Editorial

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Retrospective policy changes

Fuelling problems for urea units

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ON November 5, 2001, the Government notified reduction in retention prices of 13 urea-manufacturing units on the basis of 'interim' revision in consumption norms 'retrospectively' from April 4, 2000. Is it justified? At the outset, the norm for consumption of raw materials, including feedstock, is a major policy parameter in determining the amount received by a unit as compensation for the variable cost.

The old naphtha- and fuel oil-based plants oil are particularly sensitive to this as feedstock\fuel alone accounts for 80-85 per cent of the production cost. The consumption norms are fixed for the pricing period which, as per existing practice, is three years. However, these need to be notified well before the pricing period begins, to enable the manufacturing units make a credible assessment of their profitability and accordingly plan their operations. This principle was followed until the fifth pricing period (April 1, 1988-March 31,1991). For the 6th pricing period (April1, 1991-March 31, 1994) and the extended 6th pricing period (April 1,1994-June 30, 1997) even as the announcement of the policy was delayed, the Government did not change the norms.

But the Government has now revised consumption norms 'retrospectively'. Reportedly, it is also contemplating to revise consumption norms for the seventh pricing period (July 1, 1997-March 31, 2000). Likewise, withdrawal of the vintage allowance in respect of both capacity utilisation and energy consumption — available for more than 10-years-old plants — has also been mooted 'retrospectively' from July 1,1997. This has come about after the companies finalised their accounts on the basis of already notified retention prices (linked to the existing norms), paid taxes and declared dividends. Against this situation, how can the Government change the norms, which will inevitably reduce the realisation/profits for the past period and lower liability towards corporate tax than the tax already paid and dividend lower than the amount already distributed to the shareholders. Not only will the companies have to rework/re-write the balance-sheet all over again for all these years (this by itself, will be a nightmare), they will have to approach the Revenue Department for refund of the excess tax paid. They will also have to call back from the shareholders the excess dividend paid. All this is next to impossible.

> While fixing the policy parameters in its obsession to reduce subsidy, the Government should not ignore the overriding need to ensure the continued viability of all efficient plants. It is important to note that if the new norms result in closure of the units, then, far from any saving in subsidy, the quantum of outgo may even increase. The powers that be should aim at saving subsidy without compromising on the health of the industry.

The Government may argue that since changes in the consumption norms are integral during the pricing period, the manufacturers should have known that the norms were under 'review'. Therefore, it cannot now be claimed that they were not put on notice. This is not a valid argument. If, the intention was really to revise the norms, then, the Government should have given a clear indication to this effect by stating that the retention prices would remain 'provisional' until the revised norms are finalised.

In the case of decontrolled phosphate fertilisers, the Government followed this practice, when it announced the 'base' rate of concession under concession support for 2001-02 vide the notification of September 17, 2001 issued by the Department of Fertilisers (DOF). The notification clearly stated that the concession rates for both domestic and imported DAP would remain 'provisional'. This was done against the contemplated move to revise the underlying policy parameters for which a Study had already been commissioned.

Likewise, in regard to pricing gas, in a circular dated June 26, 2001, issued by Gas Authority of India Limited (GAIL), the Government stated that the prevailing price of gas will remain 'provisional' until a final decision on the new structure of gas price was taken. In this case also, the Ministry of Petroleum and Natural Gas (MPNG) put the users of gas on advance notice. There is no reason why a prior notice should not have been given to the urea-manufacturing units on the contemplated changes in policy parameters under the retention price scheme (RPS).

In this context, it may be pertinent to recall that even the Dr Alag Committee (set up in May, 2000 to look into the question of reassessment of the production capacity of units reporting high-capacity utilisation) recommended reassessment of the capacity of concerned plants only from April 1, 2000. The Committee refrained from recommending reassessment 'retrospectively' citing legal complications.

Reportedly, the DOF has accepted this viewpoint by proposing reassessment with effect from April 1 2000. In regard to revision of other policy parameters — consumption norms and vintage allowance — the Government should be guided by the same logic.

Thus, it is only fair that the Government follows the cardinal principle of announcing any change in the policy parameters with 'prospective' effect only. In this spirit, the reduction in retention prices based on interim revision in consumption norms vide November 5, 2001 should be withdrawn and any further change with retrospective effect avoided.

This is necessary not only to prevent the consequential closure of a large number of plants (contrary to the impression in some quarters, even under the existing dispensation, most of the units have not achieved the 12 per cent return considered under the RPS at the normative levels) but also to avoid protracted legal battle.

While fixing the policy parameters in its obsession to reduce subsidy, the Government should not ignore the overriding need to ensure the continued viability of all efficient plants. It is important to note that if the new norms result in closure of the units, then, far from any saving in subsidy, the quantum of outgo may even increase. This is because the substantial loss of domestic production will have to be made up from imports at a significantly higher cost. The powers that be should aim at saving subsidy without compromising on the health of the industry.

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