

A positive move

The 20 per cent hike in urea price needs to be sustained for three more years, says Uttam Gupta

THOUGH delayed, the increase in the selling price of urea has finally been announced. Another important decision was to continue ad hoc subsidy on MOP and indigenously produced phosphatic fertilisers at the same rates as in 1993-94. It is going to have a strong impact on farmers, industry and the government's subsidy budget.

Consider the situation from the farmer's perspective. During the past ten years — 1983-1993 — the urea selling price was reduced on two occasions and increased on another two. Per tonne it was reduced from Rs 2,350 to Rs 2,150 in June, 1983. The earlier price was restored in January, 1986. Effective August 1991, the price was increased by 30 per cent to Rs 3,060 per tonne. On the JPC's recommendation, the price was again reduced by 10 per cent to Rs 2,760 per tonne a year later.

The distinctly better situation of the farmer in terms of the economics of fertiliser use now is shown by the ratio of the price of 1 kg nitrogen through urea to crop prices. Whereas in 1981, he was exchanging 3.9 kg of wheat for 1 kg of nitrogen, now he has to part with only 1.7 kg. In paddy also, the ratio has gone down from 4.4 in 1981 to 1.9 now.

The present 20 per cent increase in the selling price of urea per tonne which translates to Rs 7.22 per kg 'N', has not terribly disturbed these ratios. For wheat, this would now be 2, whereas in paddy this has improved to 2.1 because of the simultaneous announcement of increase in the procurement price by 10 per cent. With this improved economics, urea consumption should continue to maintain a rising trend from about 157 lakh tonne in 1993-94 to at least 165 lakh tonne during 1994-95.

This decision, along with decontrol of ammonium sulphate (AS), CAN and ammonia chloride (ACL) will cut down the government's subsidy budget. On a likely urea consumption of 165 lakh tonne, the 20 per cent increase in the selling price will generate a saving of about Rs 950 crore while decontrol of other straight nitrogenous fertilisers would yield another Rs 150 crore. The additional burden of about Rs 1,600 crore imposed by the arrears under the sixth pricing period (1991-92 to 1993-94) will be lowered by about Rs 1,100 crore on account of savings due to urea price

hike and decontrol of AS, CAN and ACL. The net extra requirements of funds will thus be restricted to only Rs 500 crore, leading to a total subsidy support cut down from Rs 5,600 crore to Rs 4,500 crore.

Increase in urea price is important from another angle. Because of sudden decontrol of phosphatic and potassic fertilisers and consequential steep increase in their selling prices in August, 1992, and reduction in the controlled selling price of urea by 10 per cent, the parity in prices of N, P and K had been greatly disturbed. The serious imbalance was reflected in N.P.K

(retention) price related to reasonable production cost based on prescribed efficiency norms remains unchanged. Against this backdrop, the sudden rise in the value of fertiliser shares on the ostensible logic that the government's decision would boost their profitability is totally unwarranted.

Faced with a high production cost of about Rs 8,500 per tonne or above in respect of DAP, manufacturers of phosphatic fertilisers were threatened from subsidised supply of 'N' through urea on the one hand and cheap imported DAP on the other. The latter, despite recent firming

causing delay and distortion in implementation. Second, the selling price bands have to be fixed at realistic levels say, about Rs 7,500 and above for DAP which together with subsidy of Rs 1,000 per tonne would ensure a realisation of about Rs 8,500 per tonne for production to remain viable. Third, effective monitoring and coordination between the government and industry will be necessary to ensure that subsidy funds are used in a timely and effectual manner for facilitating growth in consumption.

The steps the government has initiated at fashioning a conducive policy environment for fertilisers has to be continued. The 20 per cent hike in urea price needs to be sustained for three more years. This is necessary to gradually bridge the gap between the cost and the selling price and to minimise the impending adverse consequences of decontrol of urea. Efforts will have also to be made to keep the production cost low by preventing further rise in the 'administered' prices of inputs to the fertiliser industry. Industry will also have to chip in with matching efforts to cut down operational and maintenance cost.

For the phosphatic industry, there is no option except continuing subsidy. This is because we are almost totally dependent on import of raw materials and the international pricing is such that the C&F landed cost of imported ammonia and phos acid in one tonne DAP is invariably higher or equal to that of imported DAP. Consequently, the handicap to the extent of the conversion charges is bound to remain.

The government should accordingly announce continuation of subsidy on indigenously produced phosphatic fertilisers, the quantum of which may be varied depending on the movement in the prices of raw materials relative to DAP. Not doing so would spell ultimate closure of the phosphatic industry and heavy dependence on imports at exorbitant prices. With Indian demands at present level of imports being pegged at about 10 per cent of total world imports, any increase in demand is bound to generate further pressure on the available global supplies. In that situation, the government may have to subsidise imported material at a much higher rate and yet not be assured of timely supplies to farmers.



use ratio which declined from 5.9:2.4:1 in 1991-92 to 9.5:3.2:1 in 1992-93 and further to 9.6:2.7:1 in 1993-94.

In conjunction with the decision to provide ad hoc subsidy on DAP and MOP at Rs 1000 per tonne each, one can hope some rectification in the imbalance in the use of N, P & K and resultant balancing of the diet for crops. But the picture may not look that rosy unless other requirements through suitable guidelines are met.

Consider the impact on the industry. Urea manufacturers presently covered by the retention price and subsidy scheme would remain unaffected by the hike in the selling price. To the extent farmers pay more, it would result in that much less subsidy. The key point here is that the ex-factory

up of international price to \$205 per tonne C&F, would still be cheaper by about Rs 1,000 per tonne than the corresponding farm gate cost of indigenous material. While the urea price increase and simultaneous ad hoc subsidy on phosphate and potash will help in meeting the threat from subsidised sale of urea, restricting the subsidy to domestic material should help in protecting the industry from cheaper imports.

For the results to flow along expected lines, much would depend on the detailed guidelines which are yet to be announced. Three basic requirements have to be met. First, ad hoc subsidy has to be administered directly through the industry. In the past, it was done through state governments