

MONDAY APRIL 3, 1995

A catastrophe in the making

Fertiliser subsidy is being used to serve the interests of the political establishment, says Uttam Gupta

FERTILISER subsidy has once again been catapulted to the centre stage of the economic agenda. But, with a difference. Initially, when the fertiliser sector reforms were initiated in 1991-92, the focus was on reducing subsidy with the intention of eventually eliminating it.

Now, the emphasis is on increasing the quantum of subsidy. The Union Budget for 1995-96 revises the fertiliser subsidy estimate for 1994-95 to Rs 5,166 crore which is Rs 1,166 crore higher than the budget provision of Rs 4,000 crore. In addition, the government gave a subsidy of Rs 530 crore on decontrolled fertilisers. During 1995-96, it proposes to spend Rs 5,400 crore as subsidy on urea and an additional Rs 500 crore on concessional sale of decontrolled fertilisers.

Thus, we are talking of a total fertiliser subsidy of Rs 5,900 crore during 1995-96 as against an expenditure of only Rs 4,400 crore in 1990-91 i.e. the year immediately prior to initiation of the reform process. Curiously, at the beginning of 90s, when the subsidy amount was Rs 1,500 crore less than what it is now, subsidy was frowned upon; presently, when it has already shot up, there is not even feeble criticism. Perhaps, in the changed political environment, it has acquired a degree of legitimacy. So much so, even Dr Manmohan Singh who, in his previous budgets, articulated a case against fertiliser subsidy, quietly agreed, in his fifth budget to provide higher allocation.

It is clear that fertiliser subsidy has been turned into a tool of convenience and used in a manner that would best serve the interest of the political establishment. In the process, no attention is being paid on what the fertiliser sector needs and what is in its best interest. Simply stated, the objective should be to formulate policies in a manner that would enable the fertiliser industry to grow so that it can meet the increasing plant nutrient needs of the crops at minimum cost.

A cursory glance through the fertiliser sector balance sheet will show as to how badly we have done during the reform years. During 1991-92, consumption of nitrogen, phosphate and potash was 8 million tonnes (mt), 3.3 mt and 1.4 mt respectively. In 1993-94, whereas 'N' use increased to 8.8 mt, P and K

declined to 2.7 mt and 0.9 mt respectively. The N, P, K use ratio which was 5.9:2.4:1 in 1991-92 (close to the ideal 4:2:1) deteriorated to 9.6:2.9:1. During 1994-95, there has been only a marginal increase in consumption of P and K even as the N, P, K use ratio is still highly imbalanced. We have practically retreated to the position that obtained more than a decade ago.

All this is eroding stock of nutrients in the soil, undermining its fertility and has, so far, acted as a brake on increasing foodgrains production. The government has a record foodgrains

increase in dependence on imports. Urea imports went up from just about 400,000 tonnes in 1991-92 to 2.8 mt in 1993-94 and were still higher at about 3.0 mt in 1994-95. These imports have been at progressively higher prices.

Presently, the government incurs a subsidy of about Rs 6,000 per tonne to facilitate sale of imported urea at the controlled price of Rs 3,320 per tonne. This is almost three times the subsidy of about Rs 2,200 per tonne that the government provides on domestic material.

Only a few years back, when imports

Rs 1,650 crores.

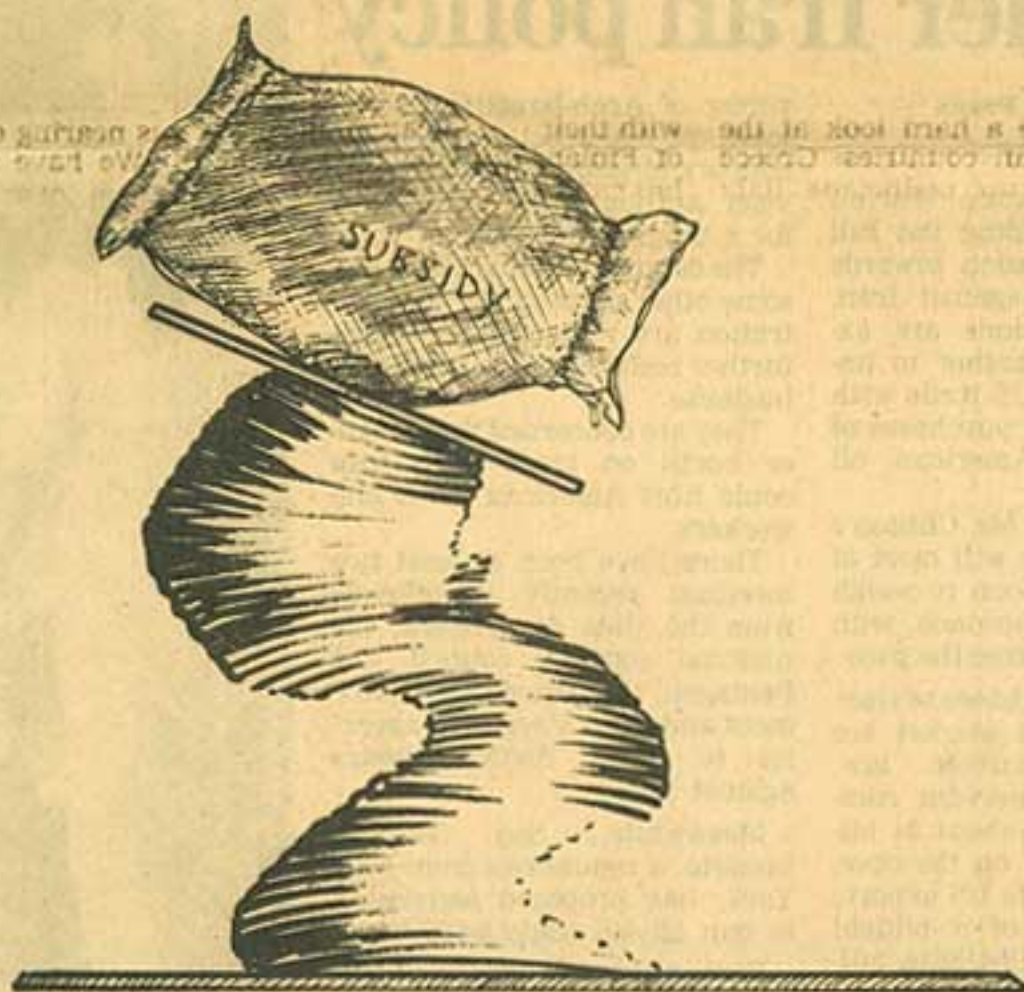
There is an urgent need to divert attention from the subsidy euphoria to the fundamentals of the fertiliser economy to set things right. This would call for urgent steps on several fronts in a coordinated manner. First, and foremost, the urea selling price should be raised by 20 per cent every year beginning 1995-96 for a minimum of three years. Consequent to this, urea price at the end of 1997-98, will be about Rs 5,700 per tonne.

The measure would yield a saving of about Rs 1,000 crore in subsidy per annum, bring up urea price to more realistic levels and help in minimising and ultimately, eliminating the present bias against use of P and K. Most importantly, it will help in bridging the present high gap (about 65 per cent) between the reasonable farmgate cost of urea and its controlled selling price and save us from an imminent catastrophe as and when urea is ultimately decontrolled. Politically, this may not be expedient but the government must do what is best for the economy.

Second, there is need to maintain the selling price of phosphate at a reasonable level. During 1994-95, at a price of about Rs 7,500 per tonne in Kharif and about Rs 8,500 per tonne during Rabi, consumption of DAP failed to recover. These were prices with a subsidy of Rs 1,000 per tonne giving a realisation of about Rs 8,500 per tonne and Rs 9,500 per tonne respectively to the producers. In the meanwhile, following further increase in cost of imported raw material/intermediates, the reasonable cost has already gone up to about Rs 10,000 per tonne. During 1995-96, we should aim at a price of no more than Rs 8,000 per tonne.

This would require a concession of about Rs 2,000 per tonne on DAP and on a prorata basis for other phosphatic materials. All this can be supported by saving in subsidy due to increase in urea price and, yet, leave some money to reduce the budget deficit.

Third, there is need to maintain prices of hydrocarbon feedstocks to the fertiliser industry within reasonable limits. Finally, there is need to rationalise and reduce various taxes and duties primarily the levies at the state level which raise the production cost and consequently, subsidy on urea and selling price of decontrolled fertilisers.



stock of about 30 million tonnes not because we did well, but, primarily because the poor who buy from the ration shops, found the prices to be too high. Sooner than later, the deteriorating balance in nutrient applications will show up in terms of decline in foodgrains production and lead to catastrophic consequences.

During 1991-92, domestic production of N and P was 7.3 mt and 2.6 mt respectively. In 1993-94, while 'N' production declined to about 7.2 mt, the reduction in P was precipitous to a low of about 1.8 mt. During 1994-95, there has been some recovery in P, but the likely production of about 2.4 mt will still fall short of the 1991-92 level.

An immediate consequence has been

were fortuitously cheap because of the excess supply in the world market, India's supply managers pursued a strategy that depended more on imports.

Indigenous industry which promised supplies at a reasonable cost and on a sustained basis was neglected. Now, global supplies are tight with China entering the world market in a major way and India itself increasing its import demand.

Consequently, prices are much higher and we have no option but to pay and in the process, incur heavy subsidy on imports; subsidy that increased from a modest budgeted figure of Rs 500 crore to Rs 1,166 crore (the revised estimate for 1994-95). The provision for 1995-96 is even higher at