

Savings on urea subsidy

What about farmers' interests?

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THE Expenditure Reforms Commission (ERC) had recommended an increase in urea's selling price by 7 per cent per annum beginning April 1, 2001, but this was not implemented in the Budget 2001-02. However, in Budget 2002-03, he has increased the price by 5 per cent. He has also raised the selling price of DAP

and MOP by 5 per cent each. The prices of complex fertilisers other than DAP have also been 'suitably' hiked.

What will be the impact of the price hike on farmers? At the existing rates of Rs 4,600 per tonne of urea, Rs 8,900 per tonne of DAP and Rs 4,255 per tonne of MOP, an increase of 5 per cent works out to Rs 230 per tonne, Rs 445 per tonne and Rs 212.5 per tonne respectively. Fertilisers are generally sold to farmers in 50 kg bags.

On a per bag basis, the price hike translates to Rs 11.5 for urea, Rs 22.5 for DAP and Rs 10.5 for MOP. In the States, wherever sales tax is levied the farmers will have to pay more.

Consider a farmer who grows a cereal crop, say, wheat. Depending on the agro-climatic factors, the application of fertilisers varies. However, assume

that the farmer applies 120 kg of nitrogen, 60 kg of phosphate and 30 kg of potash on one hectare of cultivable land. These nutrients will be available from 4 bags of urea, 2.5 bags of DAP (there is provision for supplying fertilisers in 25 kg bag as well) and 1 bag of MOP.

Thus, the farmer will have to spend an extra Rs 46 on the purchase of urea, Rs 56 on the purchase of DAP and Rs 10.5 on MOP. This adds up to Rs 112.5. The average yield (all-India) of the wheat crop is about 2,700 kg per hectare. Therefore, the incidence of the additional expenditure on fertilisers consequent to the price increase will be about 4.2 paise per kg of wheat — barely 1 per cent of the procurement price.

The Government must ensure that the benefit actually reaches them by way of increased purchasing power. This will help them absorb the impact of the increase in fertiliser price.

The increase in the selling price of fertilisers will help bring about significant savings in subsidy. Thus, on an annual basis, the savings will be about Rs 460 crore on urea, Rs 300 crore on DAP and Rs 40 crore on MOP. This adds up to a total of Rs 800 crore. As the prices of complex fertilisers other than DAP have also been increased, the overall savings may well be about Rs 1,000 crore per annum.

In the Budget speech, the Finance Minister referred to savings in subsidy as 'plugging inefficiencies' of the fertiliser

producer. Perhaps, the reference is to the recoveries (about Rs 950 crore) made by the Government by way of revision in consumption norms for 13 units with effect from April 1, 2000, on an 'interim' basis. This was done on the basis of 'actual' consumption of inputs (mainly feedstock/fuel) in 1999-2000 or the actual of the relevant year, whichever is lower.

Considering that the actual consumption of inputs in 1999-2000 or the relevant year was lower than the existing norm, it indicates a significant improvement in the efficiency of the units concerned. This was made possible by concerted efforts in maintenance, operations and management. Thus, the Government brought about sizeable savings in subsidy by 'mopping up' the gains from improvements in efficiency without, at the same time, recognising the increase in cost due to capital additions and increases in conversion cost.

The revised estimate for subsidy on domestic urea in 2001-02 is Rs 7,370 crore. This is about Rs 2,100 crore lower than the corresponding figure for 2000-01. Apart from recoveries by way of revision in consumption norms, this is the result of significant reduction in prices of liquid hydrocarbons — naphtha, fuel oil and LSHS. The latter was made possible by switching over to price fixation on the basis of import parity from July 9, 2001, on the one hand, and the reduction in international prices of the feedstock, on the other.

The Budget estimate for subsidy on

domestic urea in 2002-03 is Rs 6,499 crore. This is Rs 871 crore lower than the revised estimate for 2001-02. Of this, savings as a result of the increase in the selling price is put at about Rs 460 crore. In the absence of details, it is difficult to figure out the reason for the remaining Rs 410 crore.

With respect to concession support to decontrolled P and K fertilisers, the revised estimate for 2001-02, at Rs 4,515 crore, is Rs 1,200 crore lower than the Budget allocation of Rs 5,714 crore. This is primarily due to the reduction in the prices of imported raw materials/intermediates and imported DAP leading to the corresponding reduction in the concession rates. The Budget allocation for 2002-03 is still lower, at Rs 4,224 crore, reflecting the savings due to the increase in the selling price of these fertilisers.

On the whole, the Finance Minister has achieved savings of Rs 2,226 crore in the fertiliser subsidy in 2001-02 against the Budget provision. There is a further savings of Rs 716 crore in the Budget allocation for 2002-03. This takes the total savings to Rs 2,942 crore more or less close to the Rs 3,000-crore mark. However, in its effort to rein in subsidy, the Government should ensure that their livelihood is not affected.

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