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How to make an efficient industry unviable

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Gypsum is an alternative source of sulphur containing 13 per cent (agriculture grade), on an average. And taking its subsidised selling price of Rs. 140 per tonne, the value of 120 kg sulphur works out to Rs. 129.2 (140/130x120). Thus is the nutrients that SSP has, were to be supplied thru DAP-Gypsum route, the selling price should have been Rs. 1,340 (1211+129) per tonne or Rs. 100 more than the current selling price of Rs. 1,240 per tonne.

Following representations from the industry, the ceiling was subsequently raised in January, 1992 to Rs. 1,326, thus implying an increase of Rs. 436 per tonne (1326 – 890). The revised ceiling related to the cost structure for the quarter ending 30th September, 1991. Purely on the basis of ex-jetty price of rock phosphate and sulphur, the escalation in the cost of production of a tonne of SSP since July-September, 1990 quarter should have been of the order of Rs. 530 per tonne. The compounding effect of sales tax and hike in Railway freight will push it further to Rs. 575 per tonne for plants located in the northern parts of the country. As against this, the escalation provision built in to the ceiling is only Rs. 436 thus leading to an under-recovery of Rs. 139 per tonne (575 – 436). In turn, this made many more units unviable. On the basis of the revised ceiling, the maximum entitlement to any SSP unit works out to Rs. 2,566 per tonne (1240 + 1326), whereas the reasonable cost of production and distribution related to the July-September, 1991 quarter is higher for as many as 48 units. In other words, after revision of the ceiling, far from giving any relief, the number of units becoming unviable has increased from 22 to 48. The resultant impact in terms of net additional foreign exchange outgo thus would be still higher at US $52.7 million.

At this stage, let us recapitulate what the Finance Minister had hoped for. His objective was to make the

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SSP units do better. Far from ensuring that, the ceiling has threatened the viability of units leading even to their closure. As of third week of February, as many as 24 plants were already closed. The debilitating effect on the production capability of the industry is clearly reflected in the production trends during the period following imposition of the ceiling on 25th July, 1991. Thus, against an increase of 8 per cent during April to July, 1991, production during August 1991 – March, 1992 dropped by 30 per cent over the corresponding periods in 1990-91. Already, shortages of this important material have been reported from various parts of the country, and, unless, the underlying cause of trouble is eliminated promptly, the position may get aggravated adversely affecting foodgrains production in the ensuing Kharif season.

Who are the aggrieved units? These are either those located in the northern belt i.e. Uttar Pradesh, Punjab and Haryana or they are newly commissioned plants i.e. post 1979 vintage. The additional cost of transporting rock and sulphur vis-a-vis a plant at coastal location works out to about Rs. 260 per tonne SSP. The ceiling penalises these units only because they happen to be located away from the shore. For a new unit in particular, and assuming that its frieght cost on raw material has to be covered, then its constant factor (fixed charges including power) is even lower than a pre-1979 unit. In the face of a much higher capital cost because of inflation, how can the former be expected to remain viable?

From his Budget speech, it would appear that ceiling on subsidy was intended to be a pre-cursor to total de-regulation. Unfortunately, this has only complicated the matters. The emerging ground reality is being adequately appreciated in the concerned quarters. That may perhaps accelerate the pace of decision making and decontrol of SSP might follow soon. A Parliamentary Committee is already examining the entire gamut of issues connected with fertiliser pricing and subsidy and its Report is expected some time next month. An appropriate decision with regard to SSP may perhaps, have to wait until then.

Total de-regulation of SSP alone which was also hinted in the Union Budget for 1991-92, will not be adequate to take this industry out of the woods. It has a big brother i.e. Di-Ammonium Phosphate (DAP) a high analysis fertiliser which contains 46 per cent P_2O_5 as against only 16 per cent supplied by SSP. DAP comes within the purview of retention price and subsidy scheme and presently its selling price is controlled at a low level, the excess of its reasonable cost of production and distribution being reimbursed as subsidy. In the event of decontrol of SSP alone, and without any subsidy support, the entire cost of production and distribution will necessarily have to be recovered from the farmer. In fact, based on the current cost structure, the selling price of 1 kg. P_2O_5 through DAP which is subsidised is only Rs. 7.57. In this situation, the question of farmer buying SSP is completely ruled out. Indeed, the price differential will be so substantial that even some of the advantages offered by SSP in terms of giving sulphur and calcium will not prevent the farmer from switching over to DAP.

In case, decontrol of SSP is the only way out to get over the subsidy imbroglio, it is necessary that all materials supplying P_2O_5 should be decontrolled to ensure that there is fair competition. A situation of subsidy on some materials and no subsidy on others is just not sustainable. Until such time, an appropriate decision with regard to decontrol follows, as an immediate measure, the ceiling on subsidy needs to be removed to eliminate the looming threat of unviability of the plants. This is necessary as the impending sickness of the plants because of the present pricing will entail a heavy cost in the long-run in terms of rehabilitation.