

Price curbs on phosphate, potash will hit supplies

By Uttam Gupta

ONLY about a month back, the Government announced increase in concession on P and K Fertilisers — Rs 500 per tonne on imported DAP and domestic DAP each (proportionate basis for other complex fertilisers) — on sales from 1.10.1998. It also allowed manufacturers/importers to fix selling prices without any intervention by GOI or State Governments. Now, the Cabinet is reported to have reversed this decision. Instead of leaving it free to suppliers, Government will fix prices.

The price to the farmer is arrived at by deducting concession amount from reasonable cost of production (C&F lande cost for imports) and distribution. At raw materials/intermediates cost about Rs 10,600 per tonne (based on US \$432.5/150 per tonne for phos acid/ammonia and US \$1 — Rs 44), conversion cost Rs 2,000 per tonne and freight and distribution margin Rs 900 per tonne, latter is about Rs 13,500 per tonne for indigenous DAP. For imported DAP, at C&F US \$230 per tonne, corresponding cost is about Rs 12,000 per tonne.

Consequent to increase, concession rates are Rs 4,000 per tonne on indigenous DAP and Rs 2,500 per tonne on imported DAP. With these, and reasonable cost of supply as above, price to farmers will have to be about Rs 9,500 per tonne to ensure viability of producers/importers. This is Rs 1,200 per tonne more than price of Rs 8,300 per tonne during Kharif 1998.

This raises a serious dilemma. If, price is raised to Rs 9,500 per

tonne, it will be a great embarrassment for Government. Having already signalled that price will be maintained at the same level as during Kharif 1998/1997-98, how can it allow increase and that too a hefty one? If, on the other hand, it is kept unchanged at Rs 8,300 per tonne, supplies both from domestic production and imports will be unviable.

That there is serious danger in keeping price artificially low is clearly borne out by past experience under ad hoc concession scheme since 1.10.1992. Until 1996-97, prices were fixed by State Governments who neither had the expertise, nor, inclination to set these at realistic levels. In majority of states, this was marked by adhocism and arbitrariness. As a result, price plus concession amount did not add up to reasonable cost of supply.

During Kharif 1996 for instance, states fixed prices in the range of Rs 7,400-7,600 per tonne. With prevailing concession of Rs 3,000 per tonne, realisation to producers at Rs 10,400-10,600 per tonne was about Rs 1,000 per tonne lower than reasonable cost of production and distribution. Result! supply constraints and much touted revival in consumption could not take place despite hefty concession.

This time also, maintaining price at an artificially low of Rs 8,300 per tonne would yield realisation of Rs 12,300 per tonne on indigenous DAP and Rs 10,800 per tonne on imported DAP. This will fall short of reasonable cost of supply by about Rs 1,200 per tonne thus, making supplies unviable. Drastic reduction in domestic production and imports is therefore, inevitable.

Already, due to apprehensions about inadequate coverage of reasonable cost during Kharif 1998 — concession rates for this period are yet to be notified — supplies suffered set-back. During April-July 1998, DAP import was 0.588 million tonnes, down from 0.653 million tonnes during April-July 1997. Domestic production also declined from 1.245 million tonnes during April-July 1997 to 1.227 million tonnes during April-July 1998. These adverse trends will get aggravated during Rabi 1998-99.

The problem arises mainly due to a distorted mindset. Whenever, increase in concession is announced, an impression goes around that farmers will pay less or at best, no more than what they were paying earlier. There is hardly any sincere attempt to look at increases in cost which swallow the entire hike in concession and yet, a large part remain unabsorbed.

The pressure is built primarily due to rising cost of raw materials/intermediates, utilities, viz, power/water and services i.e., Railway freight. Of all these, biggest villain is depreciation of the Rupee. An idea of its deadly impact may be gauged by comparing the likely scenario during Rabi 1998-99 with Kharif 1997.

During Rabi 1998-99, cost of phos acid and ammonia in one tonne DAP at about US \$240 will be almost the same as during Kharif 1997. However, exchange rate has slid from US \$1=Rs 38 in Kharif 1997 to US \$1=Rs 44 (including forward cover) for Rabi 1998-99. Due to this alone, reasonable cost of supply has gone up by about Rs 1,440 per tonne.

During Kharif 1997, selling price/concession were Rs 8,300/

3,750 per tonne (both fixed by GOI). The concession for Rabi 1998-99 at Rs 4,000 per tonne is only Rs 250 per tonne higher than in Kharif 1997. Against this, increase in cost being Rs 1,400 per tonne, there will be an uncovered gap of about Rs 1,200 per tonne.

The Government has decided to maintain a buffer of 200 thousand tonnes DAP and 55 thousand tonnes MOP. Although, this is intended to meet emergent requirements, quantity being a small share of likely demand (less than 10 per cent), this will be of little help in meeting the shortfall. Moreover, supplies from buffer cannot be ensured at desired price unless these are heavily subsidised.

The Government should remove the smokescreen and make things transparent. It should clearly tell farmers that increase in concession was aimed at offsetting a portion of unavoidable increase in reasonable cost of supply. For balance, they should be ready to pay extra. No doubt, this is painful, but, better than initially keeping them in the dark and then, taking steps in desperation — as in the past — which would be counter-productive.

The required increase of about Rs 1,200 per tonne (14.4 per cent on an already high base) may invite resistance. This can be prevented by raising concession to Rs 4,500 per tonne (proportionate basis for other complexes). With this, extra burden on farmers will be small i.e. about Rs 700 per tonne, which should not be difficult to absorb.

The funds needed for providing extra support can be mobilised by increasing urea selling price by Rs

500 per tonne. Although, a similar proposal made in the Budget for 1998-99 was rejected, this was more by default than on merit. The Government should clearly explain the rationale, argue the case logically and push through the increase.

Increase in concession is only a temporary solution to the problem of imbalance in fertiliser use. A lasting solution would require effective steps to contain the cost push. Sound macro economic management will be needed not only to stem further slide of the Rupee, but, to improve its value.

Timely reforms and restructuring need to be initiated in critical sectors viz, port, railways, road, power and infrastructure for handling and warehousing etc., to bring down port charges, railway freight, power tariff and warehousing rentals.

The states should either not charge sales tax as in Punjab, Haryana, Maharashtra or reduce the rate to bare minimum. The obnoxious turn over tax levied in some states viz. Karnataka, Tamil Nadu should be removed.

The custodians of macro-economy rarely realise the damage that high cost — due to Rupee depreciation and persistent neglect of infrastructure — has done to the fertiliser sector and, in turn, agriculture. They should get sensitised to it and initiate appropriate long-term corrective measures before it is too late.

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