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Make or buy is no option

The fertiliser policy cannot be guided by the volatile international price situation, says **Uttam Gupta**

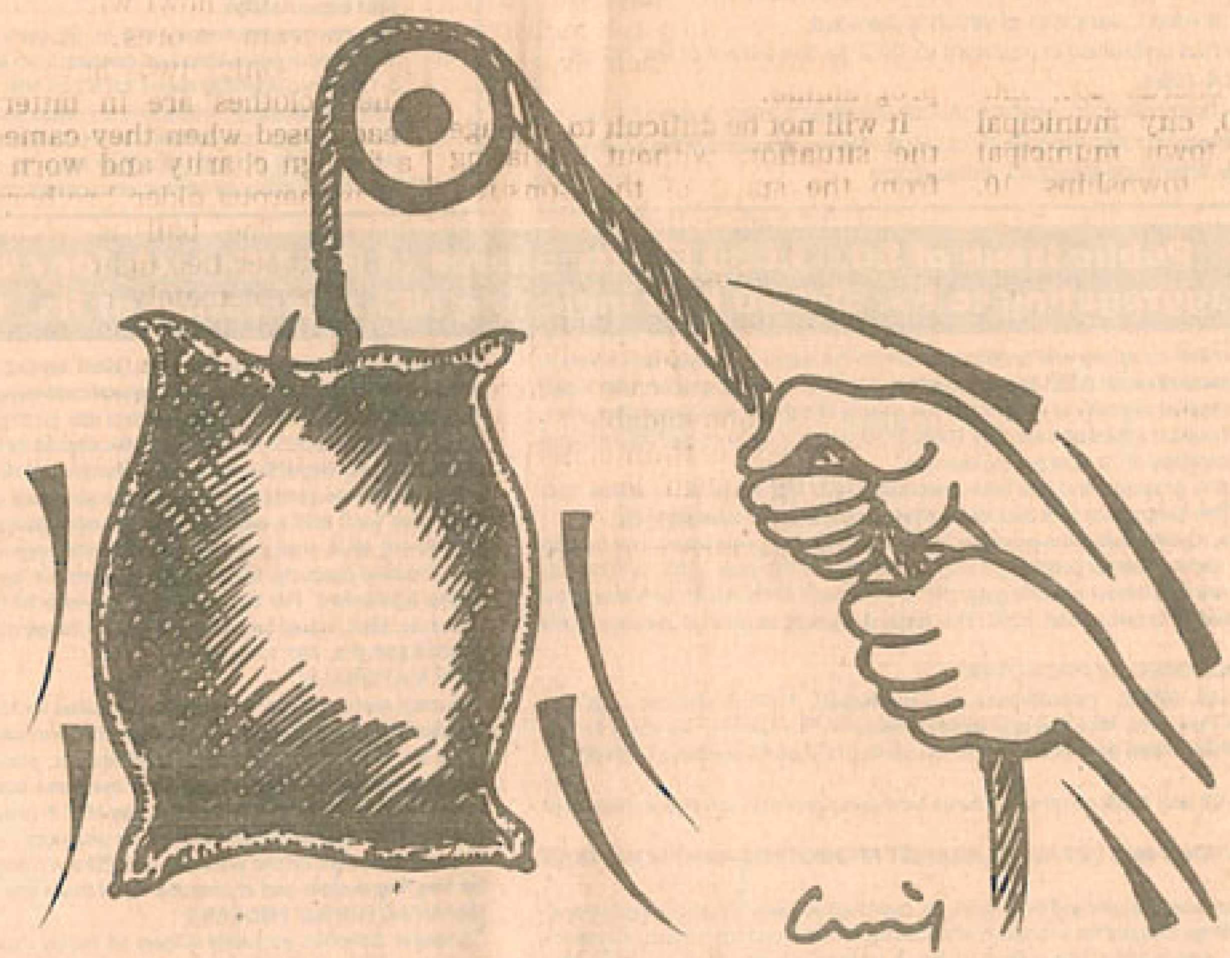
THE debate on fertiliser policy is once again hotting up with the core group constituted by the finance ministry on 'Restructuring of Policies in the Fertiliser Sector' airing some of its contemplated recommendations on the subject. Much of what the group would recommend, would emanate from the manner in which it dwells or perhaps, nourishes the "make or buy" option; the word "or" is of crucial significance.

It may be worth recalling that the government's strategy all along had been to maximise domestic production of nitrogenous fertilisers to a level that would leave only 1 million tonnes of 'N' requirement to be met through imports, whereas in phosphate, imports were to contribute 25 per cent of the total consumption. We may describe this as the "make and buy" theory; the undercurrent being to use import as a 'supplement' to domestic production. The strategy has been enormously successful and during 1991-92, domestic production accounted for 91 per cent of N consumption and about 78 per cent of P consumption.

Notwithstanding these achievements, imports are now sought to be projected as an alternative to domestic production i.e. moving away from complementarity to competition. This is not an isolated development. In 1987, the Vardarajan committee set up by the department of fertilisers had given the clarion call for "make vs buy" on the logic that when it is cheaper to import why subsidise high-cost domestic production. The logic seemed credible because the selling price of urea in the international market had tumbled to a low of about $67 per tonne f.o.b. in 1986. It was not as if the production cost in exporting countries had suddenly come down; the main cause was excess of global supply over demand and exporters were willing to sell even below cash cost. This was clearly an abnormal situation and yet, was used to create an impression that India could buy cheaply from abroad. Although the report of the eighth plan working group on fertiliser (submitted to the government in 1989) ignored the Vardarajan committee's message, a lot of damage was done by adverse changes in pricing norms.

Indeed, the dislike for indigenous industry paid off in its own way. Projects like Chambals, Tatas etc., which should have been commissioned way back in 1989-90, are seeing the light of day only now. No fresh project was taken up for implementation. And, expansion/modernisation plans of existing units have been kept on hold.

The installed 'N' capacity in the beginning of 1994-95 is 8.5 million tonnes, which is only 300,000 tonnes more than it was in 1988-89. This, despite the growing demand (8.8 million tonnes in 1993-94). Domestic production during 1993-94 was only 7.2 million tonnes, which represented 81 per cent of consumption, down from 91 per cent in 1991-92. All this has led to steep increase in imports from almost nil (during 1987-88 — 1990-91) to 391,000 tonnes in 1991-92, 1.86 million tonnes in 1992-93 and 2.8 million tonnes in 1993-94. During 1994-95, the quantum of imports may even go beyond 3 million tonnes.



The underpinning of the core group is not very different from that of the Vardarajan group in substance. But, with one major difference. The latter had given its report at a time when at least the global market was soft with regard to both availability and price and further on the face of it, the farmgate cost of imported urea was lower than that of domestic material. The former is talking in favour of import at a time when not only global surpluses have reduced, even the farmgate cost of imported urea is higher than the weighted average for indigenous industry, and substantially higher than the cost of supplying the material from a large number of producers. And, this despite the industry having to pay more for gas, power, interest rate and freight — all administered by the government.

The core group seems to be basing its optimism on a highly misleading interpretation of India's share in world imports. Even at the current import of about 3 million tonnes urea or 1.4 million tonnes 'N', India's share works out to about 7 per cent of the total estimated at about 20 million tonnes. In phosphate, our share of imports is even higher. To say that these levels are not significant would be tantamount to shirking the facts.

Even assuming for a while that what India does makes little or no impact, we must not be oblivious of what China can do. The latter accounts for about 23 per cent of total world 'N' imports. In fact, its demand at about 4.6 million tonnes (1991-92) far exceeds the global surplus of about 3.6 million tonnes. China's level of imports has fluctuated in the past by big margins, sufficient to destabilise the world market. And, there is no reason to believe that this will not happen in the future.

Afterall, whether India or China, each has to draw from the same global kitty and too much dependence on imports would be catastrophic. We have already seen this happening in the case of phosphatic fertilisers wherein following China's entry in the world market and increase in domestic demand from USA, the DAP price zoomed from $160 per tonne in the first quarter of 1993 to $205 per tonne in just about one year. Such signals can be ignored only at our own peril.

Another aspect the core group should consider is whether our infrastructure at the ports or for inward movement would permit imports of fertiliser at the contemplated large scale. Presently, India is in a position to export huge quantities of wheat (a target of 5 lakh tonnes has been set for 1994-95). Besides, the price disadvantage, it is well known that our ports are just not equipped to carry out the job. Fertiliser is no exception.

Consequently, the fertiliser policy has to be orchestrated in a manner that does not lead to closure of existing plants or forestall further investment. It is certainly not our case that inefficient plants should not be closed. Indeed, there are some in the public sector which are sick and yet continuing to exist because the government is unable to take appropriate decisions due to socio-political compulsions — and not because the administered pricing system protects such units.

The real worry is on account of possible closure of plants that are efficient, say SFC, Chand Chhap (erstwhile ICI), MFL, SPIC, ZACL etc. Currently, we have nearly 3 million tonnes of 'N' production which is from plants more than 20 years old. Replacement of the plant and machinery is therefore essential. This, in turn, would require a conducive policy in as much as this is necessary for setting up new grassroot plants to meet increasing demand.

The core group will, therefore, have to handle the policy carefully and not simply get carried away by linking the fate of domestic industry to prevailing international prices which far from being steady, not only fluctuate violently, but at times harden with impunity.

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