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Urea decontrol - chasing a mirage

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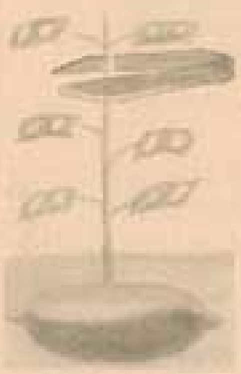

UREA decontrol has been talked about ever since the beginning of the '90s when the process of economic reforms started. In his budget speech for 2001-02, the finance minister (FM) has now vowed to implement ERC recommendation for phased decontrol of urea by the year 2006. But, the proposed action plan does not indicate any significant advance in this direction.

Currently, the government of India (GoI) controls the selling price of urea at a low and uniform level unrelated to reasonable cost of supply (local taxes particularly sales tax are add ons). At Rs 4600 per tonne, the former is way behind the latter. The ERC recommended an increase in the selling price by 7 per cent per annum beginning 2001 with a view to gradually reduce the gap leading to its complete elimination by 2006. But, FM has rejected this for obvious reasons.

In regard to ERC recommendation for dismantling distribution controls at the beginning of 2001-02, FM has not made any categorical announcement. In the latest Exim policy the government has removed QR on urea imports w.e.f. 1 April 2001 a per our commitments under WTO. However, it has also been stated that ``the import of urea (apart from other items, viz., wheat, rice, maize, petrol, diesel and ATF) will be permitted only through designated State Trading Enterprises which will conduct imports solely as per commercial consideration''. In view of this, one wonders whether imports will really be freed!

In regard to feedstock, currently, supply and distribution of domestic gas — about 60 per cent of urea production capacity is based on this — is controlled by Gas Linkage Committee (GLC). Deregulation of gas sector will be taken up only in the year 2002. Until then, ministry of petroleum and natural gas (MPNG) will continue to decide who will get how much gas.

Coming to feedstock other than gas, controls on these including price controls were dismantled in April 1998. But, manufacturers did not have the freedom to import until 31 March 2001. In the Exim policy, naphtha has been shifted from restricted category to OGL. However, in view of the non-availability of infrastructure for handling at ports and movement to plant site, it will take some time before manufacturers could undertake its import.

As a matter of policy, the government charges duty at concessional rate on import of fertilisers as well as import of plant and machinery, raw materials/intermediates used in their production. Likewise, no excise duty is charged on domestic supplies of naphtha and fuel oil/LSHS (latter for use as feed only) to fertiliser plants. But, to avail of these concessions, necessary approvals have to be taken which brings controls through the backdoor.

In regard to producers' price, FM has announced replacement of existing unit-wise RPS by a group-wise concession scheme based on ERC recommendations. This does not mean good bye to controls. The government will continue to fix prices; only difference being that instead of fixing price for every plant, it will now fix prices for respective groups viz., pre-1992 gas, post-1992 gas, naphtha, fuel oil/LSHS and plants on mixed feed.

In respect of phosphatic and potassic fertilisers also, despite the de jure decontrol in August 1992, de facto, these continue to be under control. While, on the one hand, GoI controls their selling price in lieu of concession/subsidy support, on the other, their sale and distribution is controlled by state governments even though, there is no allocation under ECA as in case of urea.

From the above, it is clear that the government has refrained from taking even the `initial' steps recommended by ERC as part of its plan for phased deregulation of urea. Thus, it could not even muster the courage to increase the selling price of urea by a modest 7 per cent! At this pace and given the past performance, it is anybody's guess as to when and if at all, the goal of complete decontrol will be reached.

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