

Poor farmers bear the brunt of fertiliser decontrol

Since land constitutes the most important productive asset for the farmers, persisting imbalance in the NPK use ratio, with its potential to impair land, can erode the very foundation of their livelihood structure, says Uttam Gupta.

ATTEMPTS to bring the food sector within the fold of the market forces have already started having a debilitating effect on the poor. There is a heavy concentration of the poor in the rural areas, majority of them being dependent on agriculture in one way or the other.

Apart from millions of landless labourers, these include the small and marginal farmers i.e. with land holding size of 1-2 hectares and 0-1 hectares respectively. Constituting about 75 per cent of a total of 90 million farming families, they own only 30 per cent of the total cultivated land area.

Land being the only asset, these farmers depend on its intensive cultivation to earn their livelihood. Most of them grow food crops whose yield is barely sufficient to meet their own consumption needs. Even this is by no means an easy task.

Apart from timely and assured supply of water, crop yields depend on the quantum of fertiliser used.

According to the National Council for Applied Economic Research (NCAER) survey, only 45 per cent of small farmers use fertilisers while the marginal farmers using fertilisers are even lower at 37 per cent. However, the rate of fertiliser application per hectare is 92 kg in the marginal group and 86 kg in the small group. In contrast, the rate of application by large farmers is much lower at 59 kg.

Fertiliser is a highly capital and energy intensive product. In a world of inflation, its cost of production is bound to be high. The handling and distribution further add to the cost of supplying fertiliser to the farmers. Prices fixed on this basis are not affordable to the small and marginal farmers.

Consequently, until the end of the

eighties, the government controlled the selling prices of fertilisers at a low level and was meeting the excess of the cost over this through subsidy support. But for this, these farmers would not have taken to fertiliser use and applied them in quantities needed to increase crop yield. Increasing foodgrain production and the very goal of food security would have been jeopardised.

In the wake of reforms, the government raised the fertiliser selling prices by 30 per cent in August 1991 and thereafter, decontrolled all phosphatic and potassic fertilisers in August 1992 even as urea — the main source of Nitrogen supply — continued to be under control and subsidy scheme.

Consequently, consumption of phosphate (P) declined from 3.32 million tonnes during 1991-92, to 2.84 million tonnes in 1995-96. Likewise, the consumption of potash (K) declined from 1.36 million tonnes in 1991-92 to 1.16 million tonnes during 1995-96. In sharp contrast, the consumption of nitrogen (N) increased from 8.04 million tonnes in 1991-92 to 9.86 million tonnes in 1995-96. These trends led to worsening of the NPK ratio from 5.9:2.4:4.1 to 8.2:2.2:1 in 1995-96.

The root cause of this unhealthy situation is the steep rise in the prices of phosphatic and potassic fertiliser consequent to sudden decontrol and significant depreciation of the rupee thereafter. Since August 1992, while the selling price of DAP has increased by about 115 per cent, the increase in respect of MOP is still higher at about 165 per cent. The price of urea increased by a marginal 8 per cent.

Clearly, the small and marginal farmers have borne the brunt. They have either completely missed application of phosphate and potash or reduced their use substantially. This is particularly reflected in large scale substitution of high analysis DAP (46 per cent phosphate) by grades like 20:20:0 (20 per cent phosphate).



be the worst affected. They are the ones who will continue to be deprived of fertiliser use and face falling crop yields. The possibility of their land being rendered unsuitable for cultivation is also not ruled out.

The repercussion of this on the public distribution system also needs to be considered. Declining production and the shrinking marketable surplus, consequent to such a trend, imply that supplies to the PDS would decline. On the other hand, many of the poor farmers unable to fully produce their own needs will be forced to rely more on the PDS.

Since land constitutes the most important productive asset for the bulk of the farmers, persisting imbalance in the NPK use ratio has the potential of impairing the land permanently and therefore shaking the very foundation of their livelihood structure.

The market based supply and pricing systems are totally incompatible with the interests of the small and marginal farmers. While this was clearly recognised till the end of 80s, there is no valid justification for a change in the outlook now.

The need to contain the growing fertiliser subsidy appears to be the sole driving force behind the move to decontrol. Even in this respect, the actual trends show just the opposite. Fertiliser subsidy increased from Rs 4,800 crore in 1991-92 to Rs 6,235 crore in 1995-96. This is despite the decontrol of phosphatic and potassic fertilisers.

The ability to contain subsidy depends on how you manage the cost in relation to the selling prices. Unfortunately, this basic thing has been completely neglected even as the administered prices of feedstock, for example naphtha, and utilities and services, such as power supply and railway freight etc., were increased steeply while allowing no increase in the selling prices of fertiliser all through the eighties.

Given the unique importance of fertiliser consumption, its pricing cannot be left entirely to the market forces. The current high prices of phosphatic and potassic fertiliser should be brought down drastically to facilitate increase in their consumption. For this, the amount of ad hoc concession needs to be suitably raised, say by about Rs 2,000 per tonne.

This would require an additional financial support of about Rs 1,200 crore which can be mobilised by increasing urea selling price by about 20-25 per cent. The government should refrain from any immediate decontrol as this would result in 100 per cent increase its price. Instead, an annual increase of 10 per cent should be allowed on a continuing basis. Simultaneously steps should be taken to reduce cost, especially reduction in prices of various feedstocks.

Presently, the subsidy incurred on imported urea is higher by as much as Rs 3,500 per tonne than what is incurred on account of domestic production. The emphasis should be on maximising our own production which would help in reducing imports as well as the subsidy burden.

Decontrol is often sought to be justified on the grounds that the present dispensation is also benefiting the rich farmers, especially those growing commercial or cash crops. No doubt, such farmers can afford to pay higher market-based prices. But, decontrol is not the answer as this would hit everybody, including the poor farmers who need protection.

Dual pricing, i.e. charging higher price to the rich farmers while the rest continue to pay less, is also not workable in Indian conditions. In a limited way, this concept was tried in 1991-92 when the government decided to exempt the small and marginal farmers from the 30 per cent increase in selling price. It was a big flop as only 5 per cent of the poor farmers benefited, according to the government's own admission.

The problem of rich farmers gaining from subsidy cannot be tackled by tinkering with fertiliser prices. A proper course would be to levy a cess on production of commercial or cash crops grown by them. The amount may be determined on the basis of the differential between the full cost — based on either the import parity price or the cost of supplying domestic material — and the controlled low price multiplied by the quantity of fertiliser used on such crops. However, there is need for adequate care to ensure that small farmers are kept outside the purview of this cess.