

Incongruous fertiliser policy

It is likely that, six months from now, domestic industry may have to compete with free imports without getting any subsidy, says **Uttam Gupta**



A close look at the 'Background Paper on Long-Term Fertiliser Policy' brings out several inconsistencies and contradictions. At the outset, emphasising the need to maintain self-sufficiency, it reiterates the CCEA decision to restrict annual urea imports to only 1.5 mt. While this would necessarily involve regulation of the quantum of imports, as per our WTO commitment, these will have to be deregulated by April next. Both the objectives cannot be met at the same time.

In Phase-I (2000-01 to '01-02), the existing unit-wise retention price scheme (RPS) is proposed to be replaced by the long-run marginal cost (LRMC)-based uniform normative referral price (NRP) benchmarked to a gas-based plants. The paper also recommends feedstock differential cost reimbursement (FDCR) for naphtha and fuel oil-based plants to take care of their handicap due to higher prices of these feedstock vis-a-vis gas. This means that there will be a minimum of three sets of ex-factory prices.

However, it admits the handicap being faced by some plants due to higher taxes and duties, particularly on feedstock. For instance, in Gujarat, ST on naphtha is as high as 20 per cent as against 5 per cent in UP. It also takes cognizance of the fact that due to gas shortage, gas-based plants have to use alternative high cost fuels like naphtha or petrol. And, in a bid to take care of these, the paper hints at a possible plant-specific FDCR. This again means that the ex-factory prices will be more than three sets.

In Phase-II ('02-03 to 03-04), it recommends for uniform concession on the same lines as for decontrolled DAP and MOP. Concession, brought in by October 1, '92, is given to all producers at a uniform rate; for indigenous DAP, currently, this is Rs 4,450 a tonne on sales during April-June '00. With sale price also controlled at a uniform level, this would be tantamount to a single uniform ex-factory price for all units. Against this, the Phase-I calls for a minimum of three NRPs.

That the proposed uniform concession for all units in Phase-II gives contradictory signals may also be seen from another angle. Through another recommendation, the paper proposes the withdrawal of FDCR on naphtha and fuel oil-based plants after five years (that is by '05). If, on the other hand, we proceed on the basis of the recommendation for Phase-II (a uniform ex-factory realisation for all units) then the FDCRs for naphtha and fuel oil-based plants would have to be withdrawn by '02-03/03-04.

The proposed FDCR withdrawal by

'05 is based on the assumption that during the transitional five year period, all naphtha and fuel oil plants would have to be switched over to LNG. (It is expected that LNG would help in substantially lowering production cost thereby, obviating the need for reimbursement of differentials). This recommendation has been made without

unlikely that the LNG projects will be pursued seriously. In any case, the prospects of LNG being made available to the naphtha and fuel oil-based plants by '05 are not very promising as many of them are located in the hinterlands. Against this backdrop, a premature withdrawal of FDCR could be suicidal.

the subsidy on imports. This could be perceived as unfair and discriminatory under the WTO norms.

In this context, it may be recalled that in the decontrolled phosphatic sector, after imports of DAP were freed in '92, concession support to domestic producers has all through been higher than on imported DAP

These inconsistencies and contradictions apart, much of what has been said in the background paper would have been relevant had New Delhi managed to continue with its quantitative restrictions for a few more years

even assessing as to whether LNG will actually be available in the required quantities by the deadline.

Ironically, the government is yet to come out with the policy on feedstock, in particular LNG. According to the paper, this will be finalised in Phase-II. And until this is done, it is

It appears that while finalising the recommendations, not much thought has been given to the likely impact of the WTO obligation. The implementation of the NRP regime would lead to a scenario under which subsidy support to domestic manufacturers would be significantly higher than

(during '93-94 and '95-96 concession on this was nil). The exporting countries had, however, not made any issue out of this as India is

almost entirely dependent on phosphates imports and also DAP exporting countries have also full control of raw material/intermediates supplies.

In Urea, the situation is totally different. Unlike in phosphates, which India imports fully, herein, supplies of feedstock like naphtha, fuel oil, gas etc are met largely domestically. Against this backdrop, a move to further subsidise the already subsidised domestic urea (locally produced urea is already priced higher than the imported one) could not only be perceived as unfair and discriminatory but may even actually result in displacement of imports.

Consequently, there is a distinct possibility of the issue being taken to the WTO. In the event of the above stand being upheld by the WTO, there could be serious doubts about the continuation of the NRP regime. Then the question of providing FDCR for naphtha and fuel oil-based plants would also automatically become redundant. In fact, one wonders whether the government could really put in place what has been described as 'phased' de-regulation of urea. A likely scenario could be one in which in six months from now, the domestic industry will have to compete with free imports without getting any subsidy. This aspect must be carefully examined by the WTO task force.

In regard to distribution controls also, the government approach has been inconsistent. Thus, even as the paper has recommended their removal, reportedly, the farm ministry is keen to continue them. The latter's stand doesn't take into consideration the likely impact of the WTO norms. Thus, when, imports are freed in April next, the government will have to allow free sale within the country. Notwithstanding this, and if, sales by domestic units continued to be controlled, this would be grossly unfair to them. In short, WTO obligations leave no option but to remove distribution controls.

These inconsistencies and contradictions apart, much of what has been said in the background paper would have been relevant had we managed to continue with QRs for a few more years. But having lost the case at the WTO and given a commitment to remove these by April next, strategies to protect the domestic industry, maintain self-sufficiency in fertiliser and ensuring its availability at reasonable prices to the farmers will have to be drastically revamped. The government will have to think of suitable steps which subserve these goals and are, at the same time, WTO compatible.