Editorial

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New urea retention prices defy normative principle

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THE recent downward revision in the retention prices of 13 urea manufacturing units by the Department Fertilisers with retrospective effect from April 12000, to reflect revision in consumption norms on an interim basis, has given rise to some fundamental questions.

Consumption norm, or to be more specific, quantum of inputs — primarily feedstock/fuel — required for producing a tonne of urea, is only one of the policy parameters in determining the retention price. There are a host of others — capital-related charges (CRC), conversion cost, working capital, marketing cost/selling expenses, and so on. As per established practice, the Fertiliser Industry Coordination Committee (FICC) undertakes revision in all these parameters as a package.

The revised retention price consequent to this is made applicable over three years, commonly referred to as the pricing period. This exercise should be completed before the pricing period starts. Right now, the Government is reportedly carrying out exercises for the Seventh pricing period — July 1,1997-March 31, 2000 and the Eighth pricing period — April 1,2000-March 31, 2003. As per newspaper reports, this exercise "is likely to be completed soon".

Against this backdrop, reduction in retention prices on an interim basis to reflect changes in only one of the several parameters is inexplicable. The adjustments for CRC, conversion cost, working capital, marketing/selling expenses and so on, will lead to significant upward revision in the retention price. This will substantially offset the downward pull of the revision in consumption norm. In some cases, the former may even more than offset the latter.

On the whole, therefore, the reduction may be small or, perhaps, an increase for some units. By not taking a holistic view (ignoring changes in areas where, the units stand to gain) and announcing steep reduction in the retention price on an interim basis, the units have been dealt a blow. The impact, it is feared, can be severe enough to push even the efficiently operated plants into sickness. Some of them may have to down shutters immediately for want of liquidity proposed recovery for naphtha-based plants is in the Rs 50,200-crore range).

According to the notification, the revision in the consumption norm is on the basis of the 1999-2000 consumption or the current level whichever is lower. Thus, if the consumption in 2000-01 is lower, the actual of that year will be reckoned for fixing the retention price. This violates the normative principle of pricing and kills the incentive to improve efficiency in operations. If, the above approach —using the norm or the actual whichever is lower — is adopted for arriving at the final retention prices for the Seventh and the Eighth pricing periods, it will not only be seriously detrimental to the units, but also give the signal that they need not make any efforts to do better.

Under the decontrolled regime, this can prove dangerous for the domestic industry. Committees have *ad infinitum* recommended alternatives to the unit-wise retention price scheme (RPS), latest being the group-wise (feedstock-based) concession scheme by the Expenditure Reforms Commission (ERC) (2000). But the Government has refrained from implementing any of these perhaps on the fear of making a large number of plants unviable.

Clearly, the Government is keen to avoid a situation in which the country becomes heavily dependent on imports which is inevitable if a chunk of domestic production capacity is lost. In the same spirit, it should finalise the policy parameters for the Seventh and Eighth pricing periods. The package should ensure the continued viability of all efficiently run plants.

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