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Free float in fertiliser price

The media is agog with reports on the contemplated move to allow a free float of selling prices of decontrolled phosphatic and potassic fertilisers. This sounds unusual. The freedom to fix prices is automatic for any commodity which is not under price controls.

All phosphatic (P) and potassic (K) fertilisers were decontrolled in August 1992. But, despite *de jure* decontrol, the government has all along been controlling the prices.

To understand this paradox, let us recall the system in existence prior to August 1992. Under the retention pricing scheme (RPS), even as the government controlled the selling price at a low level — to induce an increase in consumption — the excess of the reasonable cost of production and distribution over this was reimbursed as a subsidy to the producer. The subsidy amount was high; in the case of di-ammonium phosphate (DAP) for instance, this was almost equal to the selling price, i.e., Rs 4,680 per tonne. The government was under tremendous pressure to reduce the subsidy. In fact, it had promised to the IMF that it would eliminate the fertiliser subsidy in three years beginning 1991-92.

Against this backdrop, the government decided to decontrol all P and K fertilisers. However, realising that this would lead to a steep increase in the price to farmers, within a month or so, it

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decided to give concessional support at prescribed rates, e.g. Rs 1,000 per tonne of DAP, to moderate the impact.

Thus, the subsidy was back, but under a new incarnation. Did that imply revival of controls as well? Seen purely logically, the answer is 'No'. Unfortunately, in reality, things do not work on logic. For politicians/bureaucrats, any act of paying money from the exchequer automatically means that controls should be exercised.

Accordingly, state governments who were asked to implement the ad hoc concession scheme, fixed prices, monitored sales, processed claims and made payments. Freedom of operation was virtually non-existent as some states even interfered with marketing/selling.

Beginning 1994-95, the central government decided to release money directly to producers. However, in a bid to keep the states happy, it preferred to take their prior approval/certification. From 1997-98, the central government started fixing selling prices as well. It also decided to release 80 per cent of monthly claims upfront, without waiting for the states' nod. During kharif 1997, it fixed reasonable prices, announced these before the start of the season and also made efforts to ensure timely payments.

Thereafter, even the central government went more or less the same way as states. During rabi

1977-98 and kharif 1998, it delayed announcement of the concessional rates. These, together with the selling prices, did not fully cover reasonable costs, thus making supplies unviable. It delayed payments as well.

On August 28, 1998, the Centre decided to allow freedom of pricing to suppliers. The relevant notification was too good to believe. Even before industry could fully digest its implications, it was suppressed by another. Issued on September 23, 1998, it restored the Centres' power to control selling prices.

Another order, issued on December 28, 1998, prescribed concession rates for kharif 1998, but added that the differential between this and the provisional rate (suppliers were earlier paid on this basis), would be paid on receiving the nod of the state governments. This showed the keenness of the Centre to involve the states, despite their continuing negative role.

Such widespread controls have come in the way of ensuring timely and adequate supplies to farmers. As a result, consumption of P and K fertilisers has failed to come up and a serious imbalance in fertiliser use persists, defeating the very objective of extending support.

Against this backdrop and frequent backtracking on similar moves in the past, any talk of allowing a free float does not instill confidence. If it is the government view that there cannot be support sans controls, it is better to have no support but the freedom of pricing and distribution.