

MONDAY JANUARY 9, 1995

## Control after decontrol

The government should consider levying a modest duty on imported DAP, says Uttam Gupta

**I**N August 1992, all phosphatic and potassic fertilisers were decontrolled and the Retention Pricing and Subsidy scheme (RPS) abolished.

Prior to that, in March/April 1992, import of fertiliser raw materials had already been liberalised. Import of DAP was decanalised and imports permitted at zero custom duty in September 1992. Liberalisation of the exchange rate regime ensured easy access to foreign exchange for financing imports.

With pricing and distribution controls gone and import regulations lifted, free market in phosphatic and potassic fertilisers appeared to have been fully established. That was indeed the objective of the government which justified the policy of decontrol and decanalisation on the basis that, at least, for fertilisers with an overwhelming import content, the selling prices should reflect the cost of production distribution without any subsidy support.

But very soon, the subsidy was re-introduced as "ad hoc concession," in September 1992, primarily with a view to reach out to beleaguered farmers. Whether or not the farmers got the relief and to what extent this enabled them to maintain their level of purchase of decontrolled fertilisers is debatable. But the crucial point is that a sector which ought to have been liberated from bureaucratic control became the victim of intensified controls. Needless to mention that the intensification was caused by re-introduction of ad hoc subsidy.

During the second half of 1992-93 and the whole of 1993-94, the ad hoc subsidy was administered through state governments. They got the funds from the Centre, formulated their own mechanisms for scrutiny of subsidised sales, certification procedures and release of funds to the manufacturers/handling agents. There was blatant interference in fixation of selling prices, choice of distribution channels and generally in formulation and implementation of distribution policies.

This, in turn, had the effect of seeking to undo what decontrol had promised. It was a situation of control under decontrol, providing sweeping powers to the local bureaucrats. In the process, substantial payments to the manufacturers under the scheme were delayed and are being delayed even now.

During the current year — 1994-95 — the Centre recognised that the state governments were not doing a proper job, particularly in regard to release of subsidy dues to the manufacturers/handling agents.

In the scheme announced for the year on June 10, 1994, the Centre assumed the responsibility of releasing the funds; a welcome change indeed, even as the latter tended to believe that the bureaucracy at the Centre would do a much better job, ensure expeditious release of funds and save the industry from aggravation of the liquidity problems.



But, even under the new dispensation, the Centre assigned a role to the states. The guidelines issued in August 1994 insisted on necessary reports from the state governments as a precondition for release of subsidy and even required scrutiny of each and every sale transaction at the level of the farmers. The modified guidelines, issued a month later in September also did not dispense with the requirement of report from the state.

As per the September 1994 guidelines, for the cumulative sales made during June 10 to August 31, 1994, the manufacturer/importer is required to submit the concession claims latest by September 20 to the state government and the latter, in turn, is expected to send the necessary report

by October 10. For monthly sales after August 31, the reports are required to be submitted by state governments to the Centre within one month. The key element here is the time limit which is about 3 weeks for the cumulative sales up to August 31 and one month for each of the subsequent monthly sales. However, in the event of delay, no effective consequential action has been prescribed.

The results are obvious. A number of state governments have not sent the reports even as the deadlines expired. Even in cases where the

be handled by someone which, in this case, is the Centre and that should not pose any problem.

In March 1976, the government had introduced a similar scheme of flat subsidy at the rate of Rs 1,250 per tonne phosphate nutrient, which was implemented by the Centre without involving the state governments. Subsidy was then released on the basis of the monthly despatches duly certified by the statutory auditors. The experience was very satisfactory with no undue intervention and timely payments.

The government came back with subsidy so soon after decontrolling fertilisers primarily with a view to offset the inherent cost disadvantage of the domestic industry vis-a-vis imports. That being the case, there are other ways of dealing with it.

Presently, import of DAP attracts zero customs duty. The logic for this is far from clear. Imports of all other products attract customs duty at prescribed rates to give reasonable protection to the domestic industries. There is no reason why the government does not levy a modest duty of 15-20 per cent on imported DAP with the proviso that in the event of dumping, the duty level will be suitably raised.

The levy of customs duty will also give additional revenue to the government which can be utilised for funding a part of subsidy on urea which is still controlled and subsidised. Alternatively, the money can be used for financing development work like irrigation, tubewells and other infrastructure for helping small and marginal farmers. In 1992-93, the Prime Minister authorised an expenditure of Rs 500 crore for such schemes and the money came from the overall resource pool. A tax on imported DAP can provide the necessary financial back-up for funding such activities.

Having taken the major step forward of liberating phosphatic and potassic fertiliser from control, let the government not retreat and allow the industry, marketeers and farmers to act freely and independently.

During the first half of 1994-95, production and consumption have started recovering and this is despite higher prices compared to year the before.

The government should now permit consolidation of this process by distancing itself from the scene.

states have sent reports, payment to the manufacturers is still held up due to procedural wranglings in the ministry of agriculture about the modalities of payments. The amounts blocked in ad hoc concession with the government until November 1994 would be of the order of about Rs 400 crore. There appears to be a competition of sorts between the state bureaucracy and central bureaucracy to block the release of funds.

An ideal situation would appear to be one of allowing the free market dispensation to function unhindered. Re-introduction of ad hoc subsidy was incompatible with this and even contrary to the JPC recommendation. But, having introduced it, the task of administering the concession has to