IN a recent interview, the agriculture minister is reported to have stressed the need for restructuring the fertiliser policy to correct the imbalance in the use of nitrogen(N), phosphate(P) and potash (K). Against an ideal NPK use ratio of 4:2:1, during 1991-92, the actual ratio at the all India level was 5.9:2.4:1. This was, however, a significant improvement over 7.7:1.7:1 in 1975-76. This was made possible by implementing appropriate policies during the second half of the 70s and 80s.
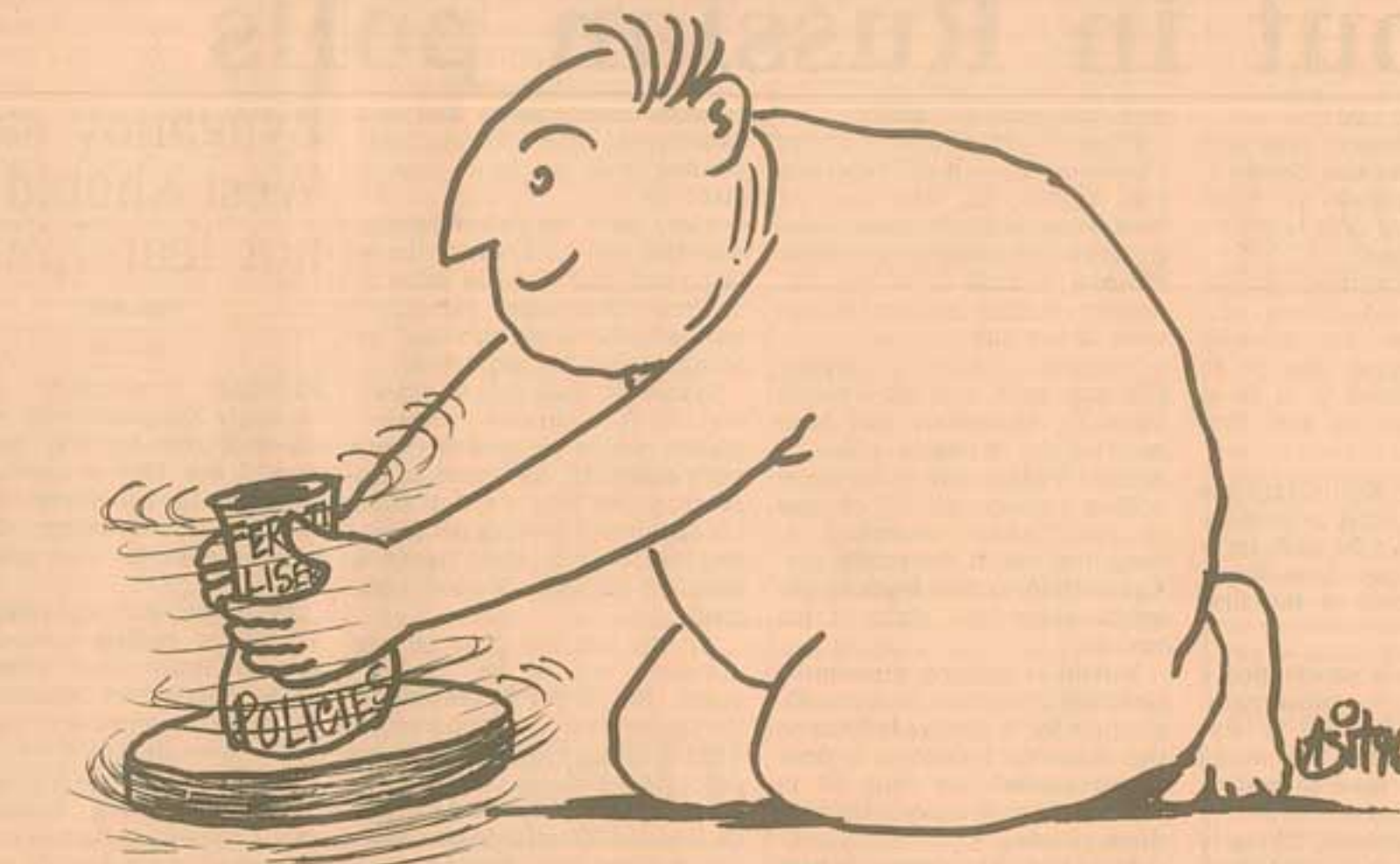
Until the mid-70s, while the selling price of urea was controlled at a low level, the manufacturers of phosphatic fertilisers were free to fix prices to cover their reasonable cost of production and distribution. A certain degree of imbalance in the relative price was, therefore, unavoidable. In March 1976, the government introduced flat subsidy at the rate of Rs 1,250 per tonne phophatic nutrient on all phosphatic fertilisers to enable corresponding reduction in the selling prices to the farmers. In respect of DAP containing 46 per cent phosphate, this worked out to about Rs 575 per tonne.

Carrying the process further and with a view to establish proper parity with the price of urea, the government started directly controlling the selling prices of DAP and other complex phosphatic fertilisers at a uniform level. Simultaneously, it introduced the Retention Pricing Scheme (RPS) to compensate the manufacturers the excess of the cost of production over the selling price. Urea was already under the RPS since November 1977.

All through the 80s, the government was fixing the selling prices of all fertilisers in a manner as to maintain the desired parity in prices. The policy paid rich dividends enabling rapid growth in the consumption of all nutrients and even faster growth in the use of phosphate and potash leading to significant improvement in the NPK use ratio.

A spin-off of the policy was increasing quantum of fertiliser subsidy. The main cause for this was virtually no increase in the selling price despite substantial increase in the cost due to steep increase in the administered prices of various inputs including hydrocarbon feedstock utilities and services supplied to the industry. Significant depreciation of the rupee further compounded the cost push effect.

With the launching of the subsidy reduction programme and in a bid to correct this anamoly, the government raised the selling prices of all fertilisers by 30 per cent, In August 1992, it decontrolled all phosphatic and potassic fertilisers. Consequent to this, their selling prices zoomed and thereafter, have been on a rising trajectory.

In sharp contrast, urea was not only retained under control and heavily subsidised, its selling price was reduced by 10 per cent. In June 1994, it was increased by 20 per cent and, since then, has been maintained at this level.

These disjointed policy decisions led to increasing imbalance in the selling prices. Prior to decontrol, the selling price of DAP was only 1.5 times the price of urea. This ratio increased to 2.35 during 1993-94, to 2.26-2.56 in 1994-95 and further to 2.86-3.01 during 1995-96. Likewise, the price ratio of the decontrolled MOP to urea worsened from 0.55 before decontrol to 1.4 in 1995-96.

Consequent to this, while the use of nitrogen has continued to increase at a rapid pace, the use of phosphate and potash has declined. Resultantly, the NPK use ratio has deteriorated from 5.9:2.4:1 in 1991-92 to 8.6:2.5:1 during

Fertiliser policy should be rationalised

Any hike in fertiliser prices could cause further imbalance in soil nutrition, says **Uttam Gupta**

1995-96. A suitable policy re-orientation will have to aim at correcting this policy induced distortion in prices. Balance may be brought about by raising urea price, lowering prices of phosphatic and potassic fertilisers or a suitable combination of both.

Under the first option, taking the prevailing DAP price of Rs 10,000 per tonne, the urea price will have to be about Rs 6,600 per tonne to achieve the pre-decontrol price ratio of 1.5.

On the face of it, this may look attractive. Apart from improving the nutrient price ratio, it would help in completely eliminating subsidy on urea. At one go, the government can save Rs 6,800 crore (budget estimate for 1996-97) and, to that extent, fiscal deficit will be reduced.

However, a 100 per cent increase in urea price will hit consumption drastically. The small and marginal farmers would be the worst affected and many of them may even stop using fertiliser completely. Because of this, foodgrains production is bound to fall sharply apart from triggering off large scale loss of income and employment.

To make up for the shortfall, India will have to heavily import food and that will have its inevitable horrendous effects by way of problems of availability in the world market, foreign exchange out-go and increasing strain on the limited infrastructure for port handling and transportation. Besides, this would entail heavy subsidy outgo on foodgrains which may far exceed the subsidy on fertilisers.

Under the second option, the DAP price has to be brought down to about Rs 5,000 per tonne to achieve the pre-decontrol price ratio of 1.5. This would require increase in the ad hoc concession support by a whopping Rs 5,000 per tonne. In this situation, the government will be burdened with a monumental subsidy of about Rs 10,000 crore per annum including Rs 6,800 crore on urea and about Rs 3,500 crores on phosphatic and potassic

fertilisers. Clearly, this is unsustainable. From the farmers' point of view also, it is not proper to keep them tagged to price levels that are completely out of line with the cost of supplying fertilisers to them.

Under the third alternative, the emphasis is on increasing the urea price on the one hand and reducing prices of phosphates and potash on the other. In fact, this is only logical as at current levels. There is also need to enforce the price changes in the steps to prevent any adverse effect on production and consumption.

Consider the following option. In the first year, increase the urea selling price by 20 per cent from existing Rs 3,320 per tonne to about Rs 4,000 per tonne. This would yield subsidy saving of about Rs 1,200 crore which may be used for giving additional concession of Rs 2,000 per tonne on DAP to lower the price to about Rs 8,000 per tonne. At this level, the DAP/urea price ratio will be 2:1.

Next year, raise urea price by 10 per cent to Rs 4,400 per tonne which will yield an additional saving of about Rs 600 crore. Use these savings to give a further concession of Rs 1,000 per tonne on DAP. This will bring down its price to about Rs 7,000 per tonne or 1.6 times the revised price of urea.

The 10 per cent increase in urea price may be repeated from the third year onwards. Correspondingly, the DAP price can be raised proportionately by suitably reducing the amount of ad hoc concession. At the end of the sixth year, urea price will reach a level of Rs 6,500 per tonne and DAP price will be Rs 10,000 per tonne. At this stage, the government need not give any support to decontrolled phosphatic and potassic fertilisers and can retract subsidy on urea as well.

These results assume that there is no increase in the cost of supplying fertiliser. The cost of production depends mainly on the administered prices of inputs, utilities and services supplied to the industry apart from various taxes and duties. In this context, the JPC had recommended 35 per cent reduction in the price of natural gas besides freezing of the prices of other hydrocarbon feedstock at existing levels. Far from implementing these recommendations, these prices were increased steeply.

To support the process of adjustment in the fertiliser sector and in the overall interest of protecting the soil health, preventing decline in crop yields and sustaining self-sufficiency in foodgrains production, it is hoped that the government will refrain from increasing the administered prices beyond the existing levels.