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Phosphatic fertilisers — I

The rationale for subsidy

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THE Cabinet Committee on Economic Affairs (CCEA) has reportedly rejected the demand by the Agriculture Ministry to raise the subsidy for indigenously produced DAP (di-ammonium phosphate).

The reference here is to the concession amount DAP is entitled under a specially-designed scheme of ad hoc concession to facilitate corresponding reduction in the selling price to the farmers. The scheme covers all decontrolled phosphatic fertilisers besides NOP, the lone potassic fertiliser. The concession for DAP is Rs. 1,000 per tonne. For phosphate nutrients, this is determined on a prorata basis, taking the value of one kg P_2O_5 in DAP as the benchmark.

Before making judgment on whether the demand for a hike in the concession amount is justified, it is important to understand the rationale for such subsidy. When phosphatic fertilisers were decontrolled, in August 1992, and simultaneously the RP and subsidy schemes (RPS) were abolished, their selling prices were on the verge of a sharp increase. This was not because the producers wanted to exploit the free market situation, but because under the controlled dispensation, the selling price was completely out of line with the cost of production and distribution, the difference being met by subsidy support from the government under the RPS. In fact, the subsidy, on a weighted average basis, was almost equal to the selling price of Rs. 4,680 per tonne.

This was a historical aberration, resulting from a virtually stagnant consumer price for a decade, despite the continuously rising production and distribution costs. The latter was caused, in no small measure, by the government's own actions in raising the administered prices of various inputs supplied to the industry. Apart from the macro-economic changes, the steep depreciation in the value of the rupee impacted in raising the cost of imported raw materials and intermediates.

Decontrol sought to correct this aberration even as the selling prices of 'free' fertilisers tended to increase steeply to find a level close to cost. Although, the government took several measures, the gap was too big for them to make any appreciable dent.

Against this backdrop, the government introduced the ad hoc concession scheme. The objective was primarily to moderate the extent of the hike threatened by the sudden decontrol. Consider the DAP example. Without the various measures announced by the Government and without the ad hoc concession, its selling price would have increased to about Rs. 9,400 per tonne. With these measures and without the ad hoc concession, the price would still have gone up to about Rs. 8,000 per tonne. But including the ad hoc concession, the price increase was restricted to only about Rs. 7,000 per tonne. But what should not be forgotten is that even at this lower level, the fertiliser was costlier by Rs. 2,310 per tonne than before the decontrol.

That was the position in the second half of 1992-93. Since then, while the cost of imported phosphoric acid and ammonia have increased on account of increase in the C&F landed cost and the further depreciation of the rupee resulting in corresponding increase in the cost of production and distribution of DAP (and other phosphatic materials), the amount of ad hoc concession has remained unchanged at Rs. 1,000 per tonne. Unavoidably, thus, the selling price of DAP went up to Rs. 7,500 in the first half of 1994-95 and Rs. 8,500 in the second. As a consequence, DAP consumption dropped from about 4.5 million tonnes in 1991-92 to about 3.4 million tonnes in 1994-95. The total phosphate consumption, measured in terms of P nutrient, decreased from 3.3 million tonnes in 1991-92 to 2.9 million tonnes in 1994-95. The N-P use ratio, in turn, worsened from 2.43: 1 (against an ideal of 2: 1) in 1991-92 to 3.27: 1 in 1994-95 which is an unhealthy trend.

Unambiguously, the selling price has emerged as a major factor arresting growth in consumption of phosphates. If this has to be prevented, the price must necessarily be brought down to a reasonable level. In 1995-96, unfortunately, the C&F landed cost of phosphoric acid and ammonia have increased further to $410 per tonne and $220 per tonne respectively (in respect of ammonia, significant quantities were imported at $240 per tonne). The cost of these intermediates alone in one tonne of DAP works out to about $245. At the then prevailing exchange rate of Rs. 32 to a dollar this would translate to about Rs. 7,800 per tonne. Add conversion charges, freight and distribution margins, the resultant reasonable farmgate cost would be about Rs. 10,000 per tonne.

Considering the recent depreciation of the rupee to Rs. 34 to a dollar, the cost could increase by another Rs. 500 per tonne for fresh production. Against this backdrop, if the concession amount is maintained at Rs. 1,000 per tonne, the selling price to the farmers will have to be about Rs. 9,500 per tonne. This is significantly higher than the 1994-95 price range of Rs. 7,500-8500 per tonne.

At the price levels prevailing in 1994-95, DAP consumption continued to stagnate. In the first five months of this year, that is, April-August 1995 also, when the selling price was about Rs. 9,000 per tonne, there was hardly any increase in the consumption over the corresponding period in 1994-95. With further increase in price, consequent to the recent depreciation of the rupee, the chances of any recovery in consumption in 1995-96 look remote.

Even as the negotiations for supplies of phosphoric acid during the second half of the year, that is, October 1995-March 1996 are on, there is the strong possibility of a further increase in the C&F landed cost. This, in turn, will further push up the cost of production and result in added pressure on the selling price to the farmers.

The million dollar question is, do we allow the situation to linger and stand mute spectators to the resultant deteriorating trends in N, P, K use ratio? Given the continued farmers' resistance to higher prices, it is imperative to bring about a major reduction. True, the producers may be asked to cut costs. But they can work only on the conversion cost which is under their control. In this connection, the decontrol, already the producers are foregoing the return element even as various other aspects of the conversion cost are under severe pressure.

(To be concluded)

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