

Suppliers of P and K fertilisers

Under bureaucratic siege

Seven years after the introduction of the scheme of ad hoc concession, the NPK use ratio has only worsened. The decontrolled P and K sector's woes are mainly due to the Central and State governments' continued involvement in pricing, distribution and sale certification. The Government must allow suppliers freedom of pricing to ensure reliable and viable supplies and increase consumption of P and K fertilisers, says **Uttam Gupta**.

THE Government recently made two important announcements on decontrolled phosphatic and potassic fertilisers. First, in respect of sales in 1999-2000, it notified the selling price at the same level as in the two previous years — DAP at Rs. 8,300 per tonne (proportionate basis for other complexes) and MoP at Rs. 3,700 per tonne. Second, it announced concession rates with effect from April 1, 1999 — indigenous DAP at Rs. 4,400 per tonne (proportionate basis for other complexes), imported DAP at Rs. 3,000 per tonne, and MoP (entirely imported) Rs. 3,000 per tonne.

The selling price and the concession amount make up for the total realisation from sale of the product. Thus, on sales in 1999-2000, the Government promised a realisation of Rs. 12,700 per tonne on domestically-produced DAP, and Rs. 11,300 per tonne on imported raw material/intermediates such as phosphoric acid and ammonia, at a respective rate of \$412 per tonne and \$140 per tonne respectively. After taking into account the impact of Customs duty at 5.5 per cent (levied from March 1, 1999) the reasonable cost of production and distribution of indigenous DAP works out to about Rs. 13,300 per tonne. The corresponding cost of imported DAP is about Rs. 11,900 per tonne.

To ensure the viability of domestic production as well as supplies from imports, the reasonable cost of production (C and F landed cost, in the case of imports) and distribution should be fully covered by the realisation from sales. In respect of operations during kharif 1999, however, at the notified selling price/concession rates, the latter is thus, lower than the former by about Rs. 600 per tonne for both domestically-produced and imported DAP.

The resulting unviability of the supplies produced an immediate impact on the plans of the manufacturers/importers. Of a total of about 1.8 million tonnes of DAP imports already contracted, contracts for about 1.1 million tonnes were cancelled. The domestic producers indicated their intention to reduce production of low analysis complexes like 20-20 to minimise potential losses.

Fearing consequential shortage of material, particularly during later part of

kharif 1999 and rabi 1999-2000, the Government sought to rectify the situation. Through a notification, it increased the concession rates to: Indigenous DAP Rs. 4,600 per tonne (proportionate basis for other complexes), imported DAP Rs. 3,200 per tonne, and MoP Rs. 3,250 per tonne. Yet, the realisation was still short of the reasonable cost of supply by about Rs. 400 per tonne on indigenous/imported DAP each.

Simultaneously, the Government set up an inter-ministerial group (IMG) to assess the reasonable cost of supply from domestic production/imports considering the cost of raw materials/intermediates and exchange rate on the one hand and the BICP methodology to determine the various cost elements. Thus, the revised rates were, therefore, provisional. Even as the industry responded to the hike in concession by contracting for a total of about 1.2 million tonnes of DAP imports (until the first week of July 1999) and, domestic units promising optimum production, that the concession was still provisional led to continuing uncertainties. This is bound to affect the potential demand translating into actual consumption.

The delay in announcing selling prices/concession rates and inadequate realisation *vis-a-vis* the reasonable cost of sales this year is not an isolated phenomenon. This has been a perennial feature of the *ad hoc* concession scheme, since its introduction in 1992. For instance, in respect of supplies during kharif 1998, the concession rates were notified on December 28, three months after the season was over. Moreover, on indigenous DAP, concession of Rs. 4,400 per tonne plus selling price Rs. 8,300 per tonne added up to realisation of Rs. 12,700 per tonne which was short of the reasonable cost of supply by about Rs. 500 per tonne.

In respect of sales during rabi 1998-99, even as the selling prices were notified at the beginning of the season, the concession rates were not notified till the first week of July.

Even in the prior years, when the concession rates and the selling prices were being fixed by the Centre and State governments respectively (unlike the dispensation thereafter, when both are fixed by



the former), apart from the delays — many a times inordinate delays — in bringing out the relevant notifications, a more serious problem pertained to the selling price plus concession amount being substantially short of the reasonable cost of supply. For instance, during kharif 1996, there was a shortfall of about Rs. 1,000 per tonne in a majority of the States. This was particularly due to a highly intransigent attitude of the States in fixing artificially-low selling prices totally delinked from the realities of reasonable cost.

In retrospect, thus, almost seven years down the line since the scheme of *ad hoc* concession was introduced, it has failed to achieve the objective of preventing disruption in the use of P and K fertilisers in the wake of their sudden decontrol and to promote balanced fertiliser use.

The NPK use ratio worsened from 5.9:2.4:1 in 1991-92 to 10.0:3.9:1 in 1996-97. In 1997-98, it improved to 7.9:2.9:1, but the momentum could not be sustained in 1998-99, and do not appear to be encouraging for 1999-2000 also.

The woes of the decontrolled P and K sector are primarily due to continued involvement of the Government in virtually all matters connected with their pricing

and distribution. Even as the Centre has a direct role in fixing selling prices, concession rates and making payments, State governments are indirectly involved by way of certification of sales — at notified prices — which is an essential requirement for release of 20 per cent of the concession amount.

It is paradoxical that though, *de jure*, these fertilisers are decontrolled, *de facto*, all critical aspects are controlled. Though one might argue that any manufacturer/importer is free to act in a manner he likes, this is theoretical. This is because in case he decides to sell at a price higher than the notified price while he may not attract prosecution — unlike in the case of urea wherein, this will inevitably follow under the provisions of the Fertiliser Control Order — he can still be punished by denying him the concession which constitutes a substantial chunk, that is, about 35-40 per cent of total realisation from sales. Consequently, the supplier has no choice but to obey the directions of the government.

The moot question is why having already decontrolled these fertilisers, the Government should continue to exercise controls? Ideally, it should leave the manufacturers/importers free to fix the selling

price based on their reasonable cost of supply minus the concession amount (this may be fixed keeping in mind the overall budgetary position). Any apprehension that they would charge a higher price — or, shall we say, an exploitation price — than warranted by reasonable cost is baseless.

Even if a recalcitrant supplier tries to charge a higher price, he is bound to invite resistance from the farmers. This is because even with concession support, the price is high. For instance, in case of DAP, with concession of Rs. 4,600 per tonne, this will have to be Rs. 8,700 per tonne to ensure full coverage of the reasonable cost. A manufacturer intending to charge higher than this will do so only at the cost of being unable to sell any tonnage. All the more so, when there are other manufacturers besides suppliers of the imported material, providing sufficient deterrent on the ground.

Notwithstanding all this, the Government can always exercise its authority and deny payment of concession dues, or, take any other action, to recover the money in case of a fly-by-night operator, if any — to any supplier who is found guilty of charging high price. This is possible even if the Government is not formally controlling the selling price.

In view of the above and the real possibility of maintaining price discipline even under a free market dispensation, there is absolutely no justification for the Government to continue with controls on the selling price. In fact, there is a precedent — the flat subsidy scheme for phosphatic fertilisers from March 1976 to February 1979 when the Government only fixed the subsidy, that is, Rs. 1,250 per tonne P nutrient even as manufacturers were free to fix the selling price. The Government appreciated the need for putting in place such a dispensation when, vide a notification in August 1998, it allowed the manufacturers/importers freedom to fix the selling prices of all P and K fertilisers and restricted its role to only notifying the concession rates. Unfortunately, this decision was reversed in less than a month even as the Government brought back controls on selling price vide another order in September 1998.

It is hoped the Government will do some serious thinking and allow freedom of pricing to the suppliers. This will go a long way in removing the uncertainties, minimising delays and ensuring the viability of supplies. Eventually, this would help in increasing consumption of P and K fertilisers and, thus, promoting balanced fertiliser use. This will also be consistent with the spirit of free market and liberalisation.

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