

Phosphate crisis — I

Growing nutrient imbalance

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UNPRECEDENTED DAP (di-ammonium phosphate) stocks of about 11 lakh tonnes as on January 1 have already set the alarm bells ringing. The situation arose because in the first nine months (April to December 1995) of the current financial year, the total fertiliser availability was about 42 lakh tonnes (including opening stocks of seven lakh tonnes as on April 1, 1995, domestic production of 21 lakh tonnes and imports of 14 lakh tonnes), against the estimated sales of only 31 lakh tonnes.

With the selling prices threatening to increase further due to continued rupee depreciation, according to industry estimates, DAP sales in the rest of the year may not exceed 300,000 tonnes. Against this, the incremental production, despite the significant cut resorted to by some of the plants, will be at least 500,000 tonnes. In view of this, and assuming no further imports, the likely inventory at the beginning of 1996-97, that is, April 1, 1996, will be about 13 lakh tonnes.

To the extent that the incremental consumption does not materialise or additional imports come in, the level of stocks may be even higher. In fact, some reports even point to a likely inventory of about 18 lakh tonnes as on April 1.

Normally, a stock of about 15 per cent of the anticipated demand is considered enough to meet any emergency arising out of unexpected disruptions in production or imports. Taking the consumption of 1991-92 (45 lakh tonnes) as the base, this would work out to about seven lakh tonnes.

However, going by the current trends, this is a totally unrealistic figure. A more pragmatic basis would be the likely consumption in 1995-96 — about 34 lakh tonnes. This gives an opening stock of about 300,000 tonnes. Taking the actual inventory of about 13 lakh tonnes, at the bare minimum, the industry/importer will be holding an excess of about 0.8 million tonnes. Taking the selling price at about Rs. 10,000 per tonne on an average, the value of this works out to a staggering Rs. 800 crores.

Unquestionably, this will lead to substantial losses for everybody — loss of profitability for the domestic manufacturers and importers; liquidity problems for the national economy by way of avoidable drain on the foreign exchange reserves (about \$200 millions, computed at the rate of \$250 per tonne, being the foreign exchange compo-

nent in the total cost of DAP); the resultant increase in pressure on the rupee; and the wastage of the *ad hoc* concession support to the extent the excess stocks are constituted by domestic production. Needless to say, such subsidy support is primarily meant to increase consumption and will be rendered infructuous if the product remains held up as stocks.

The biggest loser, however, continues to be the Indian soil denied the vital 'P' nutrient in the desired quantities. Recently, while commenting on the declining trend in the use of P and K nutrients, the Nobel laureate, Prof. Norman E. Borlaug, noted that this could be devastating for the soil health and, in a few years, result in reduced yields.

Generally, it takes about 3-5 years from the commencement of the distortion for the imbalance in nutrient application to show up through reduced crop productivity. Considering that we are in the fourth year of continued imbalance and that the Economic Survey for 1995-96 has also estimated a marginal decline in the overall agricultural and foodgrains production, we may face this situation sooner rather than later. That the soil is crying for essential plant nutrients, especially P and K, even as the materials carrying these are available in plenty is a sad commentary on the Indian agriculture scene.

It is not merely a question of the loss already incurred. These monumental stocks have the potential to cause instability and to aggravate losses in 1996-97 and perhaps even beyond. In the four-year period 1992-96, the DAP consumption has hovered around 34-35 lakh tonnes, despite good monsoons. In 1996-97, even assuming a repeat performance on the monsoon front (though it is too early to predict), the consumption is unlikely to be more than in 1995-96 — at best, about 34 lakh tonnes. This is in view of the fact that the price situation would be even worse than in 1995-96.

Already, consequent to further depreciation of rupee to Rs. 37 to the dollar (though it has managed to recover some lost ground), the reasonable farmgate cost of domestically-manufactured DAP will be about Rs. 11,500 per tonne. With the *ad hoc* concession amount at Rs. 1,000 per tonne (in

view of the provision in the Interim Budget for 1996-97 of only Rs. 500 crores, the same as in 1995-96), the selling price to the farmer will have to be Rs. 10,500 per tonne. This is Rs. 500 per tonne more than during 1995-96. In view of this, far from increasing, there is even a possibility of the DAP consumption during 1996-97 being lower than in 1995-96.

At optimum utilisation of the indigenous production capability, the likely production has to be around 30 lakh tonnes. Together with the opening inventory of 13 lakh tonnes and even assuming 'nil' imports, the total supply in 1996-97 will thus be about 43 lakh tonnes, far in excess of the likely demand of no more than 34 lakh tonnes.

To the extent that imported material comes in or consumption is lower than 34 lakh tonnes, the excess availability situation will get aggravated. The surplus cannot be avoided even if the manufacturers do not operate their plants for some period or if they run them at reduced capacity. This, in any case, is an extremely difficult option and, in certain cases, especially in the public/cooperative sectors, the management may not even be free to act in line with the emerging demand situation.

In such a situation, the market is bound to plunge into chaos, perhaps even leading to discount wars in which everyone except the unscrupulous elements will lose.

The situation has gone from bad to worse in the time it was allowed to continue. The Joint Parliamentary Committee (JPC), which recommended decontrol, itself laboured under the flawed belief that P and K fertilisers were used by the rich farmers on commercial crops for which, therefore, they could pay market-related prices.

But with the DAP consumption down from 45 lakh tonnes in 1991-92 to 34 lakh tonnes in 1995-96, the farmers have amply demonstrated that they cannot afford the high prices of these fertilisers. Not only is the economics of their use far more unfavourable now than before decontrol, but the farmers do not even have the money to buy. This fundamental aspect is consistently ignored by almost everyone who matters in the supply-and-distribution chain.

(To be concluded)

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