Fertiliser subsidy can be checked

The government refuses to sort out the subsidy skew in favour of urea.

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Before the Budget, the Finance Minister (FM) commented that 'ballooning subsidies were giving him sleepless nights'. This is understandable – in Budget 2012-13, the revised estimate (RE) for subsidy on food, fuel & fertilisers in 2011-12 is put at Rs 208,503 crore, 55 per cent higher than the budget estimate (BE).

The Finance Minister has pledged to keep these subsidies under 2 per cent of GDP now, and at 1.75 per cent during the next 3 years. One would have thought that the Government would have lost sleep regarding the 'causes'.

Excessive urea use has undermined the 'nutrient-based subsidy' policy.

Let us consider fertilisers, where the 2011-12 RE for subsidy, at Rs 67,199 crore, is 35 per cent higher than BE of Rs 49,998 crore. The former itself is a 'gross understatement', as some time ago the Fertiliser Secretary expected it to be almost 100 per cent. Preparing the estimate of likely subsidy outgo is no complex maths. Inputs for this are MRP for urea & NPK fertilisers (23 different grades), their import prices, permitted freight, distribution margins and expected consumption.

SUBSIDY SUPPRESSED

MRP for urea is 'controlled' by the Government of India. For decontrolled NPK fertilisers, subsidy determination under 'nutrient-based subsidy' (NBS) regime is based on target MRP (expressed in Rs per unit of nutrient). Freight and margins are pretty 'certain' determinants. Demand projections have to be necessarily accurate. Foolproof supply and logistics arrangements must be made to provide availability everywhere. For this very 'compelling' reason, the Government cannot afford to be much off the mark.

Import prices may go haywire. For decontrolled fertilisers (these account for around 60 per cent of total subsidy), these don't matter. The Government isn't under pressure to increase the subsidy, as producers are free to revise MRP or 'absorb' cost increase. For indigenous urea, the key cost factors are within its control. Thus, all units get gas at an 'administered' price decided by a Group of Ministers. Only for imported urea, there may be an element of unpredictability; but that is one-fourth of urea demand. Therefore, there is no possibility of actual subsidy exceeding estimates by substantial margin. And yet, if it happens year after year, this is because the latter is 'deliberately' suppressed.

The Budget provides for Rs 60,974 crore for 2012-13. Take off around Rs 33,000 crore (likely carry forward from current year), and the amount available to meet requirements will be only Rs 28,000 crore, thus leading to a huge shortfall! . Has the Government ever taken the trouble to look at the causes of rising subsidy? Has it ever considered the recommendations of numerous committees set up in the last 2 decades to examine this issue? The G. V. K. Rao Committee on Consumer Prices (1987); Dr C. H. Hanumantha Rao Fertiliser Price Review (1998) and Expenditure Reforms Commission (ERC) (2000) had provided road maps for eliminating or reducing subsidy, which are only gathering dust.

FOUR-STAGE MAP

The ERC had proposed a 4-stage road map. In the fourth stage, from April 1, 2006, the industry would have been freed from all controls. The journey, beginning from February 1, 2001, was intended to be 'gradual' and 'smooth' for all stakeholders. Thus, a 7-per-cent increase in MRP of urea every year was intended to reach a level of Rs 6,903 per tonne in 2006, at which domestic gas-based producers (without any subsidy support) would compete with imported urea. Existing plants based on naphtha, fuel oil / LSHS and mixed feedstock plants were required to switch to LNG. And this being more expensive than domestic gas, they were entitled to 'feedstock differential'. Those not switching to this (shall we say not wanting), were not to be allowed 'feedstock differential' higher than permitted for LNG-based plants.

MRP of urea and NPK fertilisers was to be so fixed as to promote balanced fertiliser use. Urea MRP was to be re-determined every six months, and those of NPK fertilisers adjusted to provide the NPK balance. Post decontrol, subsidy was to be given only to small and marginal farmers. Well aware of the inefficacy of any alternate mechanism, Dr Kirit Parekh, Member Secretary, ERC, proposed this to be given 'directly' through fertiliser coupons. Had the Government strictly followed the road map delineated in its *own* report, fertiliser subsidy (meant only for poor farmers) would have been a small fraction of what it is today!

PRICING

After a decade, in April 2010, the MRP of urea was increased by a mere 10 per cent. This translates to 1 per cent per annum as against 7 per cent recommended by ERC. (Early this year, the report of a 30-per-cent hike was instantly contradicted by the Minister.)

While some plants have switched to gas, at present, 20 per cent of urea capacity continues to be based on naphtha and fuel oil / LSHS. These expensive plants are being sustained under cost-plus NPS (new price scheme). Urea imports continue to come through state agencies viz., MMTC, STC etc. Deregulation is still a far cry. That forecloses all options for procuring imported material at a competitive price.

The concept of pricing for balanced fertiliser use has been thrown to the winds. Even as the MRP of NPK fertilisers has increased by 70-100 per cent in the current year, urea MRP has been kept 'artificially' low. That has led to excessive urea use. Some time ago, a Group of Ministers had cleared a proposal for decontrolling the MRP of urea and bringing this under NBS. A committee of secretaries was to work out modalities. We don't hear this anymore.

The Budget talks of giving subsidy directly to farmers. But that can come later. It has on its plate two phases prior to that – monitoring of dispatch and sales in the first phase, and subsidy to be given to retailers in the second. Targeting subsidy to 'poor' farmers isn't even on the radar.

The scenario encapsulated thus sums up as under: No plan to increase urea MRP; move to put in place NBS for urea almost shelved; high cost naphtha and fuel oil / LSHS plants are here to stay; urea imports continue to be regulated; no plan to target subsidy to poor farmers.

As no credible measures have been taken to combat the causes, it seems strange that the powers that be bemoan the ballooning subsidy.

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