

FERTILISER SUPPLY

Judicious controls system needed

The fertiliser sector in India is currently passing through a crisis of grave dimensions never witnessed before during the past 2½ decades or so. Barring production which in recent years has shown an encouraging trend, on every other front, dark clouds hover around showing little signs of disappearing in the near future. The fertiliser economy shows up the unusual paradox of increased production on the one hand and slower growth in consumption on the other. Stocks all over the country mount as consumption refuses to pick up and even decelerates in certain areas. It is needless to emphasise that this in turn, has squeezed profitability margins, aggravated liquidity problems and even led to controlled production, particularly of single super phosphate. In the process, there has been enormous loss to the economy in terms of wastages of precious foreign exchange used for importing fertilisers on the one hand and unnecessary competition adversely affecting the profitability and internal resource generation by the industry on the other.

Truant weather: The reasons for the present state of turmoil are fairly well known to everyone concerned with fertilisers in India. There is however, an urgent need for immediate action based on an objective understanding of the weaknesses that have showed up in the recent past with a view to put this vital sector back on the rails. It goes without saying that weather played truant for four consecutive seasons starting from rabi 1984-85 and appears to be no better during rabi 1986-87 which has now run half way through. However, very little can be done in the short run to circumvent its negative effect and even in the long run, possibilities for improvement are not too promising in view of our irrigation plans getting jeopardised by the resource crunch in the seventh Plan which might continue into the eighth Plan as well. In other words, Indian agriculture and the fertiliser sector in turn, will have to continue to live with the vicissitudes of fluctuating weather conditions.

Resilient agriculture: While this may be so, the fact cannot be ignored that Indian agriculture has acquired the resilience to a point of assimilating the shocks given by bad weather. This has been amply demonstrated during the 80s time and again. In fact, during 1985-86 when the monsoons failed to come up to the expected levels in many parts of the country, foodgrains production estimated at 150 million tonnes was not much different from a record level of 151.4 million tonnes achieved in the bumper year 1983-84. It is indeed a matter of immense satisfaction to all of us that whereas the drought in mid 60s created terrible problems of foodgrains availability subjecting us even to exploitation by the donors of food aid, the failure of monsoon during the last 2 years or so, notwithstanding its lower intensity has not put us to any difficulties insofar as the foodgrain production is concerned.

Fertiliser sector: In sharp contrast to continued stability on the foodgrains front, the fertiliser sector has unmistakably been the major casualty of unfavourable changes in weather. This is worrisome not only because of the consequential problems of glut, market instability and declining profitability etc., but more so in view of the indomitable role fertiliser has all along played in imparting dynamism and stability to Indian agriculture and which it will continue to perform in the years ahead. Obviously, the entire blame cannot be put on the weather alone even though this seems to have engineered the debacle in the first instance. Perhaps, the country was not prepared enough to face the kind of consequences that would follow from recurrently bad weather. There is a need for certain amount

The fertiliser economy has shown an unusual paradox of increased production on the one hand and slower growth in consumption on the other. This in turn has squeezed profitability margin, aggravated liquidity problems and even led to controlled production. The reasons for the turmoil are several but the most important, according to the author, has been the inability of the system to react in a way it ought to have done. There are a plethora of controls embracing almost every aspect of fertilisers but the kind of continuous monitoring and vigilance as also the positive responses that are required to deal with disturbances/exigencies which are so rampant in fertilisers, leave much to be desired.

outset, it needs to be mentioned that any sector of the economy fully under "administrative control" such as fertilisers is positioned in a "precarious balance" which can tilt either way depending on the circumstances as also the capability of the administrative/institutional apparatus to react in a given fashion. It goes without saying that every aspect of fertiliser industry in India is under control including location of the plant, choice of size, feedstock and technology, pricing of inputs including feedstock and the finished products — both producer's and consumer prices — transportation and distribution patterns. The distribution and consumption of fertilisers is regulated under the aegis of the ECA which notifies the quantities to be supplied by different manufacturers to specified states and Union territories in each season, i.e. the kharif (April-September) and rabi (October-March) at given prices fixed statutorily by the government under the FCO. In view of this, there is hardly any aspect which is subject to determination by the market forces. On the production side as well, while manufacturers may carry out changes with a view to improve overall performance, the highly constricting external environment they face in terms of infrastructure, availability of raw materials and feedstock etc., takes away much of the operational freedom. The net result is, therefore, a highly "controlled regime" which needs to be administered and even nurtured very carefully

The developments in recent years clearly bring out how vulnerable the fertiliser market was to the unrealistic projections of demand. It goes without saying that the anticipated demand did not materialise for four consecutive seasons starting from rabi 1984-85. Besides the weather not coming up to the expected levels, unrealistic demand forecast contributed in no small measure, to the excess supplies which in a matter of few months assumed the dimensions of a serious glut in the market. The all India stocks of fertilisers mounted to a whopping level of 3.5 million tonnes (nutrients) by the middle of this year. With the onset of the rabi season there might have been some improvement in the stock position but the situation continues to be alarming insofar as the glut condition and concomitant disorder in the market is concerned.

Pruning imports: There is a certain amount of "inevitability" with regard to the kind of problems we face as never before, the fact that the problems assumed crisis dimensions has a lot to do with the manner in which the administrative apparatus reacted to the emerging situation. For instance, the highly seasonal and to a certain extent, unpredictable character of fertiliser demand requires that there is continuous monitoring of developments with regard to emerging demand and supply profiles followed up by spontaneous action in terms of readjustments of allocations, imports etc. In this context, the utter

By U. C. Gupta

lest it becomes a bottleneck in realising the objectives of rapid growth in agriculture based on increased fertiliser use.

Demand forecasting: While nobody will dispute the justification/rationale for various controls on fertilisers in the context of the overriding need to achieve self-sufficiency in agriculture on the one hand and fertiliser production on the other, it would appear that the same have perhaps, been stretched too far without a matching gearing up of the enforcement and vigilance machinery required for enabling a smooth transition. To illustrate, assessment of realistic demand is a vital component of the exercises under the system of ECA allocations which is run and monitored by the ministry of agriculture. The demand forecasting exercises in order to be meaningful and realistic, have to incorporate a number of factors like cropping patterns, expected area under HYVs, price, credit availability and even the rural infrastructure etc., besides the likely changes in weather. The kind of infrastructure and precision required for successfully performing this job leaves much to be desired. This together with the undaunted enthusiasm to do better in terms of fertiliser consumption oblivious of the considerations of feasibility is an open invitation to a lot of "subjectivity" and "arbitrariness" in the estimates of likely demand (the gross requirements) which in turn, constitute the basis for allocations under the ECA. In such a situation, the estimates of likely consumption would tend to be fragile, thereby making the whole superstructure of allocations, distribution and

failure of demand to come up in rabi 1984-85 itself was a significant pointer to the need for scaling down imports during the next season. The fact that this did not happen was amply reflected in the quantum of import for 1985-86 which at about 3.4 million tonnes (nutrient) was no different from the quantities imported in the previous year. It was only logical that there was availability much in excess of what the market could absorb particularly in view of the weather failing continuously in both the seasons of 1985-86. It was already too late by the time a decision to drastically curtail imports was taken in 1986-87.

In a situation of overall excess availability, it is only logical to loosen the strings attached to the system to enable free movement of the material as that would at least help in fully meeting the requirements of pockets really in need of fertilisers and would also tend to minimise inventory build up. This objective has been largely frustrated as the approach towards approving change in allocations in situations of demand not coming up to the expected levels has been far from being constructive characterised as it is by too much of "mechanistic" application of rules of the game rather than any genuine desire to do some thing in the overall interest of the economy. This in the face of frequent mis-matches between demand and supplies has contributed in full measure to the chaotic conditions in the fertiliser market entailing in the ultimate analysis a substantial loss to the economy.

Supply linkage to districts: There have been several other manifestations of "rigidities" which appear to have made the

ter demonstrate this than the highly compartmentalised and straight-jacket approach that shrouds the concept of linking supplies to districts which was originally tried on an experimental basis in rabi 1984-85 and that has subsequently taken deep roots in the planning for allotment of indigenous material. The fact that such a bondage of supplies to a particular district is not workable is established beyond doubt. In the first instance, the basic fact cannot be ignored that the demand for fertilisers is uncertain and that the degree of uncertainty varies enormously from region to region, state to state and even district to district. Consequently, situations of excess and shortages vis-a-vis anticipated demands are bound to occur more or less simultaneously. In view of this, the compartmentalization that the district-wise allocation entails would not only result in inventory build-up in a district showing up shortfall in demand whereas another district needing extra material may not get it. The economy will therefore, suffer on two counts. Firstly, there will be extra cost of carrying inventory in terms of higher interest, warehousing rentals and overheads etc., and on the other, there would be shortfall in foodgrain output because of non-availability of fertilisers in desired quantities in areas showing up deficit. It may however, be argued that likely demand-supply imbalances could be removed spontaneously by rushing supplies from surplus to deficit areas. Theoretically, this sounds good. It would however, be far too difficult to operate in practice, since this would involve lot of infructuous transportation of the material with attendant financial implications. In addition, it is not even certain whether the fertilisers thus moved, would at all be used in view of the highly perishable nature of fertiliser demand. On top of all this, absence of comprehensive district-wise profiles on factors impinging on fertiliser consumption would render demand forecasting exercises even more unrealistic thereby cutting at the very root of stability in the market.

Institutional offtake: Yet another glaring instance of the mis-match between the demands of the situations on the one hand and the administrative responses on the other has been enforcement of an across-the-board stipulation that 50 per cent of the allocated supplies would be offered to cooperative institutions in addition to normal supplies to agro industries corporations and that too at a time when excess supply conditions had already surfaced i.e. kharif 1985. In the first instance, it is illogical to expect all cooperative institutions spread throughout the country to have the requisite financial and infrastructural capabilities consistent with the proposed stipulation. This apart, there are a number of cooperative marketing federations which face insurmountable financial problems impairing their capability even to sustain the normal business. In view of this, it was only to be expected that this indiscriminately uniform stipulation would not work. This has indeed been dispensed with now commencing from Rabi 1986-87 as weaknesses of the institutional agencies got amply reflected in their woefully low lifting performance during the last year and a half or so. It should however, not be overlooked that during this period, there has been a tremendous loss to the economy in the shape of unintended inventory accumulation as it was willy-nilly impossible to gear up the alternative channels in the event of one major channel not coming up to the mark.

Tender system: Specific mention also needs to be made of the enforcement of the "tender system" at a time when the situation of glut was at its peak. It goes without saying that quite apart

Fertiliser supply

Continued from page 5 col 6

taneous release have contributed a lot to the present turmoil in the fertiliser market. At this critical juncture, the indispensable need of the hour should have been to hold on to the pool material with a view to impart a smoothening touch to the market. Far from achieving the desired goal, the tender system only added fuel to the fire. Besides reduced remuneration on handling pool material which was the logical outcome of the process of competitive bidding, the reduction in inventory carrying cost to a level at par with the indigenous material was the surest indication that the disorder in the market would get further aggravated as there would be temptation to release the former as fast as possible. These tendencies got further impetus from another stipulation that the entire quantity of imports during the year as also the carry over stocks from the previous year would have to be disposed of by the end of the current year. This is perhaps, the major reason why in spite of imports being reduced substantially this year, the problem of glut does not show any signs of abatement.

Resuscitating controls: In a nutshell, while on the one hand, we have a plethora of controls embracing practically every aspect of fertilisers which have tended to increase in both magnitude and intensity in recent years, the kind of continuous monitoring and vigilance as also the positive responses that are required to deal with disturbances/exigencies which are so rampant in fertilisers leave much to be desired. This is precisely the reason why in spite of our agriculture having developed the much needed resilience to absorb the shocks of fluctuating weather, a few successive jolts given by the latter in the recent past, have thrown the entire fertiliser economy completely out of gear. On its own, bad weather could not have taken such a serious toll. The problems reached crisis proportions predominantly because the system could not react in the manner in which it ought to have done. This has been true of virtually every aspect of the fertiliser scene be it the demand forecasting, allocation of supplies under ECA, planning and monitoring of imports as also the fixation of remuneration for handling the pool material, etc. It needs to be reiterated that the success of any system of administrative controls hinges mainly on how best they are used in pursuit of the stated objectives entailing minimum side effects on the economy. This is not to say that the system of controls should be abandoned completely. However, there is a paramount need for applying these judiciously and that necessary re-adjustments