

Fertiliser pricing Unfortunate *volte-face*

The reversal on the pricing of potassic and phosphatic fertilisers is an unfortunate change of policy that will deny a lot of potential gains, says Uttam Gupta.

ONLY about a month back, on August 20, did the Government announce free float in the selling prices of the decontrolled phosphatic and potassic fertilisers from rabi 1998-99. The proposal may have sounded somewhat unusual as manufacturers are automatically free to fix prices of any decontrolled product. Freedom of pricing, marketing and distribution is inherent in decontrol. Then, why free float?

It is necessary to recall that before August 25, 1992, the Government kept the selling prices of all P and K fertilisers low to raise consumption. The excess of the reasonable cost of production and distribution over this was reimbursed as subsidy under the retention pricing scheme (RPS). In the case of imports, the excess of C&F price plus handling/distribution cost over the selling price represented the subsidy.

With decontrol, the RPS was dismantled and subsidy abolished. This meant that producers/importers were free to sell at market-determined prices. Since the reasonable cost of supply — whatever the source — was substantially higher than the controlled selling price (all through the 1980s, the latter was artificially kept low), prices were threatening to increase sharply.

Despite various concessions — removal of customs duty on imported phosphoric acid, reduction of railway freight and allowing imports of raw materials/intermediates at lower official exchange rate (under the then dual exchange regime) — prices were seen going up sharply (for instance, of DAP by about 70 per cent). The Government got worried and quietly brought back the subsidy in a new *avatar*.

As on October 1, 1992, the Government introduced a scheme of *ad hoc* concession — Rs. 4,000 per tonne on DAP (proportionate basis for other complex fertilisers) — so as to cut the price to the farmer. Funds were allocated to States on the basis of the concessional rates and the expected consumption.

The original intention was that even as farmers would pay the full price to cover the reasonable cost of supply, the States would make arrangements to ensure that the concession reached them directly. The States, however, rode piggy-back on manufacturers/importers. The idea was that the latter would reduce the price to the extent of the concession and the former would reimburse them after verification.

This would have been fine had the States restricted their role to overall monitoring/verification and making timely payments. It would also have been consistent with the spirit

of decontrol/free market. But they virtually laid a siege on suppliers by fixing the sale price and also how much to be sold and through what channels.

The result was fixation of prices at artificially low levels — together with the concession, these would fall short of the reasonable cost of supply — delays in notifying prices, processing claims and releasing payments. The States competed with one another to put up stumbling blocks in the way of increasing consumption which was the prime objective of the concession scheme.

The Centre became alive to these problems but a bit too late — after the consumption dropped in 1992-93 and 1993-94. Consumption of P and K declined from 3.32 million tonnes and 1.36 million tonnes in 1991-92 to 2.67 million tonnes and 0.908 million tonnes in 1993-94 respectively.

Beginning 1994-95, the Government decided to pay the concession directly to manufacturers/importers. But with a rider: Only after receiving a certificate from the States. That did not solve the problem. The States had no funds to sit on, but had the power to block timely payments. The remedy was worse than the disease. The roadblocks continued and the consumption did not improve. In 1995-96, it was 2.90 million tonnes P and 1.15 million tonnes K.

In July 1996, the Government raised the concession amount sharply — for instance, on domestic DAP by Rs. 2,000 per tonne (proportionately for other complex fertilisers). The objective was to bring down prices and, thus, raise consumption. Allocation was also made in the Budget to ensure that money was not a constraint. Unfortunately, nothing was done to clear the roadblocks in the way of ensuring adequate and timely supplies.

The States' involvement continued and with this the delays in price setting, notification, payments and so on. The consumption of P increased only marginally from 2.90 million tonnes in 1995-96 to 2.98 million tonnes during 1996-97, while that of K declined from 1.15 million tonnes to 1.03 million tonnes.

Beginning kharif 1997, the job of price fixation was vested in an Empowered Committee. The Centre also decided to make 80 per cent payment of monthly bills upfront and the bal-

ance after verification. The concession rates/selling prices were fixed at a reasonable level and announced before the start of the season. As a result, the consumption of P and K during April-September 1997 went up by 47 per cent and 29 per cent respectively over April-September 1996.

During rabi 1997-98, however, there were setbacks. The roadblocks were up again, but this time the Centre had a greater role. For the first four months of the season, the concession rates were not notified. Ironically, even the 80 per cent on-account payments remained suspended. Despite this, producers/importers kept up, in good faith, the tempo of supplies. That helped in achieving a record sale of 5.2 million tonnes of DAP in 1997-98 up from 3.6 million tonnes in 1996-97.

Unfortunately, as of February 3, 1998, the concessional rates were reduced retrospectively by Rs. 250 per tonne on imported and domestic DAP each (proportionate basis for other complex fertilisers), despite an increase in the reasonable cost of supply because of the rupee depreciation, the steep increase in hydrocarbon prices and the hike in railway freight. This affected producers' viability despite high production.

During kharif 1998 also, it was a virtual repeat of rabi 1997-98. Although, the fertiliser selling prices were notified at the beginning of the season, the concessional rates were not. For determining the rates, the Bureau of Industrial Costs and Prices was commissioned to do a study. The BICP has reportedly submitted its report, but the Government is yet to take a decision on concession on sales in kharif 1998.

The resulting uncertainties and apprehensions about the inadequate coverage of the reasonable cost have already taken a toll. In April-July 1998, DAP import was 0.588 million tonnes, down from 0.653 million tonnes in April-July 1997. During this period, its domestic production declined from 1.245 million tonnes to 1.227 million tonnes. Production of complexes other than DAP also declined from 0.942 million tonnes in April-July 1997 to 0.898 million tonnes in April-July 1998. Production of SSP declined even more steeply from 1.172 million tonnes to 0.934 million tonnes.

In retrospect, the setback in P and K was primarily due to supply constraints caused by

the involvement of State governments/Centre and the resultant uncertainties of pricing/inadequate realisation, delays in payments, in turn, affecting viability of production/imports. The only exception was kharif 1997. But that was just one out of a total of 12 seasons under the scheme of *ad hoc* concession since rabi 1992-93.

Against this backdrop, there was considerable merit in switching to a system of free float. Under it, the Government was only expected to decide on the concessional rates keeping in view the overall budgetary position and announce them before the start of the season. Accordingly, these were notified — that is, Rs. 4,000 per tonne on domestic DAP (proportionate basis for other complexes), Rs. 2,500 per tonne on imported DAP and MoP each and Rs. 900 per tonne on SSP.

Given these rates, freedom to manufacturers/importers in fixing prices would have helped remove the uncertainties, ensuring viability of operations and timely planning of supplies. Under this regime, there would also be no scope for infructuous litigation. It may be recalled that the decision to retrospectively reduce the concession during rabi 1997-98 is still pending before the Delhi High Court.

Unfortunately, these potential gains have been denied by the recent reversal of the earlier decision and the restoration of control on prices of all P and K fertilisers. The Government has, in fact, stated that the prices will be maintained at the same level as during kharif 1998 — Rs. 8,300 per tonne for DAP. For the time being, the concessional amount also remains unchanged at Rs. 4,000/2,500 per tonne on domestic/imported DAP.

On operations during rabi 1998-99, the likely reasonable cost of supply will be about Rs. 13,500 per tonne for indigenous DAP and about Rs. 12,000 for that imported. Thus, if supplies have to be viable, concession needs to be raised to Rs. 5,200 and Rs. 3,700 per tonne respectively. Given the constraint of funds, it seems unlikely that these increase will be allowed in full. History will repeat itself, with resultant supply constraints and adverse effect on consumption.

Given the bitter experience of the past, when despite the huge sums spent on support to P and K fertilisers, their consumption did not increase primarily due to continued controls, the Government should, from now on, keep distance and allow manufacturers/importers to fix the selling price.

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