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Phosphatic fertilisers — II

Subsidy, the key to survival

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THE real problem in the phosphatic fertiliser situation are the raw materials/intermediates which make up for 80-85 per cent of the total cost of production. Moreover, in view of the absence of indigenous resources, these have to be almost entirely imported. The global supplies of these materials, particularly, phosphoric acid, are controlled by a few producers; mainly in the US and North African countries. Consequently, cartelisation is inevitable leading to manipulation of both supplies and prices. In this situation, the industry has virtually no control over the cost of production and, in turn, on the selling price to the farmers.

What about importing DAP instead of buying the so-called high-cost domestic production? Theoretically, this may have some appeal, but the ground reality is much too different. At the prevailing C&F landed cost of $250 per tonne, the farmgate cost of imported DAP works out to about Rs. 9,700 per tonne. However, the international price of DAP is not cost-based and depends primarily on the demand-supply situation in which the offtake by India and China play a major role.

In the event of India increasing its dependence on imports, the price will not stay at $250 per tonne. It will shoot up. In fact, in the mid-1970s, when India depended heavily on imports, as high a price as $450 per tonne was paid. Recurrence of such a situation cannot be ruled out if the need to maintain the viability of the domestic industry continues to be systematically ignored. At this level, the farmgate cost of imported DAP could be as high as Rs. 16,000 per tonne.

To overcome exploitation in this manner India may, perhaps, participate in joint ventures in the exporting countries with buy-back arrangements at agreed prices.

This will not, however, take the country far, unless supplies from the joint ventures to India can be substantially increased to meet the bulk of the phosphoric acid requirement which, at the optimum capacity utilisation of domestic capacity, is about 1.6 million tonnes. Till such time proposals in this direction take shape and consequential supplies start flowing at competitive prices, the country has to look at alternatives to offset the effects of the higher cost of production and distribution on the selling price to the farmers. The Government should take a pragmatic view of the situation. There can be no two opinions on the need for increasing consumption of phosphatic fertilisers. For this, adequate supplies have to be arranged for at prices affordable to the farmer. The need for enhancing the concession amount has to be appreciated in this wider perspective.

The least the Government can do is to facilitate restoration of the DAP selling price to the levels prevailing in the second half of 1994-95, that is, to about Rs. 8,500 per tonne. Towards this end, the concession amount needs to be raised from Rs. 1,000 per tonne to Rs. 2,000. For phosphatic materials other than DAP also, increases will have to be allowed on a prorata basis. The incremental requirement of funds, consequent to these increases, will be about Rs. 700 crores which can be supported by rationalising the subsidy on urea under the retention pricing and subsidy scheme.

In this context, the Budget has made an allocation of Rs. 5,400 crores for 1995-96. This is based on the prevailing cost structure and the controlled selling price of only Rs. 3,320 per tonne. At Rs. 3,320 per tonne, the selling price is unrealistically low, in sharp contrast to the unsubsidised prices of phosphatic and potassic fertilisers which are much higher. This distortion is also responsible for the serious imbalance in N, P, K use ratios.

It should be possible to raise the selling price of urea by about 20 per cent, without any adverse effect on its consumption and, yet, make significant savings in subsidy of about Rs. 1,100 crores in the full year. Even after meeting the increased concession component of phosphate, this move will lead to generating net savings for the exchequer.

The overall subsidy allocation of Rs. 5,400 crores includes subsidy of Rs. 1,650 crores on imported urea. These projections are on the basis of the international urea price prevailing at the time of presenting the 1995-96 Budget, that is, $245-250 per tonne, C&F. Since then, the prices have dropped significantly to about $200-210 per tonne C&F and the bulk of supplies has been made at these low prices. The resultant significant savings in subsidy on the import account should also be considered while assessing the impact of the suggested increase in the concession amount on the Budget.

In taking a view on the concession and the need to hike it, the Government should not be guided solely by the consideration of cost competitiveness measured in financial terms. The strategic factor and, in particular, the need to avoid excessive dependence on imports are more important. Indeed, this was the case in the 1980s when the Government encouraged the setting up of phosphatic plants on a large scale.

Then, the underlying economic circumstances were no different from what they are today. The country, did not have a domestic raw material base; the situation remains unchanged today. Then, the supply and pricing of imported phosphoric acid and ammonia was cartelised by a few global suppliers; the position is the same today. The only difference is that while then there was customs duty on imported phosphoric acid, it is no longer so. But the steep depreciation of the rupee has more than offset the consequential benefit of duty removal. In view of this, when in the 1980s, the Government supported the industry, there is no reason for it to take a different position now. More so when the input costs, which are beyond the control of the industry, have increased sharply.

The recent emphasis on liberalisation and competition has not changed these fundamentals. India's cost disadvantage in producing phosphatic fertilisers is "inherent" and not because the industry is not capable of producing efficiently. That being so, it would be unwise not to take care of it. The industry which has been built so painstakingly and compares with the best in the world, cannot be sacrificed merely to satisfy the instincts of the liberalisers. Financial assistance at appropriate levels must be extended to the manufacturers till such time, viable arrangements in the medium to long-term are put in place to facilitate supply of raw materials/intermediates to the industry at competitive prices.

(Concluded)

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