

Supply of decontrolled fertilisers

Vicious circle of subsidy

EVEN almost two years after the decontrol of phosphatic and potassic fertilisers in August 1992, the ding dong battle continues. Farmers or perhaps their mentors i.e. almost the entire political fraternity and a section of the bureaucrats connected with fertiliser and agriculture in one way or another, want the decontrolled fertilisers to be sold cheap. But, how much cheap? Inevitably, the reference point might still be the controlled selling price e.g., Rs. 4,680 per tonne DAP before August 25, 1992, although none has the moral right to see this maintained at this level.

Purely from an economic perspective, this is totally unacceptable. Decontrol marked a fundamental change in the fertiliser sector situation; it meant that manufacturers of these fertilisers were now free to set the selling prices without any subsidy support from the Government. A sum of Rs. 4,680 per tonne prior to August 25, 1992 was the subsidised selling price even as the reasonable cost of production and distribution was much higher in an overall inflationary situation. On an average basis for the industry, the latter was more than double the former, and the difference was being reimbursed as subsidy from the Government under the Retention Pricing Scheme.

Now, that the RPS was dismantled and subsidy abolished as a logical corollary to decontrol, the manufacturers were no longer under an obligation to sell at a price that has any connection with the earlier subsidised price. They would be doing so only at their own peril.

The Government too had no justification to make the producers sell at a predetermined price as it was no longer providing full subsidy support. The farmers too have no reason not to accept the unsubsidised prices as the Government consciously decided to withdraw subsidy support keeping in view the overall macro-economic considerations as also its perception that users of the decontrolled fertilisers have the capacity to pay market determined prices. In the context of the latter, the JPC report accepted by the Government in toto (and therefore, the views contained therein are also the well considered views of the Government) categorically mentions that P and K fertilisers are used mainly by the rich farmers and for commercial crops.

But, that is all academic; the crux of the matter is that farmers would still insist on paying what seems to be appropriate to them and not the market-related price and irrespective of whether, at that level, producers lose money. Needless to mention that in this endeavour, they will have the full backing of their political benefactors.

That, despite the free market dispensation they have paid prices for P and K fertilisers significantly lower than the rate at which manufacturers would have preferred to sell, is amply demonstrated by what happened since decontrol. During Rabi 1992-93, the former was Rs. 7,000 per tonne (in some states, it was even lower), as against the latter being a minimum of about Rs. 8,000 per tonne. During 1993-94, the selling price was reduced further to Rs. 6,400-6,600 per tonne while the cost to the industry continued to be well above Rs. 8,000 per tonne through most of the year except for a few months during July-September when it slipped low because of some fortuitous advantage by way of reduction in the prices of imported phos acid and

The demand for supply of decontrolled fertilisers at cheaper rates is unacceptable from an economic point of view, especially after the withdrawal of subsidy support by the government. But, as the farmers refused to pay the market prices, the government had to intervene with ad hoc subsidies. This has pleased nobody and the net result is consumption of fertilisers has gone down affecting soil yields. Cooperative endeavours to enable small farmers pay the market prices and yet make enough money should be thought of, says Uttam Gupta.

ammonia. Consequential loss of the manufacturer was made up partly through ad hoc subsidy e.g. Rs. 1,000 per tonne DAP, but that was far from being adequate to fully protect the viability of the producers.

In the battle that went on, the industry played second fiddle to the authoritative actions of the state governments which not only took away the manufacturers' freedom to fix prices but also directed them where to sell and through what channel. It may be argued that under the decontrolled regime, they were still free to do what they wished but, if the Government does not provide subsidy on sale through private channel (this constitutes 65 per cent of total) as happened in M.P. and Bihar, this was tantamount to a de facto ban on sale by them in the state concerned. Some others achieved the same result by insisting on unrealistically low selling prices.

The national exchequer, the third major player in the field, lost heavily as the custodian i.e. the Finance Ministry, virtually surrendered to the mentors of the farmers its prerogative to exercise restraint in authorising additional expenditure. While the farmers must pay unrealistically low prices and since producers would not supply at these economically unviable levels, the exchequer must necessarily come to the rescue and foot the bill. So far, i.e. during 1992-93 and 1993-94 about Rs. 1,000 crores had been spent on providing ad hoc subsidy which did not fully meet farmers' expectations and still left the industry in the lurch.

The battle is continuing even during the current year. The Government has already announced continuation of ad hoc subsidy for indigenous producers of phosphatic and potassic fertilisers w.e.f. June 10, 1994 at the same levels as in 1993-94 e.g. Rs. 1,000 per tonne DAP. As a consequence, the exchequer will have to shell out another about Rs. 550 crores during 1994-95. Meanwhile, the reasonable cost of supplying the material by the domestic manufacturers has already risen to about Rs. 8,500 per tonne and above. This is primarily because the cost of both imported ammonia and phos acid has increased sharply.

With a subsidy of Rs. 1,000 per tonne, they can at best sell the material at Rs. 7,500 per tonne. The clash of interest has thus once again come up as the state authorities do not wish the material to be sold for more than Rs. 7,000 per tonne particularly, when the selling price in the last season was Rs. 6,400-6,600 per tonne. In an election year, even from a political standpoint, this may be embarrassing to the ruling party as, despite the bravado of subsidisation, the price charged from the farmers would be higher than they

were paying in the previous season.

Ironically, all those involved i.e. farmers, industry and the exchequer have been caught in a no-win situation. In fact, they all perceive themselves as losers. But, more important than that, Indian agriculture is the loser as P and K consumption has gone down for two consecutive years, imbalance in nutrient application got aggravated and soils become poorer in nutrient availability. Foodgrain production may not have declined, but, it has not increased either, which would certainly have been the case if fertiliser use had not declined. But, if the squabbling among those who should care continues, even foodgrains output may take a beating.

Our problem is not really whether subsidy is provided or not and if yes, what should be the level. After all, despite ad hoc subsidy, consumption declined during the last two years and so did production. A possible explanation might be that the quantum of subsidy was not adequate. But, what is the guarantee that if subsidy were to be Rs. 1,500 or perhaps even higher, consumption would have gone up. A scrutiny of what went on would bring out a series of impediments in the way of increasing consumption. These include delay in subsidy announcement and subsequent notification, formulation of implementation modalities by the states, a plethora of restrictions on the use of subsidy funds, appropriation of subsidy funds by some state governments for improving ways and means position and most importantly, the indomitable impact of the bureaucracy in applying brakes.

Unfortunately, while the price factor is being projected as the only destabilising factor, not even scant attention is paid to the real issues which jeopardised the prospects of increasing consumption.

Why not we ponder for a while as to what is the danger in allowing free market to work? Is Rs. 8,500 per tonne a price that is too costly for the farmers? What is the economics of fertiliser use; what was it before decontrol and how does this fare now? And, when we look at this all the three nutrients i.e. N, P, K, have to be considered together and not each in isolation. Prior to decontrol, the selling prices on a per kg basis were Rs. 6.65 (urea), Rs. 7.57 (DAP) and Rs. 2.83 (MOP) respectively. On the basis that they were being used in the ratio of 5.7: 2.4: 1 (1991-92) the weighted average price for the three nutrients paid was Rs. 6.47. Taking the prevailing procurement price of wheat at Rs. 2.50 per kg., the fertiliser to wheat price ratio worked out to 2.58.

Now, let us talk of the present situation without even considering ad hoc subsidy. The selling prices would be Rs. 7.22 per kg N, Rs. 15.6 per kg P (assuming DAP price of

Rs. 8,500 per tonne) and Rs. 8.7 per kg K (taking MOP selling price at about Rs. 5,200 per tonne). Assuming the ratio unchanged at 5.7: 2.4: 1, the composite price of nutrients would be 9.5. Considering the procurement price of wheat at Rs. 3.50 per kg, the fertiliser to crop price ratio would now be 2.7. This is worse off by just about four per cent compared to the pre-decontrol situation. And, with an upward revision in the latter of which an indication is already available, the present situation would indeed be even better.

It may be argued, that higher procurement prices do not take care of the small and marginal farmers who do not have marketable surplus. But, ad hoc subsidy which reduces selling prices for all farmers including the rich, is certainly not the solution. The fact remains that the initial steep hike following decontrol would have already reduced consumption by this category of farmers and that the subsidy benefit now is going to those growing commercial crops, who may well pay the unsubsidised prices and still make money.

For large farmers, above 10 hectares and even those in the 2-10 hectare range with assured irrigation/rainfall, the situation is not all that alarming. For those growing commercial crops, given the high yields and huge profitability margins, the market determined prices are easy to absorb. In their case, the key challenge is not so much the price but is primarily that of coordinating supplies of fertilisers in the required quantities. For this, the government must end forthwith the uncertainties with regard to the policy and frequent state interventions and divert its energies to properly assessing the demand-supply situation including supply from imports and initiating timely action to prevent shortages.

Small and marginal farmers need intensive care. So far, we have sought to help them by maintaining fertiliser prices low. While this has been useful, by adopting this approach, are we not condemning them to continued subsistence living all their life time. Do we not wish to see them as surplus producing farmers? There is another reason why we need to change the mindset. Suddenly, when the policy changes — macro-economic policies do not always keep them in the forefront — say, decontrol of P and K in August 1992 or may be decontrol of urea three years from now, we leave them completely high and dry. Should we not adopt a more positive approach by encouraging consolidation of small plots of land for farming under a cooperative arrangement that enables this composite unit to afford market-related prices and yet make enough money from sale of surplus output at remunerative prices for its constituents farmers.

We should not be oblivious of the fact that ad hoc subsidy is a temporary arrangement. It was brought in to deal with immediate consequences of decontrol. Having decided to decontrol and exonerate itself from the subsidy obligation, the Government will be continuing the ad hoc subsidy only at the cost of embarrassing its own position and credibility. So, why not brace up to the challenge right away whereby farmers can be induced to use fertilisers without the Government having to spend money on subsidy; that would be ideal.

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