THE HINDU BUSINESS LINE

Phosphate crisis — II

26 March, 1996

Price factor must be tackled

Uttam Gupta

THE global suppliers of phosphate either as DAP (di-ammonium phosphate), or as intermediates such as phosphoric acid, charge prices that suit them best; their main objective is, of course, to make profits. Whether the resultant prices are affordable to farmers or not is, of course, not their concern. The fact that there are only a few global suppliers controlling the bulk of the exportable quantities makes matters worse.

The exchange rate is another major determinant of the cost. The only person who could possibly tame it is the macroeconomic manager of the country. Unfortunately, in the present phase, even this manager seems to have almost completely lost the grip. In fact, following the latest precipitate fall in the rupee value, the Finance Secretary even told the industry to live with the fluctuation in the exchange rates.

Even the measures implemented by the Reserve Bank of India (RBI), ostensibly to relieve the pressure on the rupee, further aggravated the problems. The surcharge on import finance, thus, increased the cost of imported raw materials and intermediates even more, leading to added pressure on the selling prices.

Luckily, the Customs authorities are not in the picture as the import duty on phosphoric acid ammonia is zero. Whereas ammonia has all along been exempt from duty, that on phosphoric acid was abolished only in August 1992.These duties would have made the situation much worse.

In regard in the handling and transportation costs, the supply and pricing of these services are controlled by the Government. Needless to say, while determining the tariff levels, the authorities seem hardly concerned about the impact this would have on the price to the farmers.

The industry has its own limitations and, for obvious reasons, cannot accept cuts or encroachments in margins beyond a point. Besides, they point to the high financing charges and the impact of taxes and duties on plant and machinery in addition to overheads that are beyond control and render reduction in the conversion cost difficult.

Considering that the sales tax in various States is levied on an *ad valorem* basis, the sales tax officials are happy enough with increases in the base price, as this yields higher revenues. This leads to a cascading effect on the price for the farmers.

There is an urgent need to set the policy in respect of DAP and other decontrolled fertilisers right, before it is too late. Let us clearly recognise that the farmers are not as rich as the Joint Parliamentary Committee (JPC) thought them to be, an impression that still exists within the Government. Let us also recognise that the excess stocks are mainly because of sagging demand and not due to excessive imports. The Government must urgently tackle the price factor.

Considering that at the prevailing C&F, the landed cost of imported phosphoric acid and ammonia, the reasonable farmgate cost of DAP would work out to about Rs. 11,500 per tonne, a subsidy of about Rs. 3,000 per tonne is absolutely necessary to facilitate sales to the farmers at no more than Rs. 8,500 per tonne. With a support of Rs. 1,000 per tonne already being provided, this would require an additional Rs. 2,000 per tonne. The concession on other phosphatic fertilisers also needs to be raised on a proportionate basis.

The funds for this should be generated by way of a 20 per cent hike in the selling price of urea to yield about Rs. 1,200 crores per annum. The increase in urea price is long overdue to reduce the existing wide gap between the reasonable cost of production and distribution on the one hand and the selling price, on the other. This will also help correcting the disequilibrium in the relative prices of N, P and K.

The suggested increase in the concession amount will only be fair as the bulk of the recent increase in cost was caused by the rupee depreciation by as much as Rs. 5.5 to the dollar. Considering that the latter is the result of overall macroeconomic mismanagement, the consequential extra support needed by the farmers cannot be treated as a sop/dole to them. For the future also, any further depreciation in the rupee resulting in an increase in the cost of production and distribution should be absorbed by a corresponding increase in the amount of concession to maintain stability in the selling prices to farmers.

The recently-introduced surcharge on import finance should go. If, for overall balance of payments (BoP) reasons, the RBI decides to continue with it, then the import of fertiliser raw materials, intermediates and finished products should be exempted from this to prevent a cascading effect on the cost and prices. In fact, the Government has already provided exemption to industries under the Export Promotion Capital Goods (EPCG) scheme and there is no reason why similar dispensation should not be given to the fertiliser industry.

Sales tax should be abolished to prevent a cascading effect on the already high prices. In the present difficult circumstances, even the distribution agencies, including State cooperatives, should accept lower margins and pass on the consequential savings to the farmers, by way of reduced prices.

It may be recalled that immediately after decontrol, the Railway freight on decontrolled fertilisers and rock phosphate was reduced by bringing their tariff classification on a par with essential commodities.

In the long run, the industry should explore the possibility of seeking reduction in the C&F landed cost of imported raw materials and intermediates through measures such as long-term contracting or selling up of joint ventures in countries endowed with abundant raw materials specially rock phosphate, with buy back arrangements.

(Concluded)

(The author is Chief Economist at the Fertiliser Association of India, New Delhi.)