

VIEWPOINT

Delay defeats purpose of base rate for fertiliser sale

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RECENTLY, the government notified 'base' rates of concession on decontrolled phosphate and potash fertiliser in respect of sale during 2001-02. These are based on assumptions about prices of imported phosphoric acid and ammonia, imported DAP (di-ammonia phosphate) and exchange rate. Generally, the prices/rates pertain to previous year.

What is the logic behind announcing a 'base' rate? Even as a manufacturer/importer has to be compensated on the basis of actual reasonable cost of inputs during any given quarter, it takes time before the precise rate can be worked. With a view to ensuring that his operations are not held up, the government uses a tentative number or base rate for making payments.

The current season commenced on April 4, notified the selling price and 'base' rate of concession prior to this. Whereas, in respect of the former, the announcement came well in time, but for the latter it came towards the fag end of the season. This defeats the very purpose of announcing the 'base' rate.

Ironically, even these base rates are 'provisional'. This is because the government wants to change the method of determining concession on indigenous DAP from present 'imported' phosphoric acid route 'alone' to combining this with 'captive' phosphoric acid route. Since, the reasonable cost of producing DAP under the latter is lower than the cost under the former, taking a weighted average will result in reduction of concession.

One fails to understand the delay in conducting such an exercise which should have taken place with the commissioning of the Oswal Chemicals & Fertilisers plant at Paradeep, Orissa, at the beginning of 2000-01 as there was a significant increase in production capacity based on 'captive' acid route.

In case of imported DAP too, the government is contemplating a review of the handling and distribution cost ostensibly to reduce the concession on it. For this purpose, reportedly, it has recently constituted a committee under the chairmanship of a joint secretary, department of fertilisers. As for domestic DAP, there was no valid explanation for not completing the exercise in time.

Even, without the caveat of 'provisional', suppliers would have faced an 'uncertain' situation until the final rate of concession, are announced. Now, by putting the method of determining concession under review, the 'uncertainty' has been further compounded. This leads to an anomalous situation whereby even the 'final' rate will be provisional.

The government has brought about some improvement in payment arrangements. Thus, in respect of domestic DAP, it will now release 85 per cent of concession amount on submission of claims (90 per cent if a bank guarantee is furnished) up from existing 80 per cent. However, since, the balance 15 per cent is a significant amount (Rs 555 per tonne on base rate of Rs 3,700 per tonne), liquidity of suppliers will remain under serious stress.

As it is, *de facto* control on phosphate and potash fertilisers which are already 'decontrolled' has been a major headache for the suppliers. The delay in announcing the concession rates and resultant 'uncertainties' in planning for supplies—from domestic production and imports—makes matters worse. The powers that be need to take urgent steps to remove these in order to get the best results from the scheme.

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