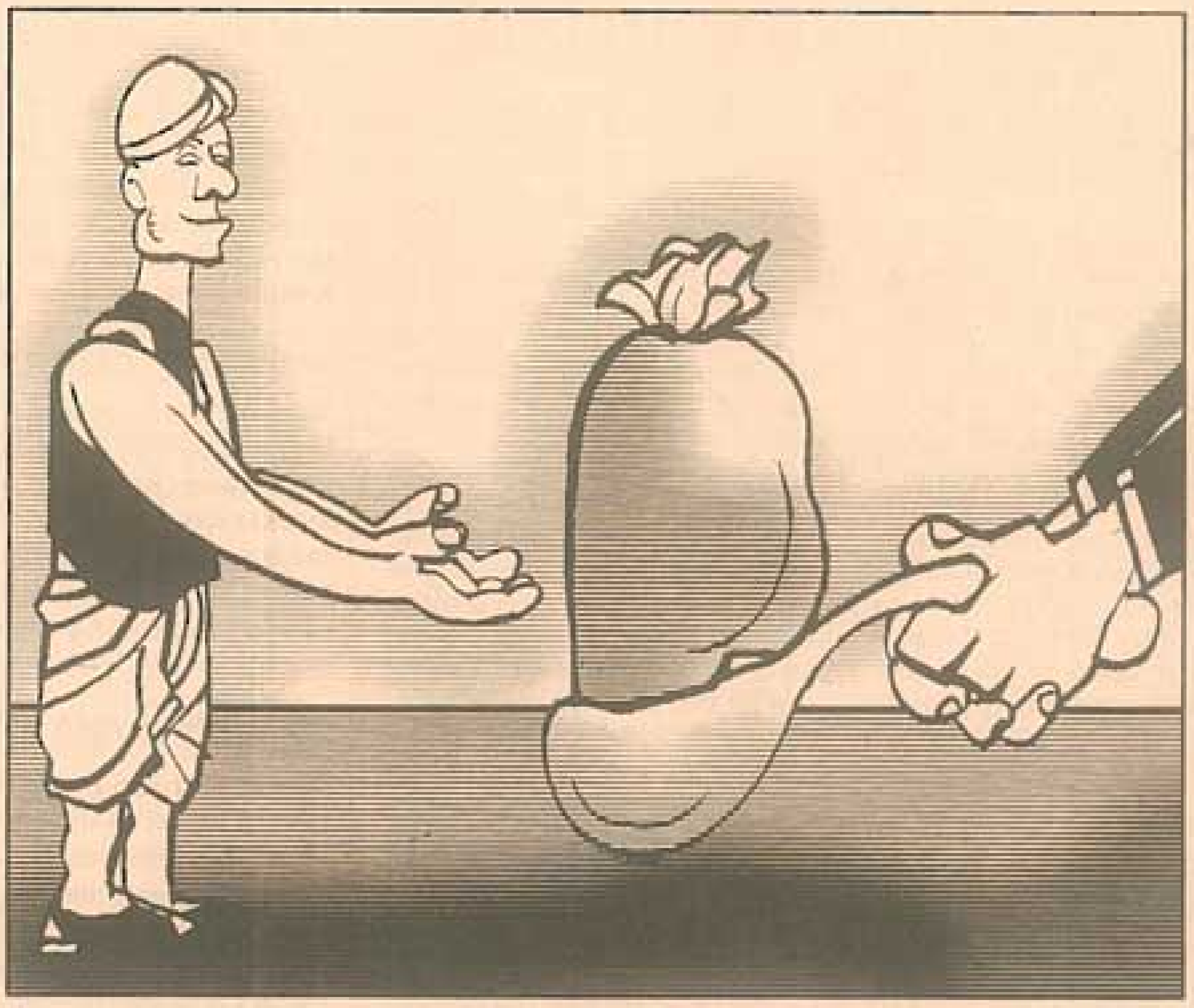
The yoke is heavy, as ever

The fertiliser price depends on both internal and external factors. Concessions can work only if they're conceived well, says **Uttam Gupta**



FROM August 25, '92, all phosphatic and potassic fertilisers were decontrolled and the subsidy cover, on both domestic production and imports, withdrawn. A fortnight later, from September 13, a scheme of ad hoc concession was introduced. Under this, a concession of Rs 1,000 per tonne of MOP (entirely imported) and DAP each was allowed. Concession was also extended on a proportionate basis for other phosphatic fertilisers (excluding SSP) to the producers/importers, to facilitate a matching reduction in the selling prices to farmers.

The scheme was continued through '93-96, without any changes in the concession rate. However, during the three-year period, while no concession was granted on imported DAP, SSP was entitled to a concession of Rs 340 per tonne.

The scheme continued in '96-97, initially without changes. But from July 6, '96 the concession rates were raised to Rs 2,000 and Rs 1,500 per tonne respectively on indigenous and imported DAP, and Rs 500 per tonne on MOP. Recently, from April 1, the rates were raised by Rs 750 per tonne on domestic and imported DAP each and Rs 500 per tonne on MOP.

The cost of the concession scheme up to '96-97 was Rs 3,677 crore. The budget allocation for '97-98 is Rs 2,000 crore. This does not include the effect of the recent hike in concessions, some carryforward payments from '96-97 and a projected rise in consumption. The actual outflow may be about Rs 3,000 crore.

The objective of the scheme was to maintain the rising trend in the consumption of P&K fertilisers, and achieve a balance in their use vis-a-vis nitrogen. These did not happen. The consumption of P declined from 3.32 mn tonne in '91-92 to 2.89 mn tonne in '95-96. Likewise, consumption of K declined from 1.36 mn tonne in '91-92 to 1.16 mn tonne in '95-96.

With the consumption of N (mainly supplied through urea) rising from 8.04 mn tonne in '91-92 to 9.82 mn tonne in '95-96, the NPK use ratio worsened from 5.9:2.4:1 during '91-92 to 8.5:2.5:1 during '95-96. This resulted, in large measure, in foodgrain production falling by 6 mn tonne in '95-96.

During April-Sept '96, the sale of DAP was 1.59 mn tonne against 1.79 mn tonne during April-Sept '95. The sale of MOP during April-Sept '96 was 0.59 mn tonne against 0.71 mn tonne in the same period in '95. The situation has not improved during rabi '96-97. As a result, consumption of DAP and MOP during '96-97 is expected to be at best equal to the already low '95-96 levels of 3.3 and 1.3 mn tonne respectively.

Why has a revival in the use of P&K eluded the country inspite of the huge concessions? The problem is primarily two-fold: (i) high selling price to farmers and (ii) distortions in implementation of the scheme.

The selling price depends on the costs of production and distribution. Of the production cost, the cost of raw materials/intermediates alone is about 80.85 percent. Being entirely imported, their cost depends on the C&F landed cost in dollar terms and the exchange rate. Since decontrol, both these factors have turned adverse.

Prior to decontrol, the C&F landed costs of phos acid and ammonia were \$375 and \$118 per tonne respectively. On the former, there was an effective customs duty of 13 percent. On this basis, the cost of these intermediates in one tonne DAP was about \$229.36 (375 x 1.13 x 0.48 + 118x0.22) or Rs 6,650 per tonne (\$1 = Rs 29 being the then market rate.)

However, the unified exchange rate system (from March '93) and the increase in dollar prices have changed the scenario. By January '97, the C&F cost was \$416.5 per tonne for phos acid and \$250 per tonne for ammonia, leading to a cost of \$254.92 (416.5 x 0.48 + 250 x 0.22) or Rs 9,126 (\$1 = Rs 35.8) per tonne of DAP.

Under the RPS, the government was covering, on an average, a reasonable farmgate cost of about Rs 9,250 per tonne, which included Rs 6,650 as intermediates cost, Rs 2,000 as conversion cost (including capital related charges) and about Rs 600 as freight and distribution margin. Since then, the increase in the cost of intermediates alone being Rs 2,476 (9126 - 6650) or about Rs 2500 per tonne, the farmgate cost as of January '97 works out to Rs 11,750 per tonne.

The reduction in railway freight in September '92 was offset by the subsequent hikes in '93-94 and '94-95 and steep increases in road transport charges. The railway budget for '97-98 proposes a freight hike of 12 percent on all decontrolled fertilisers. The hike covers inputs — phos acid, rock phosphate and sulphur — used in their manufacture, which would have an additional cascading effect on the cost of production/supply.

The conversion cost has risen significantly due to increases in the interest rates, power tariff, fuel cost, wages and salaries and other overhead costs. While, the effect of these factors varies from unit to unit, the average consequential rise in the reasonable cost to farmers would be about Rs 500 per tonne, taking the total to Rs 12,250 per tonne.

With the concession of Rs 3,000 per tonne (rate of Jan '97), the selling price to farmers has increased to Rs 9,250 per tonne from Rs 4,680 prior to decontrol.

Distortions in implementation of the scheme too are responsible for the setback. The scheme lapses automatically at the end of a fiscal year and has to be revived through a fresh notification. This has led to uncertainties and suspension of sales at the beginning of each year.

The revival itself is time consuming. In '93-94, the policy was announced in the first week of May and the notification of guidelines came in mid-June. In '96-97, farmers were kept guessing till early July.

During '92-93 (second half) and '93-94, implementation of the scheme, including payments, was with the states, resulting in delays and unrealistic pricing that made supplies unviable. Since '94-95, payments are made by GOI. However, since the states were still involved in certifying concessional sales, problems persisted. Inadequate budget allocation and unsatisfactory mechanisms for processing claims at the Centre compounded the problems.

For '97-98, the government has proposed to streamline the system. Under this, GOI would release 80 percent monthly payment dues to the industry on submission of claims, and the balance 20 percent after receipt of reports from the states. It will also fix prices in consultation with the industry.

These are right moves, but still fall shor of an effective package. A major missing ele ment is continuity in policy. There shoulc be a one-time announcement that th scheme will continue until it is withdrawn Depending on the cost structure and the tar get price to farmers, the concession rat may be decided for each season, by a profes sional group.

The role of states needs to be eliminated The concession on indigenous DAP bein Rs 3,750 per tonne, 20 percent of this, i.e Rs 750, is a significant sum. Delayed pay ment of this, inevitable under state control can lead to liquidity problems affecting pro duction and loss of interest.

There is a need for making adequate bud get allocation. During '96-97, though the al location was adequate, administrative di tortions held up payments leading to suppl constraints and resultant shortfall in co sumption. Result: even the allocated fund were not fully utilised, the shortfall being hefty Rs 550 crore.

For '97-98, the budget provision is abou Rs 1,000 crore less than the likely requir ments. So, even if the administrative m chinery works well, the funds constrain could affect consumption. The allocation fc the year should be suitably stepped up.

On the pricing front, better awareness needed of the factors responsible for i creases in cost of production/imports an distribution. A case in point is the cost ri in phos acid and ammonia by Rs 4,300 p tonne from decontrol and rupee deprec ation.

Macro-economic management and BO also need to be improved to strngthen th rupee vis-a-vis the dollar. As for the C& cost of intermediates, the industry shou set up joint ventures in countries richly e dowed with basic raw materials, like ro phosphate and natural gas, with buyback f cility. This will help supplies and redu prices. Concurrently, administered cost li interest rate, power tariff, railway freig and taxes and duties have to be broug down.