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Ban on MoP import

Much-needed potash from Russia

Buying of muriate of potash (MoP) from Russia, rather than from other countries, has such advantages as lower f.o.b prices and lower freight rates. Also, Russia's presence will help maintain competitive prices along with the increased consumption of potassium. Uttam Gupta says the proposed ban on the import of MoP from Russia will only be detrimental.

THE contemplated move to stop import of muriate of potash (MoP) from Russia has led to much consternation. The industry's reaction was obvious as the move could cause a substantial increase in MoP price and consequent effect on consumption. A briefly review of the policy on MoP, as it evolved over the years, is in order.

MoP supplies the important plant nutrient, 'K'. It contains 60 per cent K20 which means one tonne of material carries 600 kg of K20. India does not have the raw material for its manufacture, and hence the entire potash requirement is imported, mainly as MoP.

Until May 1993, while MoP import was canalised through MMTC, its handling and distribution was done by Indian Potash Ltd. (IPL). Apart from supplying the potash needs of the domestic manufacturers of complex phosphatic fertilisers, IPL also distributed the material through a network of wholesalers/retailers (including cooperatives) for meeting the direct application needs. Of the total potash consumption, the application through complex fertilisers is about 30 per cent, while direct use is 70 per cent.

Like all other fertiliser materials, MoP was also covered by pricing and distribution controls prior to August 25, 1992. This meant that it could be sold only at the price notified by the Centre from time to time, subject to local taxes. Considering that the selling price to the farmer was maintained at a level lower than the cost of supplying it (C&F landed cost plus handling and distribution cost), the excess of the latter over the former represented the subsidy and was supported from the Union Budget. But these arrangements did not involve disbursement of subsidy to IPL. On every tonne of the material handled and sold, IPL would pay the Centre an amount equal to the controlled selling price minus the handling and distribution cost. The C&F landed cost of imports being much higher, the Centre incurred a loss to the extent of the excess of this over the amount paid by IPL. This loss was the subsidy incurred by the Government.

From August 25, 1992, based on the Joint Parliamentary Committee's recommendations, all P and K fertilisers, including MoP, were decontrolled. This meant that while IPL was free to charge the users/farmers the price as determined by the market forces, the Government would no longer subsidise MoP. As a consequence, its selling price threatened to zoom from the controlled level of Rs. 1,700 per tonne to Rs. 5,700-6,000 as the Government insisted on the payment of the C&F landed cost in full besides the handling and distribution cost also having to be realised.

Despite the removal of pricing and distribution controls, import of MoP continued to be

may have helped the domestic manufacturers/handling agents to directly import their requirements more cost-effectively, the bigger problem was the adjustment to the new situation created by sudden decontrol. More so when farmers were used to paying an unrealistically low price for too long despite the cost increasing continuously due to the pressures of inflation and depreciation of the rupee.

Recognising that such a sudden and steep increase in the price could have an adverse effect on consumption, the Government in September 1992, re-introduced the subsidy, as an ad hoc concession for all decontrolled P and K fertilisers (excluding single super phosphate (SSP) although this too was subsequently covered in June 1993). For MoP, the ad hoc concession was fixed at Rs. 1,000 per tonne.

Though this led to the lowering of the selling price to Rs. 4,700-5,000 per tonne, the price was still 175-200 per cent higher than the pre-decontrol level. Consumption of K suffered a serious setback, declining from a high of 1.36 million tonnes in 1991-92 to a low of 8,84,000 tonnes in 1992-93 and 9,08,000 tonnes in 1993-94, recovering to about 1.06 million tonnes in 1994-95.

In the first half of this year the MoP sale (direct use) rose 36 per cent over the corresponding period in 1994. This was primarily because of the relatively stable C&F landed cost of MoP on the one hand and the steady rupee (till September), which helped maintain a reasonable selling price. However, with the steep depreciation of the rupee since then, and the resultant increase in cost and selling price, it is unlikely that the recovery will be maintained in the second half.

Considering that the Government is in no mood to raise the amount of *ad hoc* concession because of overall fiscal compulsions (in fact, the Planning Commission has even recommended substantial slashing of subsidy on fertilisers which might lead to reduced or even elimination of the concession), the international price of MoP, and freight, the resultant C&F cost will be the most critical factor in determining the price at which MoP can be sold to the farmers. In other words, these factors will decide the extent to which the consumption of K can be revived.

MoP from Russia, which has a major presence in the international market, is of special significance to India. Apart from the lower f. o. b price *vis-a-vis* other major suppliers from Canada, Germany, Israel and Jordan, supplies from Russia have the added advantage of lower freight to India. On C&F landed cost basis, the difference could be as high as $ 35 per tonne.

In view of the above, and considering the fact that the concession of Rs. 1,000 per tonne is uniformly available on the entire quantities of imported MoP meant for use in agriculture irrespective of from where it is sourced, the selling price of the Russian MoP is bound to be lower by an equivalent amount ($35 per tonne).

Moreover, given the fact that Russia supplies a substantial chunk of the requirements (during 1994-95, this was 35 per cent of total imports of 2.1 million tonnes), its presence in the market can even force other suppliers to bring down their price expectations (as the world market prices are governed solely by the demand-supply conditions and bear no relation whatsoever to the cost of production in the exporting countries). Consequently, the benefit of lower Russian price may even be available on the entire imports and not just restricted to the former.

This is not just theoretical and has, in fact, been achieved by Indian importers. In August 1993, for example, producers from Canada, Israel, Germany and Jordan quoted prices upwards of $ 141.50 per tonne for tenders floated by IFFCO. But the Russian quotation of $ 106 broke the cartel and the prices came crashing down. This was repeated this year as well in the context of the tenders floated by PPCL and MFL.

The cheaper Russian imports are now sought to be blocked out by the contemplated move to deny the *ad hoc* concession of Rs. 1,000 per tonne on the sale of MoP sourced from Russia. This will automatically eliminate the Russian price advantage and resurrect the Canada-Germany-Israel-Jordan cartel. The latter would, then, raise prices on their exports, not only to levels originally demanded, but even beyond as India will be forced to increase its dependence on them with Russia blocked out. This will negate the very objective of increasing the consumption of 'K' and stemming the deteriorating N, P, K use ratio. In a contradiction of sorts, while on the one hand the Government provides *ad hoc* subsidy support to reduce the selling price to the farmers, on the other it is working on measures that would inevitably push up the C&F landed cost and, in turn, the prices, thus frustrating the very objective of the policy. It will be a typical case of the Indian taxpayers money being used not to subsidise Indian farmers, but to add to the hefty profit margins of the global suppliers.

Reportedly, imports sourced from Russia are sought to be barred on the grounds that the material does not conform to the specifications laid down in the Fertiliser Control Order (FCO), especially in regard to the particle size. Although laboratory tests on the Russian MoP samples carried out at the Central Fertiliser Quality Control Institute (Faridabad) have revealed marginal variation *vis-a-vis* the FCO standards, the issue seems to be stretched to ridiculous limits.

Anyway, smaller particle size does in no way compromise the efficiency of use or the agronomics of cultivation. Even as there is no scientific evidence to link particle size with efficiency of use, farmers in some States prefer coloured MoP supplied by Russia to the white variety from other countries.

There is nothing new about importing MoP from Russia. In fact, it was authorised by the Government itself when MoP was under pricing and distribution controls and was canalised. That was also the period when the Government was subsidising the material to a much greater extent than the present subsidy current Rs. 1,000 per tonne. When, during that period, the Government did not find any flaw in imports from Russia, why should it object now?

Even if the FCO specifications are a block, there is no reason why a necessary amendment cannot be made. All the more so, when agronomically, there is no adverse effect (even the Minister has reportedly stated this in Parliament) and the economy stands to gain enormously in terms of reduced costs. Also, there is no need to go to Parliament for the change. An empowered committee in the Ministry of Agriculture — the Central Fertiliser Committee (CFC) — can make the necessary changes.

It is hoped the Government will refrain from proceeding with the contemplated move in the overall interest of maintaining the price of this vital fertiliser at reasonable level, increasing the use of 'K', improving the N, P, K use ratio and increasing crop productivity. This will also help in avoiding excessive pressure on the exchequer by way of additional *ad hoc* subsidy support.

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