

# Fertiliser industry still waiting for succor

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**E**VER since economic reforms were initiated in July 1991, the fertiliser industry has been in a state of turmoil. The adverse consequences of this on production, consumption and profitability of the industry and the imbalance in the use of primary nutrients have been evident.

The genesis of the problem can be traced to the sudden decontrol of phosphatic and potassic fertilisers in August 1992, followed by decanalisation of imported DAP and its imports at zero customs duty.

While the former led to a steep increase in prices, the latter led to unfair competition for indigenous producers from imports.

Full convertibility of the rupee on trade account, announced in the 1993-94 budget, compounded the problems of the domestic phosphatic industry as the principal raw materials and intermediates were required to be bought at a higher market rate of exchange. In fact, thanks to the dumping of phosphatic fertilisers, the C&F cost of phosphoric acid and ammonia per tonne was \$30 more than the landed cost of finished product at \$160 per tonne. A majority of the plants had, therefore, to be closed

down during March-June 1993.

The declining trend in the consumption of P&K fertilisers continued during kharif 1993 and rabi 1993-94. Against this backdrop, the industry was looking forward to corrective steps in the budget for 1994-95.

We had suggested a 25-per cent increase in the selling price of urea, which would have resulted in a saving of about Rs 1,200 crore in subsidy and, at the same time, would not have been too harsh on the farmers. Part of the money thus saved could have been utilised for continuing the ad hoc subsidy on domestically produced phosphatic fertilisers, still leaving some surplus with the exchequer. Alternatively, we had requested a variable customs duty to allow a level playing field for the domestic phosphatic industry.

The budget for 1994-95 has discontinued the ad hoc subsidy on domestic phosphatic fertilisers, while the promised increase in urea price has not come about.

The revised estimate of Rs 4,400 crore for fertiliser subsidy for 1993-94, which

is Rs 900 crore higher than the initial budget provision, should be adequate to meet the requirements and to liquidate the previous year's arrears.

However, the additional requirements on account of the revision of retention prices during the sixth pricing period, which are still to be notified, will spill over to 1994-95.

For 1994-95, the budget makes an allocation of Rs 4,000 crore, consisting of Rs 3,500 crore on indigenous nitrogenous fertilisers and Rs 500 crore on imported urea. On the basis of the cost structures and production level of 1993-94, and the prevailing international prices of urea, this should be adequate to meet the requirement for 1994-95.

In the event of the production or the consumption or both being higher than in 1993-94 and the revision in the sixth pricing, funds for increased subsidy will have to be sought through supplementary demands for grants.

While the 1994-95 budget has continued with zero duty on fertiliser project imports, on spares, the duty has been reduced to a uniform 25 per cent

against 25-85 per cent earlier. This would help reduce the cost of spares imported along with the project in excess of 10 per cent, as also of spares imported for replacement and maintenance needs.

The budget has also eliminated the countervailing duty on imports for renovation and modernisation of fertiliser plants. These measures will reduce the cost of production of new projects.

The lowering of the corporate tax from 45 per cent (excluding surcharge) to 40 per cent will not have any salutary effect on the fertiliser industry, as the benefit will be neutralised by the lowering of the retention price to that extent. For the phosphatic segment much more needs to be done by way of specially designed policy changes.

The finance minister's package for revitalisation of rural credit institutions and the increased availability of credit for agriculture will help the fertiliser industry. However it is imperative that the government announce a comprehensive policy package for the fertiliser industry to ensure its viability as well as increased production and consumption of fertilisers. □

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