

Fertiliser subsidy: Bracing up to the challenge

By Uttam Gupta

IN terms of the Economic Memorandum submitted by the Government to IMF in the middle of 1991, fertiliser subsidy should have been completely eliminated by the end of 1993-94 i.e. March 31, 1994. We are not aware as to how IMF would react or, to be more precise, what it will do in case the promise is not kept. Perhaps, the Government may not even be terribly sensitive to this question in view of the huge foreign exchange reserves in its kitty and consequential inclination not to go in for another loan under the Extended Fund Facility (EFF) which was very much under consideration until the middle of last year. But, in our own interest, it is necessary to take stock of the position.

Since July 1991, reforms in the fertiliser sector have been aimed primarily at reducing fertiliser subsidy with the ultimate objective of completely eliminating it. During 1991-92, three major decisions were implemented. These were decontrol of ammonium chloride (ACI), calcium ammonium nitrate (CAN) and ammonium sulphate (AS), 30 per cent increase in the selling prices of all other fertilisers and a ceiling on subsidy payable to single super phosphate (SSP) units under the Retention Pricing and Subsidy Scheme (RPS).

The revised Budget Estimate for fertiliser subsidy during 1991-92 was Rs 4,800 crore. This did not however, include Rs 1,400 crore thrown forward into the next year i.e. 1992-93 and may at the same time, include some carry-forward from the previous year, i.e. 1990-91. This for any normal year may be safely assumed at about Rs 400 crore being one month's equivalent dues. On a net basis, we may thus add about Rs 1,000 crore to get the subsidy dues strictly for 1991-92 free from the carry-forward commitments. Thus, for 1991-92 we get a figure of Rs 5,800 crore.

During 1992-93 again, the Government implemented three major decisions, all w.e.f. August 25, 1992. These were decontrol of phosphatic and potassic fertilisers, reduction in the controlled selling price of urea by 10 per cent and revival of control on ACI, CAN and

AS. The revised Budget Estimate for fertiliser subsidy during that year was Rs 5,800 crore. Add Rs 777 crore that had slipped for payment into the next year, i.e. 1993-94 and deduct Rs 1,400 crore being the carry-forward from 1991-92. We get a subsidy due of Rs 5,177 crore or about Rs 5,200 crore strictly for 1992-93.

During 1993-94, no major policy change was announced, either by way of influencing the controlled dispensation or by changing the controlled selling prices. The revised Budget Estimate for fertiliser subsidy during this year has been placed at Rs 4,400 crore. Add to this about Rs 600 crore (primarily on account of revisions in retention prices under the sixth pricing period) which will have to be carried forward into 1994-95 and deduct Rs 777 crore being the carry-forward from 1992-93. The subsidy dues for 1993-94 would thus work out to Rs 4,223 crore or about Rs 4,200 crore.

These numbers by themselves do not capture the full ramifications of fertiliser subsidy. During 1992-93, the Government provided an ad hoc subsidy of Rs 340 crore for facilitating reduction in the selling prices of decontrolled fertilisers to the farmers. An allocation of Rs 500 crore was also announced ostensibly to help the small and marginal farmers. Although the stated intention was to use this for infrastructural development it was, in fact, largely used for extending the benefit of subsidy. Together, these add up to Rs 856 crore thus raising the total subsidy figure for 1992-93 to about Rs 6,000 crore.

During 1993-94 also, the ad hoc subsidy was continued and this time an enhanced allocation of Rs 756 crore was provided to cover the full year's requirement for subsidy at prescribed rates on domestic production of all phosphatic fertilisers including SSP (the latter was not covered earlier during the second half of 1992-93. That would raise the subsidy for 1993-94 computed earlier to about Rs 5,000 crore.

Another fact we cannot afford to ignore is that the Revised Estimate for food subsidy during 1993-94 is Rs 2,200 crore higher than the actuals for 1992-93. A significant proportion of this has been attributed to

the effect of increase in the procurement prices of foodgrains caused by increase in the cost of agricultural inputs, predominantly the hike in the fertiliser prices. One could safely assume that nearly 50 per cent or Rs 1,000 crore of increase in food subsidy could be traced to the higher fertiliser prices, other factors being the increased cost of handling, inventory holding and distribution of much larger scale of procurement of foodgrains. Thus, even during 1993-94, the overall implication for the Budget would not be very different from 1991-92 and 1992-93.

In the present turbulent fertiliser scene, when everyone concerned i.e., farmers, industry etc., are suffering and even the foodgrains production may suffer a jolt sooner than later, the least one would have expected was a substantial reduction in fertiliser subsidy which was indeed the sole objective of the economic reforms. It is clear that the issue has not been handled with care.

In a bold move through the Union Budget for 1991-92, the Government raised the selling prices of all fertilisers (excepting AS, CAN and ACI which were decontrolled) by 40 per cent w.e.f. July 25, 1991. But, within a matter of less than three weeks, the hike was reduced to 30 per cent w.e.f. August 14, 1991 and small and marginal farmers who account for about 30 per cent of total fertiliser consumption, were exempted from the hike.

The saving potential from this measure could thus be only about Rs 900 crore during 1991-92 which was also more than offset by the devaluation of the rupee in July 1991, increase in the administered price of naphtha, fuel oil and railway freight etc. It may not be out of place to mention that even the intended benefit of exemption from the price hike to the small and marginal farmers for which the Government spent Rs 405 crore did not reach them. This is also confirmed by the Government's reply to a Parliament question that a meagre three million small and marginal farmers out of a total of 65 million benefited from the contemplated concession.

Had the 40 per cent increase in selling price been enforced right from the beginning of the year i.e. w.e.f. April 1, 1991 with no exemp-

tion for the target group, that would have yielded a potential saving of about Rs 2,600 crore. After offsetting influence of the administered price hike and devaluation etc., the subsidy bill for 1991-92, would still be lower by about Rs 1,400 crore. It may be argued that since the new Government was not in saddle by then this vital decision could not have been taken earlier. Even then and with the decision getting implemented w.e.f. August 14, 1991, but, without the subsequent distortion, the measure would have yielded a potential saving of about Rs 1,800 crore. The net saving in subsidy in this case would have been about Rs 600 crore.

During 1992-93 also, the first five months of the financial year were allowed to pass without any important decision. Only towards the end of August 1992, the P and K fertilisers were decontrolled. This move itself was sudden and hasty and its catastrophic consequences have been seen by us all. However, notwithstanding this, purely in terms of the time factor, if only the decision had been implemented, w.e.f. April 1, 1992, a whopping saving of about Rs 4,000 crore during the whole of 1992-93 would have been realised. As much as half of this was lost because the decision came into force only towards the end of August 1992. Reduction in the selling price of urea by 10 per cent was another aberration and the Government unnecessarily gave away an amount of about Rs 300 crore towards additional subsidy on urea on this account.

During 1993-94, nothing was done to address the subsidy question while the least that could be expected was some increase in the selling price of urea. A modest increase of 20 per cent would have generated a saving of about Rs 900 crore. Finally, even in the Budget for 1994-95, despite the Congress Government having consolidated its position politically and indication made available before the Budget presentation for appropriate increase in the selling price of urea, no decision has been taken.

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