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Decanalisation of urea

Hasty steps should be avoided

Urea, unlike other fertilisers, remains under Government control. Canalisation of imports through domestic manufacturers would help ensure lower prices to farmers through pooling domestic and imported supplies. With a limited number of players in the field, it will be easy to assess overall availability and monitor distribution. This arrangement should help, even as the Government plans to decanalise the commodity in the next three or four years, says Uttam Gupta.

EVEN as the decision of the Government to direct select public sector undertakings to import urea in addition to the MMTC — the sole canalising agency — pointed towards the imminent possibility of its decanalisation, the Minister for Agriculture took no time in setting at rest any speculation on this score. It is not known what reasons Dr. Balram Jakhar had in mind while categorically discounting such a possibility. The fact remains that free import of urea by anyone at this juncture is at best a theoretical option.

Unlike the other fertilisers in the phosphatic and potassic segments which have already been freed from the pricing and distribution controls, urea continues to be under control. This means that the Government tells the manufacturers where to sell, how much to sell and at what price to sell.

The selling price is fixed keeping in view the Government's perception of what the farmer can pay and is completely unrelated to the cost of production (C&F landed cost in the case of imported material) and distribution. In a world of all-round inflation, rising investment and energy costs, the latter is unavoidably more than the former and is presently being subsidised by the Government.

On domestic production, the subsidy is administered through the Retention Pricing Scheme (RPS) under which the Government fixes a fair ex-factory price (the retention price) based on prescribed efficiency norms and reimburses the excess of this over producers' net realisation from selling at the controlled price.

Subsidy outgo is involved on imported urea as well and equals the excess of the C&F landed cost, handling and internal distribution cost over the controlled selling price. Under the existing arrangements, imports are undertaken by the MMTC (canalising agency) under authorisation from the Government which determines the quantum to be imported on the basis of the projected gap between domestic availability and demand.

In this overall setting of widespread and comprehensive controls on every aspect of (urea) fertiliser activity, where does decanalisation fit in? Implementation of the move will mean import by anyone. The key question is whether the private traders or anyone other than the Government or its authorised agencies (including the public sector undertakings) will be willing to import?

A major obstacle is obviously the requirement to sell at the controlled low selling price which does not fully cover even the C&F landed cost of imports, not to talk of the handling and internal distribution cost. Surrendering themselves to the directions of the Government even with regard to where to sell and how much is another major hitch that is more likely to keep them at bay. Assuming that, in principle, the Government decides to provide subsidy on sales of urea imported by private parties, problems with regard to its administration will still have to be surmounted.

A contentious issue is the benchmark of C&F landed cost that should be the basis for reimbursement of subsidy. Under the present arrangement of the entire import being done by the Government itself, this problem does not arise as the actual constitutes the basis for subsidy determination. It is, however, unlikely that this principle could be applied in respect of imports by private parties. Doing the same will result in serious subsidy ramifications, costing the exchequer heavily and, in the process, even benefiting traders at Government's expense.

Even assuming that costing and subsidy arrangements can be satisfactorily resolved, implementation of the scheme will be full of problems. There is no use jumping on to the bandwagon of decanalisation of urea simply because it has the import liberalisation appeal. Import liberalisation has a meaning only when the domestic sector is liberalised, which will be possible only when urea is decontrolled.

Decontrol of urea and abolition of the subsidy scheme appears to be a distant possibility for reasons well known. Having learnt a lesson from sudden decontrol of phosphatic and potassic fertilisers, the Government will not attempt this for urea, the implications of which will be disastrous. The underlying political circumstances too do not warrant an immediate plunge into decontrol even as the Prime Minister himself has talked of increasing subsidy on fertilisers.

The decontrol may, however, be thought of only after a period of 3-4 years during which efforts need to be made to bridge the present yawning gap (almost 60-70 per cent) between the controlled selling price on the one hand, and the cost of production and distribution, on the other. This may be done by raising gradually the former and preventing a rise in the latter. Things may not work out in this direction for two major reasons. First, the oil and gas companies which supply the feedstock to the fertiliser industry are already gearing up for decontrol and deregulation of supply and pricing, given their virtual monopoly, will mean a steep increase in the price of feedstock leading in turn to the higher cost of fertiliser production. At the same time, farmers would not like selling prices to be raised and politicians are sure to oblige them in the next two years.

Knowing fully well that the decontrol cannot be indefinitely postponed, there is need to tread with caution now and make sure that we can face it boldly without cutting a sorry figure before the millions of poor farmers and consumers. An unplanned and hasty plunge into taking this decision should be avoided. We have lessons to learn from DAP, the import of which was decanalised and import allowed by anyone at zero Customs duty immediately after removal of pricing and distribution control on phosphatic fertilisers in August/September 1992. The decision swung the international cartel of DAP suppliers into dumping the material into our market at prices as low as $ 160 per tonne (even below cash cost) and crippled domestic production at a time when demand contracted because of the overall steep increase in the selling prices following decontrol.

During 1993-94, even as the import of DAP was at a high of 1.6 million tonnes, domestic production was down by about 600,000 tonnes. During the current year i. e. 1994-95 even as demand has started picking up, so far only about 700,000 tonnes of material has been imported. A major reason is obviously the steep increase in C&F landed cost of imported DAP to $ 220 per tonne, at which level traders are not finding it economical to import.

Whether DAP or urea, farmers need these fertilisers on a sustained and uninterrupted basis and at stable prices. A free-for-all situation can be dangerous from this angle. The international price of fertilisers fluctuates widely (within one year we have seen these increasing by $ 60 per tonne for DAP and $ 100 per tonne for urea). Traders will bring the material when it suits them, i. e. when global supply is comfortable and prices are low and will not be interested when the international market turns tight. Can a country of India's size and fertiliser requirements (about 17 million tonnes of urea and four million tonnes of DAP per annum) live with frequent shutting on and off of the supplies?

In a liberalised regime, the continued monopoly of the MMTC in the importation of urea may not be desirable. The other extreme of putting urea on the OGL and allowing its import by anyone at zero Customs duty too is unacceptable as this would throw supply and price management out of gear. Canalisation of imports only through domestic manufacturers of urea may be tried out. There are 19 companies manufacturing and distributing urea with as much as about 60 per cent of total production by Government-controlled companies in the public and co-operative sectors. This would allow sufficient competition and prevent a situation of possible exploitation by importers.

The advantages of this arrangement will be numerous. First, while taking care of a possible threat from imports, this should facilitate lower prices to farmers through a pooling of domestic and imported urea supplies. Second, blending of material from the two sources in an appropriate ratio would also help in preventing market distortions caused by significant price differentials depending on the source of supply. This has been the experience in the case of DAP during 1992-93 and the first half of 1993-94.

Third, this would help maintain stability in the selling price. When imported material comes at dumping prices, blending with high-cost domestic production will ensure reasonable prices to farmers while protecting the legitimate interests of producers. In a reverse situation, when the cost of imported material becomes prohibitive, then, by increasing the sale of domestic production, a steep increase in the selling price can be prevented.

Fourth, canalisation of imports through the industry also helps in better supply management. Irrespective of whether the global supplies are tight or comfortable, urea supply to farmers will not be disrupted as domestic manufacturers will alter the mix of production and imports depending on the situation. Finally, with a limited number of manufacturers-cum-importers in the fray, it will be easy to assess the overall availability in relation to demand and effectively co-ordinate and monitor actual supplies and distribution.

The issue of decanalisation of imported urea should not be viewed in isolation; instead, it should be conceived and implemented as part of a comprehensive and integrated policy package covering all aspects, including pricing and distribution. The Government also needs to be careful in choosing the timing of the contemplated decanalisation programme.

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