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Looking beyond the rollback

THE government's decision to increase the selling price of urea by 15 per cent has caused much consternation in political circles. Various political parties, including some partners in the ruling alliance, are demanding rollback of the hike. Given the experience of 1998-99 (an increase of Rs 1,000 per tonne w e f June 1, 1998 was rolled back in full), such a possibility is not ruled out. We need to carefully assess the impact of price hike on farmers, agriculture and the economy. An increase of 15 per cent translates to Rs 600 per tonne or Rs 30 per bag (20 bags of 50 kg each make one tonne). On an average, a farmer uses four bags of urea per hectare. He will, therefore, have to spend Rs 120 more. In addition, he will have to spend more on purchase of DAP and MOP whose prices have also been raised by 7 per cent and 15 per cent respectively. The increase in the price of DAP is Rs 30 per bag while that of MOP is about Rs 28 per bag. Taking about two bags of DAP and one bag of MOP as average use per hectare, extra expenses on their purchases will be Rs 60 and Rs 28 respectively.

All put together, the farmer will have to shell out an additional Rs 208 per hectare. This will cause an increase of about Rs 14 per quintal in production cost of foodgrains (based on an average yield of 15 quintals per hectare). Whereas for farmers having marketable surplus, this can be offset by a corresponding hike in procurement price. Those who produce primarily for self-consumption will feel the pinch. Out of a total of 106 million farm households, about 75 per cent are small and marginal, i e having holding size of one to two hectare and less than one respectively. This is a huge 80 million. Within this, while there may be farmers producing surplus (they have access to irrigation and other vital infrastructure), majority are in the subsistence category. Sincere efforts are needed to mitigate their hardship in case the price hikes stay.

A much bigger problem is waiting in the wings. Even after the hike, selling price of urea at Rs 4,600 per tonne will still be short of reasonable cost of production and distribution by about Rs 4,000 per tonne. Likewise, price of DAP at Rs 8,900 per tonne will be lower than reasonable cost by about Rs 4,000 per tonne. The gap in case of MOP will be about Rs 2,500 per tonne. Currently, these gaps are being filled by subsidy. The government is looking for various policy options to contain the rising fertiliser subsidy. In some quarters, eventual decontrol of urea is being talked of. Post-decontrol, its selling price, will not remain at Rs 4,600 per tonne which is an artificial price supported by subsidy. It will increase to the level of reasonable cost, i e by almost 90 per cent or about Rs 200 per bag. In the case of DAP and MOP, the present scheme of concession support will also have to be withdrawn in order to bring policy dispensation for these at par with that of urea.

Consequently, their selling price will rise to the level of reasonable cost of production/import and distribution. The increases would be about Rs 200 per bag for DAP and Rs 125 per bag for MOP. Taking usage — mentioned above — additional expenditure per hectare will be Rs 800 on urea, Rs 400 on DAP and Rs 125 on MOP. This adds up to a total of Rs 1,325. In turn, this will increase the production cost of foodgrains by about Rs 90 per quintal. An increase of this magnitude will have a catastrophic effect on the entire farming community. The subsistence farmers will simply be sunk! The government is not unaware of these implications. That is why the finance minister in his budget speech has only talked of a road map for phasing out RPS. But, what is more important is to lay down the time-frame and take credible action during this period.

The increase in prices of urea, DAP and MOP by 15 per cent, 7 per cent and 15 per cent respectively need to be viewed in this broader perspective. If compulsions of liberalisation require that prices need to be brought up to the level of cost of supply, then it is far better to do it gradually. Equally important is the dire need to contain skyrocketing cost of inputs, particularly feedstock, used in production of fertilisers. Without this, despite increasing selling price — thereby, putting additional burden on farmers — it will be virtually impossible to close the gap between reasonable cost of supply on one hand and price paid by farmers on the other.