

So much for fertiliser decontrol

► *Delivery systems for disbursing 'direct subsidy' to farmers are not in place. Hence, the existing mechanism of controlling prices will continue.*

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In a recent circular, dated May 5, 2011, the Department of Fertilisers (DOF) has asked firms to limit the increase in maximum retail price of di-ammonium phosphate (DAP) to Rs 600 per tonne for the kharif season. In the case of complex fertilisers too - containing varying proportions of nitrogen (N), phosphorus (P), potash (K) and sulphur (S) - only "proportionate increase in MRP (corresponding to that in DAP) would be admissible".

This amounts to a 'U-turn' from the position a year ago when, with effect from April 1, 2010, the Government 'decontrolled' prices of all fertilisers barring urea, as part of a move to a nutrient-based subsidy (NBS) regime. Under NBS, a fixed per-kg concession is granted on N, P, K and S with the subsidy on individual fertilisers linked to their nutrient content.

The manufacturers then increased MRP of DAP from the prevailing Rs 9,350 per tonne to Rs 9,950 a tonne during kharif 2010 and further to Rs 10,750 per tonne in the rabi season. This, together with subsidy entitlement under NBS, gave firms adequate realisation to cover their cost of production and distribution. Generally, they reported good financial performance during 2010-11. However, this time,

DOF diktat could play spoilsport. The cap of Rs 600 per tonne hike would mean that firms can only charge an MRP of Rs 11,350 per tonne during kharif 2011. This is against the much higher MRP of Rs 11,700-Rs 12,000 a tonne needed to remain viable, taking into account their subsidy entitlement and cost of supply.

HISTORY REPEATS ITSELF

At the outset, we need to sort out a basic question. Having decontrolled, why should the government control MRP? The answer is already there. It is just that we need to refresh our memory.

Until the mid 70s, Government neither controlled MRP of DAP and complex fertilisers nor gave any subsidy. However, in March 1976, it announced under a 'flat subsidy scheme', or a subsidy of Rs 1250 per tonne P (Rs 575 per tonne DAP) to all manufacturers, but did not control MRP.

The above dispensation had a short life of only three years. Based on the recommendations of Marathe Committee (part II of the Report), the Government, in February 1979, introduced formal control on MRP and brought these fertilisers under what was then dubbed as retention price scheme (RPS).

Under RPS, which covered urea too, GOI controlled MRP even as the excess of production and distribution cost over this was reimbursed to 'each' manufacturer as unit-specific subsidy. This arrangement continued up to August 24, 1992.

Based on the recommendation of JPC, from August 25, 1992, the Government removed pricing and distribution control on all P & K fertilisers and dismantled the RPS regime. From October 1, 1992, in just about five weeks,



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however, the subsidy was revived as an ad hoc concession. Unlike unit-specific subsidy under RPS, the ad hoc concession was 'uniform' for all producers.

In lieu of the concession, Government controlled MRP of these fertilisers, albeit 'indirectly'. Until the end 1996-97, these controls were exercised by state governments. Since 1997-98, the central Government fixed MRPs.

Through an order dated August 28, 1998, manufacturers were granted the freedom to fix MRPs. However, in less than a month, this was annulled as per another order dated September 23, 1998. The Government realised too soon that it could not afford to remove control on MRP. Thereafter, the Central Government

has consistently controlled MRP - right up to 2009-10 - in lieu of subsidy/concession that it gave the manufacturers/importers.

PRICE CONTROL CONTINUES

In 2010-11, did the government really change tack and thus stop controlling the MRP? While it may not have notified MRPs or issued any circular restricting price hike as for the current year, it cannot be denied that for that year too, it had an informal understanding with manufacturers to the keep the price hike within 'acceptable' limits.

On taking a view of the nearly two decades after the 'decontrol' of P and K fertilisers on August 25, 1992, it turns out that all through the Government has controlled MRP

of these fertilisers despite their de jure decontrol.

While this may sound anomalous, to be fair to Government, it needs to be understood that P and K fertilisers were never decontrolled in the true sense of the term. That would have been the case, had it stopped giving subsidy/concession to manufacturers. The fact of the matter is that, except for five weeks, from August 25, 1992 to September 30, 1992, it had been giving subsidy. When the Government gives subsidy, the prime motive being to make fertiliser 'affordable' to farmers, how could it afford not to control MRP?

The rationale for control is even stronger in the current scenario, when subsidy itself accounts for a huge share of realisation from sale. In the case of DAP for instance, this is nearly two-third; the remaining one-third being from MRP.

Given the crucial role of fertilisers in sustaining India's food security, one cannot imagine the subsidy being dismantled. The Government may, however, consider giving 'direct' subsidy to farmers. However, in view of imponderables - identifying target farmers and working out effective mechanism for transfer - even this appears to be quite a distance away.

Till then, we have to live with the existing dispensation of routing subsidy/concession through producers who will necessarily have to accept control on MRP.

The Government on its part, will have to ensure that MRP and subsidy/concession are fixed in a manner such that the viability of producers is not jeopardised.

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