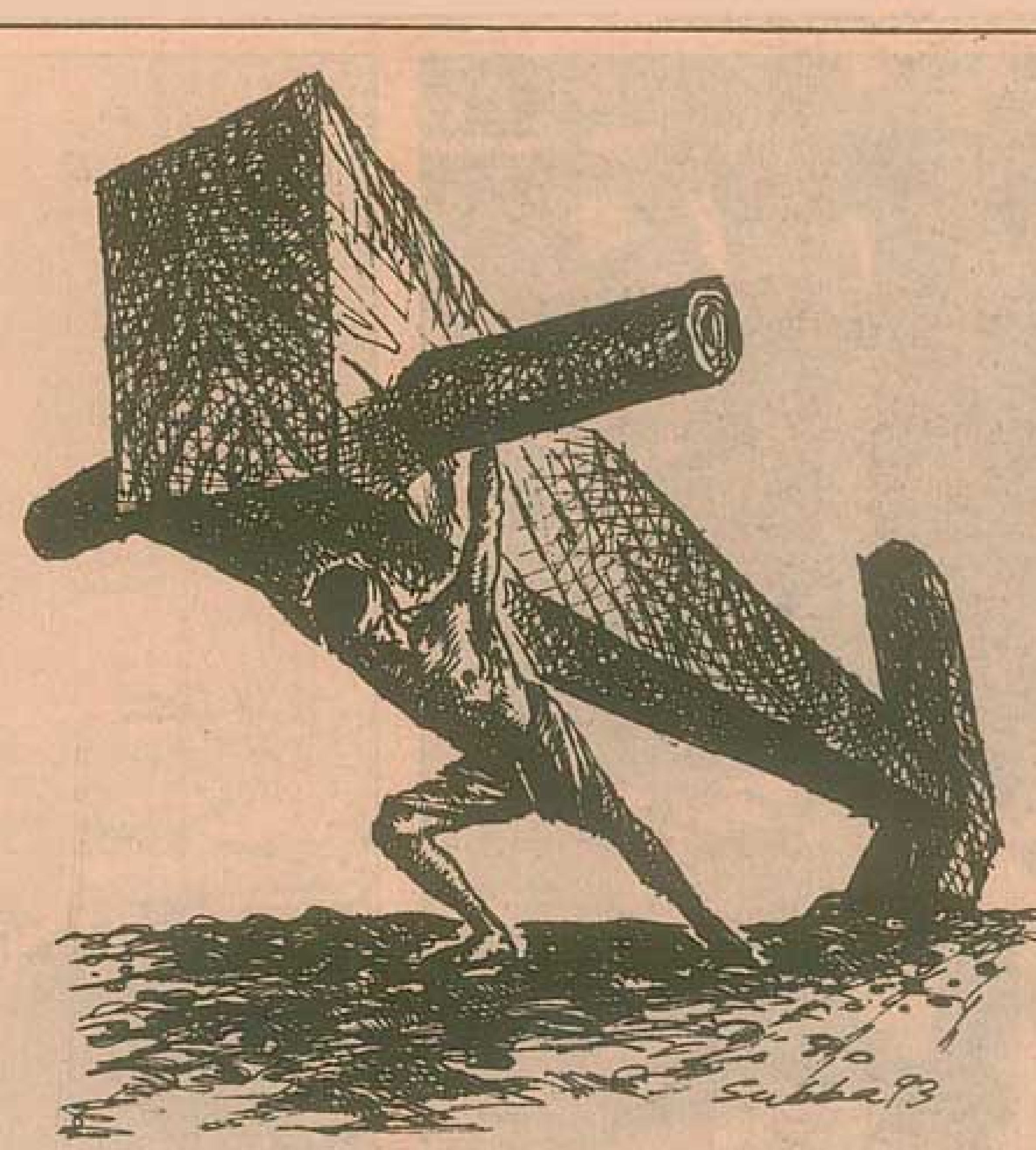
The Weekend Observer January 9, 1993



Far from pampered

Dr Uttam Gupta opens up the question of consumers paying too much while farmers receive too little

FARMERS are being pampered. Paradoxically, this phrase is catching on at a speed equalling, if not surpassing, the onslaught on this vital segment of the economy in recent years.

This time, the issue which has caught the contemptuous eyes of the critics is how much extra the farmers would be getting by way of increase in procurement price in the aftermath of decontrol of phosphatic and potassic fertilisers. Unfortunately, there is more of rhetoric to the current debate on the subject than genuine appreciation of the ground realities.

Consider a farmer using the average application rate of 92.5 kg N, 39.6 kg P_2O_5 and 8.6 kg K_2O on one hectare of land for growing wheat. Primarily, N, P_2O_5 and K_2O are supplied from urea, DAP and MOP respectively.

The price of urea, which continues to remain under control, has decreased by Rs 300 per tonne. This translates to a reduction of Rs 0.65 per kg of N nutrient. In the case of DAP, after all the cost cutting exercises, including the effect of various reliefs announced by the government, the selling prices (excluding local taxes) announced by the industry are in the range of Rs 7,900 to Rs 8,200 per tonne.

After taking into account state level taxes and selling margins as well as official relief, the increase over the earlier controlled selling price is Rs 3,028 per tonne. In terms of the price of one kg of P_2O_5, it works out to Rs 6.9. Decontrol of potassic fertilisers has raised the selling price of MOP (entirely imported) from Rs 1,700 per tonne to a prohibitive level of Rs 6,000 per tonne. At the average application rates mentioned above, the additional expenditure the farmer will thus have to incur works out to about Rs 275 per hectare.

On the basis of the national average yield of wheat at 2,117 kg per hectare, increase in the cost of wheat due to increase in fertiliser prices will be Rs 0.13 per kg or Rs 13 per quintal. While this serves as the bottomline, the actual impact on farmers in different states could be much more, depending on the precise selling price, rates of local taxes and most importantly, whether the concerned farmer actually receives the benefit of subsidy.

Besides, no subsidy is available on SSP, another important phosphatic fertiliser which supplies about 20 per cent of total domestic P_2O_5 supplies. Farmers using this material as a source of P_2O_5, will have to pay about Rs 11 per kg P_2O_5 extra.

Similar is the position with regard to complex phosphatic materials other than DAP, in states like Andhra Pradesh where subsidy has been denied on these materials.

The concerns of the farmers transcend mere compensation for the fertiliser price increases. The costs of other items used in crop production have also gone up significantly since the wheat price was revised last in March, 1992. The cost of hiring a tractor for instance, has gone up by about Rs 1,000. The cost of irrigation has increased by about Rs 75 per hectare.

Considering that for the wheat crop at least four irrigations are required, this means an additional expenditure of another Rs 3,000. Much more significant is the cost of labour which inevitably increases with overall inflation. Assuming that the farmer grows two crops in a year, the incidence in this case can be safely taken at Rs 600. Thus, the three factors put together will mean an additional expenditure of Rs 1,000. In terms of the increase in cost of wheat, this would work out to Rs 0.47 per kg or Rs 47 per quintal.

Together with the fertiliser price hike, the total cost push adds up to Rs 60 per quintal. In view of this and considering the existing level of Rs 280 per quintal, a procurement price of about Rs 340 per quintal should be a reasonable figure.

Even at this level, the price will be substantially lower than the expenditure of Rs 5.26 per kg that the government is incurring on importing wheat.

We need to look a little beyond the immediate short-run to realise that a much bigger onslaught is awaiting the farmers.

The concession of Rs 1,000 per tonne DAP and corresponding amounts for other complex phosphatic fertilisers and potassic fertilisers will not be available on the material purchased after December 31, 1992. In short, this would mean that a farmer in Uttar Pradesh will have to pay Rs 9,000 per tonne of DAP on purchases made after that date.

In the event of rupee becoming fully convertible, as reported in a section of the press, the cost of indigenously manufactured DAP will go up by another Rs 1,000 per tonne.

A related point is the distinct possibility of the decontrol of even nitrogenous fertilisers, in line with the promises made to the IMF to completely eliminate fertiliser subsidy by the year 1993-94. Consequently, at the bare minimum, the urea selling price will shoot up to about Rs 4,500 per tonne, which is Rs 1,440 per tonne more than the level obtaining prior to August 25, 1992.

It must be pointed out that this does not consider the devastating effect of recent steep hikes in the basic price of naphtha (36 per cent), fuel oil/LSHS (54 per cent) etc., and of withdrawal of the concessional price in non-feedstock use for fertiliser manufacture. Contemplated steep increases in the railway freight etc., are additional factors whose impact will further push up the farmers'costs.

Consequently, compared to the situation prior to August 25, 1992, the increase in the per kg price of nutrient would work out to Rs 3.13 for N and Rs 9.8 for P_2O_5. Assuming, unrealistically, an unchanged price for K, the additional expenditure on one hectare of wheat crop works out to Rs 738. This translates to an increase of Rs 35 per quintal in the cost of wheat for a farmer using fertilisers in 1993.

Together with other cost escalations quantified above, the total cost push will be about Rs 82 per quintal and will need to be appropriately compensated.

These calculations should leave no doubt that the situation that the farmers face both in the immediate short-run and beyond is, indeed, serious. One shudders to even talk of an overwhelming section of the marginal, and to some extent even small farmers, who have no marketable surplus to sell and, consequently, nothing to gain from the compensatory mechanism of hike in procurement price.

That any increase in the procurement price has potentially an inflationary effect is well known. But, there is no use blaming only the farming community for that.

There were two successive devaluations of the rupee in 1991 and another partial devaluation in 1992. Prices of petroleum products were increased in 1991 and again in 1992. Railway freight has been increased twice. Coal and gas prices were jacked up. Fertiliser prices were increased by 30 per cent in August, 1991, and this year again these have gone up steeply following decontrol. Even the cost of credit for agriculture was raised last year. Now, under the diktat of the IMF/World Bank, sooner or later, the farmers will be forced to pay the prevailing commercial rate on loans.

In the majority of these actions, there has been no transparency, much less any effort to rationalise the increases in terms of any scientific criteria. The surreptitious manner and the suddenness with which the price increases are slapped on the user industries, agriculture being no exception in the emerging free market environment, would leave anyone gasping.

It may be pertinent to see that only 20 million tonnes of food grains, representing a little over 10 per cent of the total production, are procured and sold through the public distribution system. While the issue price from the ration shops may influence the market prices to some extent, surely it cannot be the only factor: The latter is ordinarily double the former or more.

Unfortunately, it is precisely the manner of formation of the prices in the free market serving the foodgrains needs of the vast majority of the population which stokes the fires of inflation. While any increase in the procurement/issue price of foodgrains meant for the PDS, despite being based on comprehensive cost calculations, becomes the subject matter of hot debate, steep hikes in the market place virtually go unnoticed.

So far, one is yet to see any worthwhile attention getting focussed on the phenomenon of consumers paying too much while the farmers receive too little for any essential element. Recently, in an address to the farmers, the Prime Minister emphasised the need for sharing of the burden by all sectors of the economy.

Our compulsions of maintaining the country's food security demand that this principle is implemented in its true spirit. Indeed, if only there is cost optimisation in all segments of the economy, based on the principle of 'accountability' and 'transparency', we will automatically get good results in terms of maintaining low cost of food without having to resort to the so-called props/subsidy.

The author is chief economist of The Fertiliser Association of India