

Editorial

Revival in P and K use

Uncertain despite hike in concession

While the significant increase in the concession on all decontrolled phosphatic and potassic fertilisers is welcome, the State governments' move in fixing the selling prices of these nutrients at unrealistically low levels has eroded the profitability of the manufacturers and caused liquidity problems. It will be virtually impossible to maintain the domestic supplies, and even imports will be uneconomical despite the *ad hoc* concession, says Uttam Gupta.

tonnes in 1995-96) and the projected levels for other P fertilisers and MoP, the requirement of funds by the increase in concession works out to about Rs. 1,300 crores in a full year. However, considering that the increase is applicable only in respect of sales, with effect from July 6, the requirements in the remaining nine months of this year would be about Rs. 1,000 crores.

Also, the requirement of about Rs. 700 crores because of the existing concession — that is, Rs. 1,000 per tonne on MoP and DAP each (proportionate basis for other P fertilisers) announced in the Vote-on-Account Budget, with effect from April 1, and the arrears of about Rs. 400 crores from 1994-95 and 1995-96, would give a total requirement of about Rs. 2,100 crores, which is almost fully covered by the allocation of Rs. 2,224 crores made in the full Budget for 1996-97 under this scheme.

This is in sharp contrast to the substantial shortfall in allocation *vis-a-vis* the requirement of funds in the last two years, leading to delayed and short payments to the industry.

The increase in the concession and the availability of matching funds are good moves. However, there is no change in the guidelines on the implementation of the scheme, which, amongst others, require certification of the concessional sales by the State governments concerned. In the past, effective implementation of the scheme was hampered by the State authorities, delaying submission of certificates to the Centre, and some even refusing to certify the sales made through the private distribution channels.

A bigger problem has been the intervention by the State governments while fixing the selling prices of all decontrolled fertilisers at unrealistically low levels — where the reasonable cost of production and distribution are not fully covered. The resultant shortfall in realisation has eroded the profitability of the manufacturers, led to liquidity problems and pushed some of them towards sickness.

In the case of PPL, for instance, despite the financial restructuring barely two years ago, aimed at preventing it from going becoming a BIFR case, is once again on the verge of becoming sick. This year also, because of the continued involvement of the State governments by way of certification of concessional sales, they are continuing with greater intensity the obstructionist intervention in price fixation.

At the prevailing C&F landed cost of imported phos acid at \$ 416.5 per tonne and

ammonia at \$ 200 per tonne, and adding reasonable charges towards conversion cost, handling and distribution cost, the reasonable farmgate cost works out to about Rs. 11,400 per tonne. In view of this and taking the augmented concession at Rs. 3,000 per tonne DAP, the selling price to the farmer (excluding local taxes) should be at least about Rs. 8,400 per tonne. Against this, barring West Bengal, most States allow the price to range between Rs. 7,400 and Rs. 7,800 per tonne.

In view of this, it will be virtually impossible to maintain domestic supplies, and even imports will be uneconomical despite the *ad hoc* concession of Rs. 1,500 per tonne. Consequently, though there may be potential incremental demand as a result of the increase in concession, it cannot be converted into actual consumption in the absence of the requisite supplies forthcoming at the unviable prices insisted upon by the State governments. The very objective of the exercise — to increase consumption of P and K fertilisers and reduce the imbalance in the N, P K use ratio will be defeated.

With the increase in the amount of concession, the timely release of payments to the manufacturer has assumed even greater importance. This is because, unlike in the past, when for every tonne of DAP sold, only Rs. 1,000 was due from the Government, it will now be Rs. 3,000. Inevitably, any delay in payments would cause a deeper liquidity crisis and loss of interest, correspondingly eroding the profitability.

To make the scheme effective and ensure timely payments to the manufacturers, the Government should dispense with the requirement of certification by the State governments and amend the guidelines to facilitate direct payment by the Centre, based on the claims made by the manufacturers duly certified by the auditors. In fact, the flat subsidy introduced in March 1976 for all phosphatic fertilisers at Rs. 1,250 per tonne P nutrient — was implemented in this manner only.

Similar was the position for payment of subsidy under the retention pricing scheme (RPS) until the decontrol in August 1992, and continues to be so in respect of subsidy payment on urea under the RPS.

These measures alone will not take us far in terms of achieving the goal. Having already lost much time, we must quicken the pace of reducing the price imbalance. To get back to the price ratios prevailing before the decontrol, the Government should operate on the urea front as well.

At Rs. 3,320 per tonne, the urea price is artificially suppressed; in fact, almost 100 per cent lower than the reasonable cost of production and distribution and one-third the cost of supplying from imports. Needless to say, this is resulting in a high subsidy burden of Rs. 4,500 crores on domestic production and Rs. 1,648 crores on imports (Budget estimates for 1996-97). The recent steep increase in the price of naphtha, fuel oil and LSHS by 30 per cent each will add another Rs. 425-450 crores to the subsidy bill.

The Government should raise the urea selling price by about 20 per cent this year itself. Consequent to this, the urea price will be about Rs. 4,000 per tonne, making DAP only twice as costly as urea, and MoP on a par. This will impart momentum to the process of improving the balance in the N, P, K use ratio. Moreover, this will lead to savings in subsidy of about Rs. 900 crores in the remaining nine months of the year and, thus, pay for the bulk of the additional liability on account of the increase in *ad hoc* concession on decontrolled fertilisers.

The urea price should be raised by a further 10 per cent in 1997-98 to about Rs. 4,400 per tonne. The resultant savings, of about Rs. 600 crores, may be used for increasing the concession on DAP by another Rs. 1,000 per tonne to lower the price further to about Rs. 7,400 per tonne. The concession on MoP may be raised by another Rs. 500 per tonne. These changes will help in bringing the price ratios closer to the pre-decontrolled levels, that is, DAP-to-urea at 1.7 against 1.5 before decontrol.

The increase in the urea price of 10 per cent per annum should be continued from 1998-99 onwards which, apart from yielding regular saving in subsidy, will also help in withdrawing the concession on P and K fertilisers in stages without adversely affecting the price ratio. This is also crucial from the viewpoint of closing the existing gap between the reasonable cost of production and distribution of urea on the one hand and its controlled selling price on the other.

We would be ignoring this fundamental aspect at our own peril, as in the event of the pressure for subsidy removal building up especially from the IMF, as in 1991-92, the country may plunge into a serious crisis of that faced in August 1992 when suddenly P and K fertilisers were decontrolled.

A basic requirement for smooth adjustment is effective balance of payments management leading to stability of the exchange rate. Unless this is done, and with the rupee depreciating, the cost of supplying P and K fertilisers will keep on increasing, nullifying the benefit of the *ad hoc* concession and jeopardising chances of sustained recovery in their consumption.

The administered prices of basic inputs including feedstock, utilities such as power and water, and services, such as Railway, freight, also need to be checked to help the process and prevent unsustainable rise in fertiliser subsidy.

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IN A major pre-Budget policy announcement, the Government increased substantially the concession, under the *ad hoc* scheme, for all decontrolled phosphatic and potassic fertilisers. With effect from July 6, 1996, the concession on indigenously-produced DAP (di-ammonium phosphate) has been increased from Rs. 1,000 per tonne to Rs. 3,000 (proportionate increase for complex phosphatic fertilisers other than DAP); on — muriate of potash — MoP (entirely imported) from Rs. 1,000 per tonne to Rs. 1,500 and on SSP (single superphosphate) from Rs. 340 per tonne to Rs. 500.

The Government has introduced concession on imported DAP at the rate of Rs. 1,500 per tonne. It may be recalled that when the concession scheme was introduced, in September 1992, imported DAP was also eligible at the same rate as that domestically-produced — Rs. 1,000 per tonne. However, with the global suppliers dumping DAP at unrealistically low prices (at these levels, even the cash cost of production in exporting countries was not covered), the domestic producers were hurt and the Government, with effect from April 1, 1993, decided to restrict the concession only to the latter.

Since 1994-95, even as the cost of imported phosphoric acid and ammonia has been increasing, leading to a corresponding rise in the reasonable cost of production and the distribution of domestic DAP, the C&F landed cost of imported DAP too has been on the rise. In fact, at the current levels of C&F landed cost and the prevailing exchange rate, while the reasonable farm-gate cost of domestic DAP works out to about Rs. 11,400 per tonne, that of the imported material is about Rs. 10,000.

Because of this and considering that imports have a significant role in supplementing domestic production to meet the consumption requirements, it was quite logical to bring imported DAP within the reach of the farmers. However, while prescribing the concession at Rs. 1,500 per tonne (against Rs. 3,000 for domestic DAP), the Government has recognised the 'inherent' handicap of the domestic manufacturers *vis-a-vis* imports, mainly on account of the C&F landed cost of imported phos acid and ammonia in one tonne DAP being either more or at best equal to the C&F landed cost of imported DAP.

The increase in the concession amount would help in reducing the selling prices of the decontrolled P and K fertilisers significantly — for DAP from about Rs. 10,400 per tonne to Rs. 8,400 (proportionate reduction for complexes other than DAP); MoP from Rs. 4,500 per tonne to Rs. 4,000 and SSP from Rs. 2,800 per tonne to Rs. 2,640. At the reduced levels, the price of DAP will be 2.5 times that of urea against three times before the increase in concession. Likewise, the price of MoP will be 1.2 times the price of urea against the price ratio of 1.4:1. This, in turn, will help in reviving the consumption of P and K.

Based on the likely DAP consumption of about 38 lakh tonnes (against 33 lakh