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Fertiliser distribution — II

Towards phasing out subsidies?

In view of the fact that production of phosphatic fertilisers inevitably involves import of raw materials/intermediates and that we can hardly control their international prices, the odds are heavily against putting an end to the subsidy regime in the near future. In any case, we have to live with the fact that, unlike in the case of other commodities, fertiliser use cannot be entirely left at the mercy of market forces, says Uttam Gupta.

UNDER the erstwhile system of controls based on the rational allocation plan, formulated in consultation with the state governments, industry and handling agencies, the Government was able to tell fertiliser manufacturers where and how much to sell. Actual supplies and movement were meticulously followed up and monitored at monthly review meetings and appropriate adjustments made to ensure that all regions/areas were served well, avoiding pockets of surpluses and deficits. In short, the Government's involvement/intervention was need-based and effective.

In the present decontrolled regime too, the state governments are heavily involved in pricing and distribution; but this is more in the nature of 'interfering' with the market mechanism which comes in the way of reaching adequate supplies of decontrolled fertilisers to farmers. For instance, despite the fact that institutional agencies can handle only 25-40 per cent of the total sales volume, some state governments like Madhya Pradesh and Bihar have been insisting that the manufacturers sell only through them to qualify for the concession amount.

At times, State authorities fix unrealistically low selling prices which do not fully cover the reasonable cost of production and distribution and, consequently, make the supplies of the material to such states unviable. Result: During rabi 1994-95, supplies to farmers in Karnataka suffered heavily.

Quite clearly, not only does the Centre no longer consider it necessary to manage the distribution of P and K fertilisers, but it has also allowed obstructionist interventions by states in the name of the ad hoc concession scheme. Unhindered operation of free-market forces, which by itself is not without serious problems, would perhaps have been a lesser evil than the existing dispensation.

A basic requirement for increasing consumption of fertilisers is that their selling prices to farmers are maintained at reasonable and stable levels. At present, not only are the prices high, they are rising continuously. After the initial shock in the second half of 1992-93, if only the prices had stabilised, the farmers might have reacted favourably. But here, we have a situation of a series of shocks in succession with the result that the demand continues to remain depressed.

The fact remains that despite higher procurement prices, the return on investment in decontrolled fertilisers has declined sharply in the post-decontrol period. The value cost ratio (VCR), which measures the value of incremental crop yield divided by the value of 1 kg nutrient, on P205 (through DAP) has declined in the case of paddy and wheat. Then, there are a large number of small and marginal farmers who produce for self consumption and have nothing to gain by way of increase in procurement prices. The system simply leaves them high and dry.

A second requirement is that there should be advance planning on estimation of demand in the country and arranging of supplies, including imports, to meet the demand. This is no longer being done. In the Zonal Conferences, held prior to each season, such an exercise is done only for urea. The Centre has taken the position that since phosphatic and potassic fertilisers have been decontrolled, such an exercise is no longer necessary. But, that does not change the fact that, unlike other commodities, fertiliser use cannot be left entirely to the market forces.

The least that the Government can do, in view of decontrol, is to maintain a full database on the trends in demand, supplies and stocks so that the manufacturers/handling agencies can take appropriate decisions on production/procurement plans and arrange for movement of the material. In the absence of adequate information on these vital aspects, how can it be possible to increase consumption of the decontrolled fertilisers?

Third, the logistics of handling and transportation of the material are no less important. This is in complete disarray now. Any item that has been decontrolled gets less or even no priority. Phosphatic and potassic fertilisers have become a victim of this mindset. Ships carrying DAP and MOP do not get timely berthing at ports because clearing of cargoes for imported urea gets top priority.

Railway wagons are not made available to manufacturers/importers of P and K fertilisers because movement of foodgrains and urea gets priority in that order. Result: manufacturers/importers are forced to move material by road which is far more expensive and adds to the selling prices.

It is high time the Government realised that P and K fertilisers are as important as nitrogenous fertilisers and, perhaps, even more as the deficiencies of the former in Indian soils are more widespread than that of nitrogen. It is a fact that if the farmer goes on increasing application of nitrogen without applying P and K adequately, even the returns on using N will go down, leading eventually to erosion of soil fertility.

The issue of pricing has to receive top priority. Not only is there a need to prevent further increase in the selling price but also to bring it down. A price level higher than that prevailed in the second half of 1994-95 — about Rs. 8,400 per tonne of DAP — is bound to have an adverse effect on consumption. Considering that the reasonable cost of production and distribution is in the range of Rs. 10,400-10,600 a tonne, a subsidy of Rs. 2,000 a tonne is absolutely necessary; that is, Rs. 1,000 over and above the level already provided for.

On other complex phosphatic materials also, the concession amount will have to be correspondingly raised on a pro-rata basis. For this, additional financial support would be required but not necessarily a rise in the budgetary allocation.

The additional requirements can be easily met out of the savings generated through a modest increase in the urea selling price. This may be repeated for at least three years in succession to generate more savings which would not only pay for further increases in the production cost of phosphatic fertilisers, but also help reduce the overall subsidy burden.

It is common knowledge that the urea selling price is artificially suppressed and modest increases in this will not affect its consumption. On the contrary, it will help achieve a better balance in the selling price of N vis-a-vis P and K and, in turn, in their respective uses. It will also help in smooth transition to the ultimate decontrol of urea as its selling price is slowly brought in line with the production/distribution cost.

On imported urea also, substantial savings have been made possible due to the declining international price. When the Government provided for Rs. 1,650 crores towards subsidy on imported urea in the '95-96 Budget, the prevailing prices were in the range of $245-250 a tonne C&F. With the prices declining to $200-205 and the bulk of the imported urea yet to come, huge savings in import subsidy will be possible. This money can be put to use where it is needed the most i. e. in providing support to decontrolled phosphatic and potassic fertilisers: alternatively, it can go towards reducing the overall fiscal gap.

State governments should not be involved in the administration of the subsidy scheme whether by way of certifying sales or fixing prices. The Centre should disburse the funds directly to manufacturers on the basis of monthly claims, duly certified by statutory auditors (as in the late '70s).

It was in March 1976 that the flat subsidy was introduced. That system remained in force until February 1979 when it was replaced by formal price controls and RPS. Under the RPS also, the subsidy payment scheme was no different. A similar dispensation is in vogue for urea under which subsidy on a much larger scale (Rs. 4,000 crores in '94-95 and Rs. 3,750 crores provided for in the '95-96 Budget) is paid on this basis.

Considering that production of phosphatic fertilisers inevitably involves import of raw materials/intermediates and their international prices are largely beyond our control, there is no escape from continuation with the subsidy dispensation in the near future. However, joint ventures with countries well-endowed with raw materials, particularly rock phosphate, can be thought of, preferably with majority equity ownership by Indian companies to facilitate captive supplies of phosphoric acid.

As for ammonia, the other important intermediate, there already is a provision in the proposed Omanese joint venture involving RCF and Kribhcho for buy-back of surplus. Similar arrangements for captive supply with other countries would be useful to Indian farmers.

With these measures, subject to the success of the joint venture plans and suitable adjustment in the selling price of phosphatic fertilisers in small doses, the Government may examine the possibility of eliminating subsidy on phosphatic materials. There is need for extreme care with regard to sequencing and timing of the process of subsidy removal as any sudden move in this direction could be counter-productive.

An independent regulatory mechanism for decontrolled fertilisers is absolutely necessary to ensure adequate supplies to meet the demand in the country. A special cell may be created in the MOA for this purpose with the mandate of carrying out an objective assessment of the demand, monitoring actual supplies and stocks, maintaining an up-to-date database on these aspects, and coordinating with the manufacturers/handling agencies on their supplies/import plans, to facilitate smooth handling and movement of the decontrolled fertilisers.

(Concluded)

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