

Fert panel views need to be carried forward

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During kharif 1998, in view of reasonable farmgate cost further increasing to about Rs 13,000 per tonne, and Government contemplating to maintain concessions at

no automatic revision in concession amount.

The result is pressure on selling price as during 1993-94 to 1995-96 or threat to viability of the



Rs 3,500 per tonne (rabi 1997-98 level), selling price will have to be Rs 9,500 per tonne to ensure viability of production. The price ratio would therefore, worsen to 2.60:1.

The Rao Committee has recommended the selling price of DAP at Rs 7,361 per tonne which gives a ratio of 2.01:1 with urea price of Rs 3,660 per tonne. But then, this would require a concession of Rs 5,439 per tonne even on the basis of the farmgate cost of Rs 12,800 per tonne proposed by the committee, which itself, is short of the reasonable cost by Rs 200 per tonne. And, with the Government not inclined to give a subsidy of more than Rs 3,500 per tonne, the stalemate continues.

Clearly, all P and K fertilisers including DAP continue to be at a disadvantage. This is because unlike urea, where all escalations in reasonable cost of supply are fully compensated by corresponding increase in subsidy under the RPS, in P and K there is

manufacturers as during kharif 1997 and to a much greater extent in rabi 1997-98. In kharif 1998 also, even as the government is not inclined to raise concession, the price is all set to look up again to cover rising cost of supply.

The problem of imbalance in price ratio can be tackled only by bringing the policy dispensation for phosphate at par with that of urea. With cost of raw material/intermediate- largely imported alone accounting for about 80-85 per cent of production cost, manufacturers of DAP and other complexes face broadly similar cost structure. While this obviates the need for unit-specific RP-- as in urea-- parity in regard to compensation for cost escalation is absolutely essential.

The government may fix a certain target price of DAP say, Rs 8,300 per tonne (proportionate basis for other complexes) to ensure proper ratio with urea and give a categorical commitment that excess of reasonable farmgate cost

over this will be fully compensated by giving concession support at the appropriate level. For instance, in respect of sales during kharif 1998, this may be set at Rs 4,700 per tonne.

At its prevailing level of Rs 3,660 per tonne, price is artificially suppressed. This needs to be raised in small steps. An increase of 15 per cent would take it to Rs 4,210 per tonne thus, giving a DAP to urea price ratio of about 2:1. This will also be consistent with Rao Committee recommendation requiring increase in urea selling price to the extent of the impact of feedstock price hike in September 1997.

Also, the money thus, saved can be used for providing additional support to P and K. This will also be helpful in tackling the problem of the yawning gap--currently about 100 per cent-- between the reasonable cost of supply, on the one hand, and selling price on the other and thus, enable a smooth transition towards eventual decontrol of urea.

Even among various complex phosphatic fertilisers, there are anomalies in allowing concession support.

For arriving at a concession for materials other than DAP, the rate for latter is first divided by 46--being 'P' nutrient in a tonne-- to arrive at per kg rate. Corresponding to Rs 3,500 per tonne, this works out to Rs 7.61. This is then multiplied by 'P' content in the complex to arrive at applicable concession rate. For instance, for 28:28:0, this work out to about Rs 2,131 per tonnes.

The method is flawed in as much as it presumes that concession on DAP is entirely on 'P' even though it contains 18 per cent nitrogen as well. As a result, materials having high 'N' e.g., 28:28:0 get inadequate support. This anomaly can be minimised dividing concession on DAP by 640 kg--sum of the N and P nutrients--and then, multiplying the resultant unit rate by total nutrient in relevant material i.e., 560 for 28:28:0.

SSP is at a disadvantage vis-a-vis DAP (and other complexes) due to discriminatory policy changes. Prior to July 1996 against a concession of Rs 1,000 per tonne on

the latter it was Rs 340 per tonne on former. During rabi 1997-98, however, concession on DAP was Rs 3,500 per tonne, against only Rs 600 per tonne on SSP. With this and the reasonable cost of supply of SSP about Rs 3,400 per tonne, its selling price was Rs 2,800 per tonne or Rs 17.5 per kg P, against Rs 15.0 per kg P being the price through DAP at Rs 8,300 per tonne. During kharif 1998 there is need for increasing concession on SSP to at least Rs 1,000 per tonne to achieve price parity with DAP and other complexes.

Ammonium sulphate (AS), ammonium chloride (ACI) and calcium ammonium nitrate (CAN) decontrolled in June 1994-- are neither covered by RPS nor, scheme of ad hoc concession. They are thus, at a serious disadvantage vis-a-vis urea - dominant supplies of N which continues to be heavily subsidised. For instance, as against urea with 46 per cent 'N' available at Rs 3,660 per tonnes. Selling price of ACI (25 per cent N) has to be at least about Rs 5,500 per tonne to make production viable. An impractical situation indeed! Even better suitability of latter to certain crops e.g. groundnut, tea, tobacco, etc cannot help it sell at such high price. As a result, production and consumption of these fertilisers has suffered a serious set back.

This bias against AS, CAN and ACI needs to be urgently removed by bringing the policy dispensation for these at par with that of urea.

In the meanwhile, they need to be given emergency support to compensate for the steep hike in prices of hydrocarbons. This is all the more so when similar impact of this hike on production cost of urea has already been offset by corresponding upward revision in RP.

It is hoped that the Government will make a sincere effort to minimize these distortions while evolving a new long term and co-ordinated fertiliser policy based on the high powered Hanumanatha Rao Committee report.

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TO ALL those gripped by uncertainty over fertiliser pricing policy, the submission of the report by the high powered Fertiliser Pricing Policy Review Committee under the Chairmanship of Dr C H Hanumantha Rao, former Member, Planning Commission, may have come as a relief. One of the terms of reference of the committee was to improve the cohesiveness of the policies for the controlled and decontrolled segment of the fertiliser industry, specially the policies impinging on their relative prices.

Considering the likely impact of the committee's recommendations on the health and growth of the industry on the one hand and fertiliser use and its balanced application on the other, the Government is reported to have decided not to act in haste unlike the JPC (1992), on which decisions were taken in less than a week, and instead analyse the report in all its dimensions before finalising its stand.

On the important issue of promoting balanced fertiliser use, however, it may be worth recalling that all through the 1980s there was a uniform policy dispensation covering all fertilisers i.e. urea, other straight nitrogenous fertilisers i.e. AS, CAN and ACI and all complex phosphatic fertilisers including DAP. This indeed, contributed to rapid growth in fertiliser consumption and improvement in the NPK use ratio.

The sudden decontrol of phosphatic and potassic fertilisers in August 1992 and continued control on urea with reduction in its selling price by 10 per cent, created a serious imbalance in their price ratios. This was because while the former had to be sold at a price to reflect full reasonable cost of production and distribution, without any subsidy support from the Government, sale of the latter was at a controlled and heavily subsidised price.

Thus, immediately after decontrol, the selling price of DAP at about Rs 8,000 per tonne was 2.9 times price of urea at Rs 2,760 per tonne. The Government, with ef-

fect from October 1, 1992, introduced a scheme of ad hoc concession on all P and K fertilisers (except SSP which was covered since 1993-94 at Rs 340 per tonne) providing for concession support at prescribed rates, for example, on DAP at Rs 1,000 per tonne.

With this, its selling price was Rs 7,000 per tonne which was 2.5 times that of urea.

Thereafter, even as concession rates remained unchanged, continuing increase in reasonable cost of supply caused by rising dollar price of imported raw materials/intermediates on the one hand and substantial depreciation of rupee on the other, led to continued increase in selling price which reached a peak of about Rs 10,000 per tonne during 1995-96. In sharp contrast, the price of urea was only Rs 3,320 per tonne after a 20 per cent hike in June 1994. Thus, the imbalance in price ratio was at its maximum of 3:1.

In July 1996, concession was increased to Rs 3,000 per tonne and thereafter to Rs 3,750 per tonne in April 1997. Meanwhile, the reasonable cost of supply escalated to Rs 12,050 per tonne-- projected by the empowered committee-- during kharif 1997. The farmers were obtaining the same at a price of Rs 8,300 per tonne, against urea price of Rs 3,660 per tonne after 10 per cent hike in February 1997. Thus the price ratio improved to 2.26:1. During rabi 1997-98, it remained at this level as price of DAP and urea were kept unchanged.

On actual operations, reasonable cost of supply was, however, higher by Rs 350 per tonne during kharif 1997 and Rs 375 per tonne during rabi 1997-98. In view of this, and concession rate remaining unchanged in kharif 1997 and reduced by Rs 250 per tonne during rabi 1997-98, manufacturers had to take a knocking of Rs 350 per tonne and Rs 625 per tonne, respectively. But to ensure viability of production, price to farmers would have been higher to that extent i.e. Rs 8,650 per tonne in kharif 1997 and Rs 8,925 per tonne in rabi 1997-98, still resulting in an adverse price ratio of 2.36 and 2.44, respectively.