

Fertiliser imbroglio — II

Focus on economic fundamentals

Apart from the high cost of imported raw materials and intermediates, the domestic manufacturers are also handicapped by high prices of other inputs, utilities and services supplied predominantly by Government undertakings/departments. Although, during the last few years, finished fertilisers have been exempted from the general hike, the same is not applicable to important raw materials and intermediates, says Uttam Gupta.

Quite clearly, the underlying forces are operating in a manner that would lead to increase in the cost of production and distribution, and consequently, the selling prices to the farmers; prices at which the producers must sell, and remain viable. At the same time, the farmers are not ready to cope with the escalating prices. And, this situation is unlikely to change in the medium-to-long run.

In the urea segment, which is still under control, the underlying trends are similar. The administered prices of various hydrocarbon feedstocks are on the rising trail. Customs duty on fertiliser project imports may have been reduced to zero (August 1992), but, the overall cost of imported plant and machinery is on the increase because the resultant relief has been more than offset by significant depreciation of the rupee. Besides, even the international prices of plant and machinery have increased. The position in regard to the cost of domestic supplies is no different notwithstanding some reduction in the excise duty.

The financing charges constitute a major element of production cost. In this connection, the lending rates in India are still much too high by international standards. The flexibility in the lending rate, announced as part of the last season's RBI credit policy, generated much euphoria. Some of the banks even reduced the lending rate by one per cent; but very soon, the rates were restored to the earlier levels. A further increase by one per cent is being contemplated.

Another complicating factor on the urea front is that its selling price is not being allowed to be raised. The reduction by 10 per cent in August 1992, when phosphates were decontrolled, is still shrouded in mystery. Even as various parliamentary committees are now bemoaning the imbalance in the use of N, P and K and its consequential adverse effect on the fertility of the soil, it cannot be denied that it was none other than the JPC itself which recommended simultaneous decontrol of phos-

phate and reduction in the selling price of urea.

The reduction in August 1992 took the urea price to a low of Rs. 2,760 per tonne. The 20 per cent increase of June 10, 1994, is in effect, tantamount to an increase of only eight per cent over the level of Rs. 3,060 that prevailed prior to August 25, 1992. Presently, there is a strong economic justification for raising the urea price, but, it is a not being done. Because of the disequilibrium in the price of N, P and K, the farmers are paying excessive attention to N at the expense of P and K. This can be corrected only by raising the urea price. But, it goes abegging.

An increase in the urea price can give substantial savings in subsidy (10 per cent increase would yield about Rs. 600 crores per annum) and this is necessary for maintaining the fiscal balance too, but the logic goes unheeded.

Phosphate prices are skyrocketing, they need to be stabilised (at least, until such time as long-term measures prove effective). For this, additional funds will be needed; increase in urea price can provide the succour, but the planners remain insensitive.

Most importantly, increase in the urea price is essential to bridge the present yawning gap (about 65 per cent - 70 per cent) between the farmgate cost on the one hand and what the farmer is currently paying on the other. This would be extremely helpful when urea is ultimately decontrolled, no matter what the time frame is. We have seen how in phosphates we are led into a chaotic situation simply because we did not prepare ourselves; the cost differential was as high as 100 per cent at the time of decontrol. But, we are refusing to take a clue from the phosphate example.

Not only that, the way developments in various sectors be it, the hydrocarbon feedstock, power, railways, roads and other infrastructural sectors are taking shape, we are only preparing for a progressive increase in the gap. A horrendous situation indeed! in which, either

we shall be retaining subsidy at monumental levels almost perennially or throwing the urea industry into a state of turbulence and chaos in the alternative of having to decontrol it.

It is high time that the Government extricates itself out of the preoccupation with the subsidy *per se* and starts addressing the fundamental issues. For the phosphatic sector, the issue is one of arranging the supplies of raw materials and intermediates on a sustained basis and at competitive prices. Unquestionably, the joint ventures in countries with abundant availability of basic raw material such as rock phosphate, holds the key. These are countries like Morocco, Senegal and Jordan with whom we can have fruitful complimentary relationships. We have the technology, expertise in project execution and commissioning and we are even capable of arranging funds.

A pro-active collaborative effort between the industry and the Government is necessary to exploit such opportunities which alone can help us, in the medium to long-run, in breaking the present vicious circle of high raw material/intermediate cost leading to higher production cost and in turn, selling price to the farmers.

The present arrangements for supply pricing and distribution of various hydrocarbon feedstocks should continue and the prices determined on a normative basis guided strictly by the efficiency criteria. In the power sector, there is need for speeding up the reforms focussing — not just privatisation — but, reforms that will involve the restructuring of the SEBs and turning them into viable entities; forcing them to improve efficiency and reduce cost with consequential benefits by way of lowering tariffs. Likewise, the financial sector reforms particularly reforms in the banking sector, should be pursued in the right earnestness to facilitate lowering of the interest rates and in turn, the financing cost.

Above all, the macro-economic management has to improve to enable control on prices, on the one hand, and a stronger rupee on the other. Needless to say, this would require strict observance of fiscal discipline, particularly on the rising revenue expenditure. Improvement on this front alone can help in bringing down the cost of production substantially.

Until we pay the desired attention to these economic fundamentals and propel the necessary forces which facilitate advance in this direction, the fertiliser sector in India will continue to be in a state of turbulence and turmoil for all time to come.

(Concluded)

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