

Saga of broken promises

By Uttam Gupta

O late, there has been much emphasis on good governance. Amongst others, this involves transparency in decision making and accountability for various actions. Most important of all, having taken a decision and notified it, the Government should stick to it. It is still better if, a particular policy decision has validity over a reasonably long period. It ensures stability of the policy and is, therefore, good for growth of business and industry.

Lack of transparency and accountability has been germane to governance in India for decades. That, such noble principles would get inculcated in Indian administrative setup, is a mere wish. However, the best, one could hope for, is that the Government sticks to the decision it takes; that there is no breach of trust. Otherwise, how do you run business? Unfortunately, even on this front, there is hardly any thing to cheer.

In the fertiliser sector — this is inextricably linked to country's food security — there have been umpteen instances of the Government going back on promises under the scheme of ad hoc concession for all phosphatic and potassic fertilisers. It was introduced w.e.f. 1.10.1992 after their decontrol on August 25 1992. Under it, concession at prescribed rates, e.g., Rs 1,000 per tonne on DAP, was given to manufacturers to facilitate corresponding reduction in selling price to farmers.

The scheme continues to date with increase in concession rates, e.g., indigenous DAP to Rs 3,000 per tonne w.e.f. July 6, 1996, Rs 3,750 per tonne w.e.f. April 1, 1997, Rs 3,500 per tonne w.e.f. 1.10.1997 and Rs 4,000 per tonne w.e.f. 1.10.1998.

Until end of fiscal 1993-94, the scheme was administered — including release of payments — by state governments. During 1994-95, to 1996-97, although, payment function shifted to the Government administration continued with states. All these years, the situation was messy even as suppliers faced countless problems in wheeling dealing with state governments.

Beginning fiscal 1997-98, the Government started playing a major role in regard to all vital aspects, viz., price fixation, concession rates, payments, etc. In a circular dated 5.3.1997, it notified concession rates, i.e., imported DAP Rs 2,250 per tonne, indigenous DAP Rs 3,750 per tonne (proportionate basis for other complex materials), Rs 2,000 per tonne MOP (entirely imported) and Rs 600 per tonne SSP. These applied to sale of material during the whole of the year, i.e., 1.4.1997 to 31.3.1998 which was clearly mentioned in the circular.

Subsequently, in a circular dated October 7, 1998 which maintained selling prices at same level as in *kharif* 1997, e.g., DAP Rs 8,300 per tonne, it was mentioned that concession rates will be notified

shortly. An usual statement indeed! particularly, in view of the fact that once the rates for the entire year had already been notified, where was the question of a fresh notification? Nonetheless, this was indicative of what could be in the offing.

Quite expectedly, on February 3, 1998, the Government issued a notification reducing concession rates, retrospectively by Rs 250 per tonne on imported DAP/domestic DAP each (!proportionate basis for other complexes) in respect of sales during 1.10.1997 to 31.3.1998.

Considering that the manufacturers/importers had taken decisions in regard to production/imports on the basis of the rates already notified, they suffered serious loss due to the retrospective change in policy. Logically, the decision was challenged by some manufacturers/importers on ground of violation of the principle of promissory estoppel. The matter is still pending in the court.

In respect of sales during *kharif* 1998, the selling prices were maintained at the same level as during 1997-98, e.g., DAP Rs 8,300 per tonne. In regard to concession, there was a categorical assurance from the highest level in the Government that this would be so fixed as to enable full coverage of the reasonable cost of supply. This was also reiterated in various interactions with the industry.

The suppliers projected viability on this basis and accordingly planned production/imports although, on a somewhat reduced scale. For instance, import of DAP during April-September 1998 was about 1.0 million tonnes as against 1.5 million tonnes during April-September, 1997. However, this time again, they faced a serious setback.

Even as concession rates have not been announced — despite the season being already over — as per the recent reports, Ministry of Agriculture is inclined to allow concession rate of only Rs 4,150 per tonne on indigenous DAP (up from Rs 3,500 per tonne in *rabi* 1997-98) against the required amount of about Rs 5,000 per tonne to fully cover reasonable cost. This, in turn, will threaten the viability of the producers. Importers are also likely to be similarly affected.

In the third week of August, 1998, the Government's announced a new concession policy to cover the period 1.10.1998 to 31.3.2000. Under it, concession rates were increased to Rs 2,500 per tonne on imported DAP, Rs 4,000 per tonne indigenous DAP (proportionate basis for other complexes), Rs 2,500 per tonne MOP and Rs 900 per tonne SSP.

The manufacturers/importers were also given the freedom to fix prices without any intervention from either state governments or the Government. This meant that they could adjust selling price so as to ensure that together with concession, reasonable cost of supply was covered in full. On sales during *Rabi* 1998-99, later being about Rs 13,500 per tonne on

indigenous DAP — due to continuing depreciation of the rupee — the former would thus, be about Rs 9,500 per tonne. At this level, even importers would have covered their reasonable cost.

And yet, in less than a month, this decision was reversed thereby reviving controls. In fact, vide notification dated 23rd September, 1998, the Government froze selling prices at the same level as during *kharif* 1998 e.g., DAP Rs 8,300 per tonne. However, the concession amount continues at the same rate as notified in August, i.e., Rs 4,000/2,500 per tonne on domestic/imports DAP.

At these levels, domestic producers/importers would get realisation of Rs 12,300/10,800 per tonne which fall short of the reasonable cost of supply by a huge Rs 1,200 per tonne. While, some increase in concession rates might still come, it is unlikely that it would fully cover the un-covered gap. This is in view of past experience as well as grossly inadequate allocation.

In regard to SSP, concession rate has been frozen at Rs 900 per tonne. In view of this and reasonable cost of supply being about Rs 4,000 per tonne, selling price has to be Rs 3,100 per tonne. SSP could sell at this price provided price of DAP is Rs 9,500 per tonne to ensure parity. Now, that latter has been pegged much lower at Rs 8,300 per tonne, former cannot sustain. Thus, even as the August order sought to put the two at par, the September order has negated this.

The Government would do well to make well coordinated and consistent policy announcement after taking into account all relevant factors and refrain from backtracking on it. This is necessary to provide a stable policy environment, build confidence and facilitate the much needed revival in production and consumption of P and K fertilisers.

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Daewoo Motor (I)

Daewoo Motor Corporation of South Korea has decided against getting European carmaker Renault's diesel engine technology for the multiutility vehicle (MUV) which Daewoo plans to launch in India. The decision was taken following an extensive study and market research, Daewoo Motor India Ltd chairman Sung-hak Park told UNI.

Techies '98

To coincide with the opening of the IT Asia Comdex fair in New Delhi on Dec. 2, 1998, Media Transasia (I) Ltd's IT division is hosting the Techies '98 annual awards, covering the best companies, technologies and products in both the IT and communications industries. The awards are based on the results of the annual Premier 2000 Survey.