

Fertiliser distribution — I

Was decontrol a right decision?

EVEN as the Government bemoans the declining consumption of phosphatic and potassic fertilisers, the deterioration in the nitrogen-phosphorous-potassium (N: P: K) use ratio and its inevitable deleterious effect on crop productivity, soil fertility and the sustainability of Indian agriculture in the medium to long term, it is yet to initiate any action to remedy the situation.

To understand why things went wrong, it is important to go back to the decision taken in August 1992, to lift pricing and distribution controls on all phosphatic and potassic fertilisers. By doing so, the Government virtually divested itself of the responsibility of managing the use of P and K fertilisers. Was it warranted? Did the Government evaluate the pros and cons? Reading through the JPC Report which provided the basis for the decision, one fails to get a convincing answer.

Primarily, three reasons were cited by the JPC to support its recommendation in favour of decontrol. First, the P and K fertilisers are used by the rich farmers and mainly on cash crops. Second, their production involves import of raw materials/intermediates. Third, continuation of controls was leading to increasing subsidy payments. All these were seriously flawed.

The JPC perception was devoid of the fundamental consideration that for getting the maximum yield of any crop, use of all the three main nutrients i. e. N, P and K in the desired mix (standard recommendation is 4: 2: 1) is a pre-requisite. There are no exceptions to this and the point is much more relevant to the food crops i. e. wheat and paddy. Small and marginal farmers who predominantly grow food crops, too use these fertilisers in large quantities. Moreover, the Government should have recognised that even prior to decontrol, i. e. in 1991-92, the N: P: K use ratio was already imbalanced at 5.9: 2.4: 1.0 and there was an urgent need to further increase the Use of P and K with a view to reach the optimum level of 4: 2: 1. On the import point, lack of the basic raw materials (which unavoidably leads to dependence on imports) does not alter the fundamentals, i. e. the consumption of P & K needs to be encouraged, and to facilitate the same, effective supply management is absolutely necessary. Far from developing an attitude of neglect, and depending on imports, with the associated uncertainties of producing the material from the international market, the arrangements for supply and movement must be better coordinated.

As regards subsidy, we should not ignore a basic point. Fertilisers are an essential input in the production of food which is consumed by everybody including the predominantly poor.

When the prices of phosphatic and potassic fertilisers shot up after decontrol, the Government raised the procurement prices of foodgrains and, since increases in issue prices did not keep pace, subsidies on food increased. Despite these contradictions, the Government went ahead with decontrol, after which the selling price has increased steadily from about Rs. 6,500 per tonne during 1993-94 to about Rs. 9,400-9,600 per tonne in kharif 1995. This is because while the cost of production and distribution has increased, the ad hoc concession amount has remained constant, says Uttam Gupta.

And, since the poor cannot afford costly food, at some point, payment of subsidy is inevitable. In view of this, if the Government decides not to subsidise P and K fertilisers, it has to increase subsidy on food. In fact, this is precisely what happened after decontrol. When the prices of P and K fertilisers shot up, the Government raised procurement prices of foodgrains and since increases in issue prices did not keep pace, subsidies on food increased.

Notwithstanding these inherent flaws and contradictions in the approach, the Government went ahead with decontrol. Prior to that, it was fixing through statutory notification, the prices (excluding local taxes) at which these fertilisers were required to be sold to the farmers and directing the manufacturers (handling agents in respect of imported material) where to sell and how much, under what is commonly known as the Essential Commodities Act (ECA) supply plan. At the same time, it was allowing to the domestic manufacturers of phosphatic fertilisers, the full reasonable cost of production and distribution by reimbursing the excess of this over the controlled selling price, as subsidy under the Retention Pricing Scheme (RPS). Subsidy outgo was involved on imported P and K fertilisers as well.

With decontrol, these neatly-orchestrated and well-coordinated systems were automatically dismantled. After August 1992, the Government was no longer fixing the selling prices; no longer telling the manufacturers where to sell and how much and no longer providing any subsidy support. All this should not however, be confused with the widespread involvement of the state authorities in pricing and distribution following introduction of the ad hoc concession scheme (almost immediately after decontrol). In fact the scheme and the associated controls were vastly different from the erstwhile RP and subsidy scheme and con-

trols under the ECA in terms of scope, content and impact.

First, even though the concession amount under the scheme was aimed at facilitating a reduction in selling price to the farmers, this was far from being a substitute/replacement for subsidy under RPS. While the latter provided for full reimbursement of the excess of reasonable cost of production and distribution over the selling prices, the former enabled only partial offsetting, i.e. only to the extent of the concession amount fixed by the Government e.g. Rs. 1,000 per tonne for DAP. Thus, from the farmer's angle, whereas under the RPS the price could be maintained at a "low" and "stable" level, under the ad hoc concession scheme, it was higher and unstable.

To drive home the point, consider the period immediately prior to decontrol in August 1992 on the one hand, and Rabi 1994-95 on the other. Whereas the former was covered by the RPS, the latter comes under the ad hoc dispensation. A common denominator in both these is that, given the underlying cost structure for raw materials/intermediates, the reasonable cost of production and distribution of DAP on a weighted average basis for the industry is more or less the same at about Rs. 9,400 per tonne. Despite this, the price to the farmer before decontrol was Rs. 4,680 per tonne (even as the difference of Rs. 4,720 was met by way of subsidy from the Government under RPS), in contrast, during Rabi 1994-95, the selling price was much higher, at about Rs. 8,400 per tonne, as the subsidy amount is now restricted to a fixed amount of only Rs. 1,000 per tonne.

The stability point is no less important. Prior to decontrol, the selling price would remain unchanged as long as the Government wanted it that way. During July 1981-August 1991, this was maintained at Rs. 3,600 per tonne

and thereafter, at Rs. 4,680 per tonne until decontrol in August 1992. This was mainly because the increases in the reasonable cost of production and distribution consequent to the factor of inflation, were paid for through corresponding adjustments in the subsidy amount. In sharp contrast, after decontrol, the selling price has increased continuously from about Rs. 6,500 per tonne during 1993-94 to about Rs. 7,500 per tonne in kharif 1994, and further to about Rs. 8,400-8,600 per tonne during rabi 1994-95. During the current season i. e. kharif 1995, this has increased further to about Rs. 9,400-9,600 per tonne. This is because while, on the one hand, the cost of production and distribution has increased due to increase in cost of imported raw materials and intermediates and substantial depreciation of the rupee, on the other, the ad hoc concession amount has remained constant at Rs. 1,000 per tonne of DAP.

The administration and disbursement of subsidy under the erstwhile RPS was a centralised operation with the Fertiliser Industry Coordination Committee (FICC) under the Department of Fertilisers (DOF) fixing fair ex-factory retention prices based on prescribed norms, and making payments "directly" to manufacturers based on submission of monthly claims duly certified by statutory auditors.

In the present arrangement, the claims have to pass through a multiple layer of bureaucracy at the state and central levels. During the first two years of operation of the ad hoc concession scheme, even the responsibility for making payments to the manufacturer was with the state governments. Since 1994-95, the Government has transferred this function to itself, although the involvement of the state governments by way of certification of sales continues to be mandatory. As a consequence, the manufacturers are not certain as to when and, to what extent, these claims will be paid and whether these would be paid at all.

During 1994-95, of the concession amount of Rs. 514 crores as per the revised Budget estimate, the bulk of the payments was made only towards the end of the year, resulting in serious liquidity problems and loss of profitability as the interest element remains uncompensated. The payment problems continue unabated during the current year, 1995-96, even as there is no change in the guidelines relating to authorisation/certification of concessional sales and arrangements for making payments to the manufacturers.

(To be concluded)

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