



GUEST COLUMN

By UTTAM GUPTA

Too little, too late

WHILE announcing the increase in the selling price of urea — from Rs 3,660 per tonne to Rs 4,000 per tonne from January 29, 1999 — the government stated that the objective was to reduce the subsidy and diminish imbalances in the use of nitrogen vis-a-vis phosphate and potash. On likely consumption of about 20 million tonne, increase in price — Rs 340 per tonne — should result in savings of about Rs 680 crore per annum. However, since the hike was brought into force very late in the fiscal year, savings should only be to the tune of Rs 113 crore. Moreover, since sales during February-March are much less since peak consumption of the rabi season is already over by January-end, savings in subsidy would be even lower. According to an estimate, this would be about Rs 100 crore. This is peanuts when compared to the Budget allocation of Rs 6,983 crore.

While proposing an increase of Rs 1,000 per tonne in price in June, 1998, provision for subsidy on indigenous urea was reduced from Rs 7,600 crore in interim Budget to Rs 6,000 crore. However, due to roll back of hike in full, even as savings disappeared, allocation was kept unchanged at Rs 6,000 crore. Clearly, this is short of requirements by Rs 1,600 crore.

Therefore, despite increase in price, urea subsidy bill during 1998-99 will be a high of about Rs 8,500 crore (Rs 7,500 crore on indigenous and Rs 983 crore on imported). Add to this about Rs 4,500 crore towards concession on decontrolled P and K fertilisers, and the total fertiliser subsidy outgo is a whopping Rs 13,000 crore.

In the Nineties, successive governments have pledged to contain the growth in fertiliser subsidy. In fact, during 1991-92, the then government promised IMF that this would be completely eliminated in three years. And yet, we are saddled with a subsidy bill which is almost three times the level in 1991-92. It continues to rise because no concerted efforts have been made to tackle the main causes.

Besides giving a direct subsidy, the government also controls the prices of feed-stock and fuel; of utilities like power and water and services like Railway freight. Over the years, these have progressively moved away from each other. In June 1974, the selling price of urea was Rs 2,000 per tonne. It took 25 years for the urea selling price to double. In contrast, the cost of hydrocarbons has increased by leaps and bounds. The ex-refinery price of naphtha went up 16 times from Rs 486.31 per tonne in 1974 to Rs 7,575 per tonne in 1998.

The price of P and K fertilisers, which moved in tandem with the price of urea until late 80s, increased sharply in the 90s following de-control in August 1992. For instance, the DAP price increased from Rs 4,680 per tonne in August 1991 to Rs 10,000 per tonne by 1995-96. At this level, it was three times the price of urea.

Needless to say, the persisting imbalance in price ratio has contributed to the increasing imbalance in fertiliser use. The ad hoc-ism in fixing urea selling price and the obsession to keep it low has led to a situation whereby it lags far behind reasonable cost of supply as well as selling prices of P and K fertilisers.

On several occasions, after proposing an increase, the government even back-tracked. Recently, at the meeting of the economic advisory council, the PM stressed the need for evolving a consensus on pruning subsidies including the subsidy on fertilisers. That may sound good. But what the country needs is action to increase urea selling price in a gradual and phased manner and contain rising prices of hydrocarbons and other inputs.

**It took 25 years
for the price of
urea to double,
when the cost of
hydrocarbons had
increased several
times.**