consistent with rapid industrial growth. Already, there has been inordinate delay in planning for additions to fertiliser capacity in the Eighth Plan and beyond, coming on top of the failure to adhere to the schedule for additions to capacity in the Seventh Plan. The report of the Varadarajan Working Group on the development of the nitrogen fertiliser industry during the Eighth Plan period, which was submitted to the government a year ago, far from giving a clear-cut direction in terms of increasing domestic supply capability to meet the projected demand for fertilisers, only gave birth to an unnecessary controversy of indigenous production versus imports, thus contributing further to the delay in formulation of concrete plans. The working group recently constituted by the Planning Commission will be doing the exercises from the word "go" which amongst others (there are as many as 23 items under its terms of reference) would cover fertiliser demand forecast upto 2000 AD as also for the year 2005, planning for supplies and implications of projected quantums to be distributed and handled for logistics and infrastructure including transportation etc.

Almost simultaneously, another group has been constituted to examine the possibilities of setting up fertiliser projects under "joint ventures" abroad particularly in the Gulf perhaps, as a reaction to the preliminary report submitted by the Italian giant Snamprogeti highlighting the possible advantages such as availability of cheap natural gas and lower investment cost in favour of location outside India. The cost of fertiliser production in the Gulf vis-a-vis India by itself, is an irrelevant issue particularly considering the fact that the cost of production in the latter is higher because we prefer it perhaps, unwittingly, to be that way. The inflated gas price charged by ONGC to fertiliser plants in India and contemplated move to make equipment even costlier by further raising customs duty on project imports already revived at 15 per cent *ad valorem* in 1987-88 budget, clearly reflects a total disregard of the cost consideration notwithstanding repeated announcements to the contrary. What is however, severely damaging ironical that despite real possibilities of increasing domestic production using our own natural resources particularly in the nitrogenous sector, at least cost to the economy, it has been considered advisable to examine an alternative which will inevitably lead to more foreign exchange burden on the exchequer on a recurring basis.

Apparently, there are other brakes though not so visible, undermining the capacity of existing production facilities to give the best in terms of higher fertiliser output. Notwithstanding the fairly rapid growth in production registered in the recent past, a combination of adverse forces are busting at seams which may cause significant deceleration in the years ahead. The incentive to produce more no longer exists as consequential benefits of improvement in capacity utilisation tend to get mopped up in price fixation. The inordinate delays in recognition of input cost increases arising out of Government's statutory decisions on administered prices of gas, coal, power etc., seems to have become a common feature in implementation of RPS. For instance, the revision in retention price on account of increase in natural gas price enforced from 1.2.1987, was effected 20 months later. So was the case with impact of hike in railway freight w.e.f. December, 1986 for the period 1.12.1986 to 31.3.1987. This apart, very often than not industry has to accept additional obligations, which in the absence of suitable compensation under pricing, together with consumer price also being statutorily fixed under FCO, only cuts into industry's meagre profitability.

At the policy level, there is also a contemplated move to discourage the so-called low analysis fertilisers such as AS, SSP, CAN and Ammonium Chloride perhaps, by arbitrarily reducing the subsidy given under the RPS. Specifically, the proposal to link the subsidy on such low nutrient fertilisers to the average subsidy given per tonne of nitrogen in urea and per tonne of P_2O_5 in DAP, can cause serious distortions leading even to closure of the existing production facilities. The linkage is unjustified for the following reasons. First, the process of manufacture and usage of raw materials and/or intermediates differ very widely. Second, consumer price per kg. nutrient is not uniform in any of the products thus implying that subsidy which is a function of consumer price and varying cost of production, cannot be fixed at a uniform level. Third, even in case of urea and DAP, subsidy varies from unit to unit depending upon feedstock and/or of raw material, imported intermediates, project location and vintage etc., thus rendering averaging irrelevant. Fourth, even computation of average cost of production is based on questionable assumptions giving an unrealistic picture about real subsidy even on major products.

The net result in the event of implementing the proposal is not only tantamount to denying soils/crops the indispensible secondary and micronutrients i.e., sulphur, calcium etc., which these fertilisers supply, there will also emerge a substantial gap in availability of the primary nutrients i.e. nitrogen and phosphate as well. SSP for instance, in addition to 12 per cent sulphur also provides 16 per cent P. In fact, with a total installed capacity of about seven lakh tonnes P it contributes around 30 per cent of phosphate production in the country which in the event of being scrapped, will have to be met either through setting up of additional capacity for DAP or through imports entailing substantially higher quantum of foreign exchange outgo.

To a certain extent, the slackening progress of the industry may also be the result of multiplicity of authorities with overlapping functions, commenting on the issues and giving broad policy/strategic directions from water-tight compartments.

The overall approach to balance of payments and in particular, increasing exports, cannot be divorced from the development of national economy. In fact, on this point the position is abundantly clear. So much so that the government is even contemplating to link sanction of licence for a new industry to acceptance of export obli-