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Saving on fertiliser subsidy

REDUCTION in fertiliser subsidy has been a major plank of the fiscal stabilisation programme launched by the previous government in 1991-92. Despite this, fertiliser subsidy rose from Rs 4,400 crore during 1990-91 to Rs 6,235 crore in 1995-96.

During 1990-91, subsidy was being paid on 'all' fertilisers — nitrogenous, phosphatic and potassic. However, from August 25, 1992, all P and K fertilisers were decontrolled and the retention pricing and subsidy scheme (RPS) covering them abolished.

The substantial increase in the subsidy on urea, particularly during the last two years, calls for some introspection. During 1993-94, the government paid a total subsidy of Rs 4,562 crore, including Rs 3,800 crore on domestic production and Rs 762 crore on imported urea. In 1995-96, this was Rs 6,235 crore — Rs 4,300 crore on domestic production and Rs 1,935 crore on imported urea. Thus, out of the total rise of Rs 1,673 crore during the period, the increase on imported urea alone was Rs 1,173 crore.

During 1993-94, with urea imports at 2.84 million tonne and the subsidy at Rs 762 crore, the per tonne subsidy on it was Rs 2,683. In 1995-96, with imports of about 3.7 million tonne and a subsidy of Rs 1,935 crore, the per tonne subsidy rose to Rs 5,229.

In respect of domestic urea, during 1995-96, on a production level of 15.8 million tonne and subsidy of Rs 4,300 crore, the unit rate of subsidy was Rs 2,721 per tonne.

Clearly, the huge increase in the subsidy on imported urea has been the result of our failure to maximise domestic production.

A three-pronged strategy is needed to check the growth in fertiliser subsidy.

First, a substantial reduction in the imports is necessary. Because at the prevailing C&F landed cost, the farmgate cost of imported urea works out to about Rs 9,000 per tonne against the weighted average cost of supplying indigenous urea of about Rs 6,000 per tonne. In fact, a majority of the plants in India supplies urea cheaper.

To facilitate higher indigenous production, the government should take measures to ensure adequate and uninterrupted supplies of feedstock, including natural gas, to fertiliser plants for optimum utilisation of the installed capacity. Gas supplies are now much short of requirements while the supplies of alternate feedstock, i.e. naphtha, are unreliable.

The Govt should aim at rolling back the prices of hydrocarbon feedstock to boost domestic production of urea

By removing these distortions and restoring supplies of gas to the optimum levels, it is possible to bring about a significant increase in domestic production, enabling a corresponding lowering of imports and subsidy outgo. Assured supplies of gas to new and expansion projects will also help contain the growth in subsidy.

The RPS needs to be suitably geared to maximise production. This would require timely payment of subsidy dues, adjustment of the RP to reflect various escalations, recognition of elements of cost incurred and avoiding adverse changes in pricing parameters. The government should refrain from the move to deny the capital servicing charges on capacity utilisation above a ceiling.

Second, the current selling price of urea at Rs 3,320 per tonne is unrealistically low in relation to the cost, and has led to a heavy imbalance in price viz. P and K fertilisers. The prices of DAV and MOP are 2.5 and 1.2 times the price of urea compared to 1.5 and 0.55 times before decontrol.

So, there is need to raise the urea price in phases to bring it closest to the economic price. Apart from enabling significant subsidy saving (a 10 per cent increase in price yields about Rs 600 crore per annum), it will also help bring about better price balance, and in turn, in the NPK use ratio.

Third, the input supplying agencies should also share the burden of subsidy cut. In this context, the JPC recommended, in August 1992, a 35 per cent cut in the price of gas, and a freeze of the prices of all other feedstock i.e. naphtha, LSHS and FO.

Far from implementing these, the prices were jacked up in September 1992; naphtha by 36 per cent, fuel oil and LSHS by 54 per cent each, even as the gas price was raised thrice in 1993, 1994 and 1995 (all in January.) More recently, the prices of all feedstock other than gas have been raised by a hefty 30 per cent.

Ideally, the government should aim at rolling back the prices of hydrocarbon feedstock to the level prevailing in August 1992. However, the least it can do is to maintain the prices at a level prior to the recent hike. If the oil and gas sector cannot contribute to a reduction in fertiliser subsidy, it should not take steps to exacerbate the burden.

These measures, implemented in phases, will help address the budgetary concerns, and prepare the industry and farmer for a situation of total decontrol.