

## Govt's dilemma over new fertiliser policy

Uttam Gupta

THE recently released background paper on the Fertiliser Policy proposes — in Phase I (2001-02 to 2002-03) — the replacement of the existing unit-wise RPS by a uniform normative referral ex-factory price (NRP), based on the LRMC method of pricing. While the NRP is benchmarked to a gas-based plant, for naphtha and fuel oil-based plants, the FDCR (feedstock differential cost reimbursement) is proposed to compensate for the higher feedstock cost.

In this context, Hindustan Petroleum Corporation (HPC) had in 1998 recommended an NRP of Rs. 6,050 per tonne, and a FDCR of Rs. 1,750 per tonne for naphtha-based plants; and Rs. 1,300 per tonne for plants based on fuel oil. In computations, however, it used unrealistic assumptions, including the clubbing of new grassroots plants with expansion projects, investments much

lower than reasonable actuals, assumed running of plants on 100 per cent gas (thereby ignoring use of high-cost naphtha/fuel oil), unachievable energy use norms, and so on.

At the resulting woefully low NRP/FDCR, almost all naphtha/FO-based plants, and almost half the gas-based units would have been wiped out.

After more than two years (the HPC report was submitted on April 3, 1998) the Government is now keen to implement the package.

However, there is need for restructuring and improving upon it to ensure continued viability of all efficiently run plants.

The task is daunting if not impossible, because wide inter-plant variations, particularly in cost of feedstock, persist. In gas, the difference between minimum and maximum is about \$0.6 per million Btu. For naphtha, this is much higher, at about

\$1.6 per million Btu. In fact, each unit pays for energy at a different rate and would need an FDCR specific to it if the system is to be fair and non-discriminatory.

However, this would be tantamount to the continuation of unit-wise RPS!

According to a report in *Economic Times* on July 26, units whose retention price (RP) is higher than the NRP plus FDCR — that is, Rs. 11,140 per tonne for a naphtha-based plant — would get the weighted average of RP of all plants in the group under the existing dispensation, which is Rs. 12,117 per tonne. A unit with an RP lower than Rs. 11,140 per tonne will get Rs. 11,140 per tonne. A similar proposal has been made for FO-based plants.

If these suggestions are followed, the distortions will continue. For instance, a unit with an RP of Re. 1 higher than Rs. 11,140 per tonne

would get Rs. 12,117 per tonne whereas, a unit whose RP is Re. 1 less would get Rs. 11,140 per tonne.

Thus, even as the cost for both is more or less the same, the former would get an extra Rs. 977 per tonne.

Then, you have some plants whose RP is much higher than Rs. 12,117 per tonne, e.g., about Rs. 14,000 per tonne in one case (as reported in *Business Line*, July 27); it would get only Rs. 12,117 per tonne, leading to a huge loss.

The Government's dilemma arises primarily from the fact that while, on the one hand, it wishes to have continued production from all efficiently run plants at optimum load — essential for ensuring fertiliser security and, in turn, food security — on the other, it wants to maintain its pro-reforms image, which could receive a battering if it does not embrace the concept of uniform

toto (the above package involving a hybrid of an LRMC-based NRP and weighted average under the existing RPS is a clear reflection of this mindset).

The pressure of subsidy reduction has further compounded its woes.

The inherent conflict in these objectives could be resolved if three conditions are met: (i) feedstock is made available to all plants at "uniform price" irrespective of source (ii) its price is brought down to an internationally comparable level and (iii) the proposal for periodic increase in selling price made in the policy paper is implemented in its true spirit.

Subject to this, the implementation of a uniform NRP — after removing the distortions mentioned above — would be smooth sailing.

*(The author is Chief Economist, The Fertiliser Association of India, New Delhi. The views*