

Reorienting farm policy

Frequent state intervention even after decontrol has harmed the fertiliser industry, says Uttam Gupta

FOOD security is a universally accepted goal, one to which even the smallest developing country is wedded. For a country like India, it is something we cannot afford to compromise.

There was some short sightedness in the early 60s when we paid a heavy price and even suffered humiliation at the hands of the US administration over the question of food imports. But, thereafter, we pursued the goal of food security with single-minded vigour backed up by appropriate policies.

Though there is no question of reneging on our commitment to maintaining self-sufficiency in foodgrain production, yet we seem to have lost control over the 'means' perhaps because our perspectives changed and a new set of compulsions have emerged. One such compulsion was the increasing subsidy on fertiliser and food which tended to come in the way of government's fiscal stabilisation programme.

The mid-60s to the 80s was marked by widespread controls on supply, distribution and pricing of agricultural inputs as well as output. With the initiation of the reforms programme, particularly since July 1991, we have somehow decided that controls need to be relaxed and subsidies have to go. The logic seems to be that forces of competition is best for the farm sector.

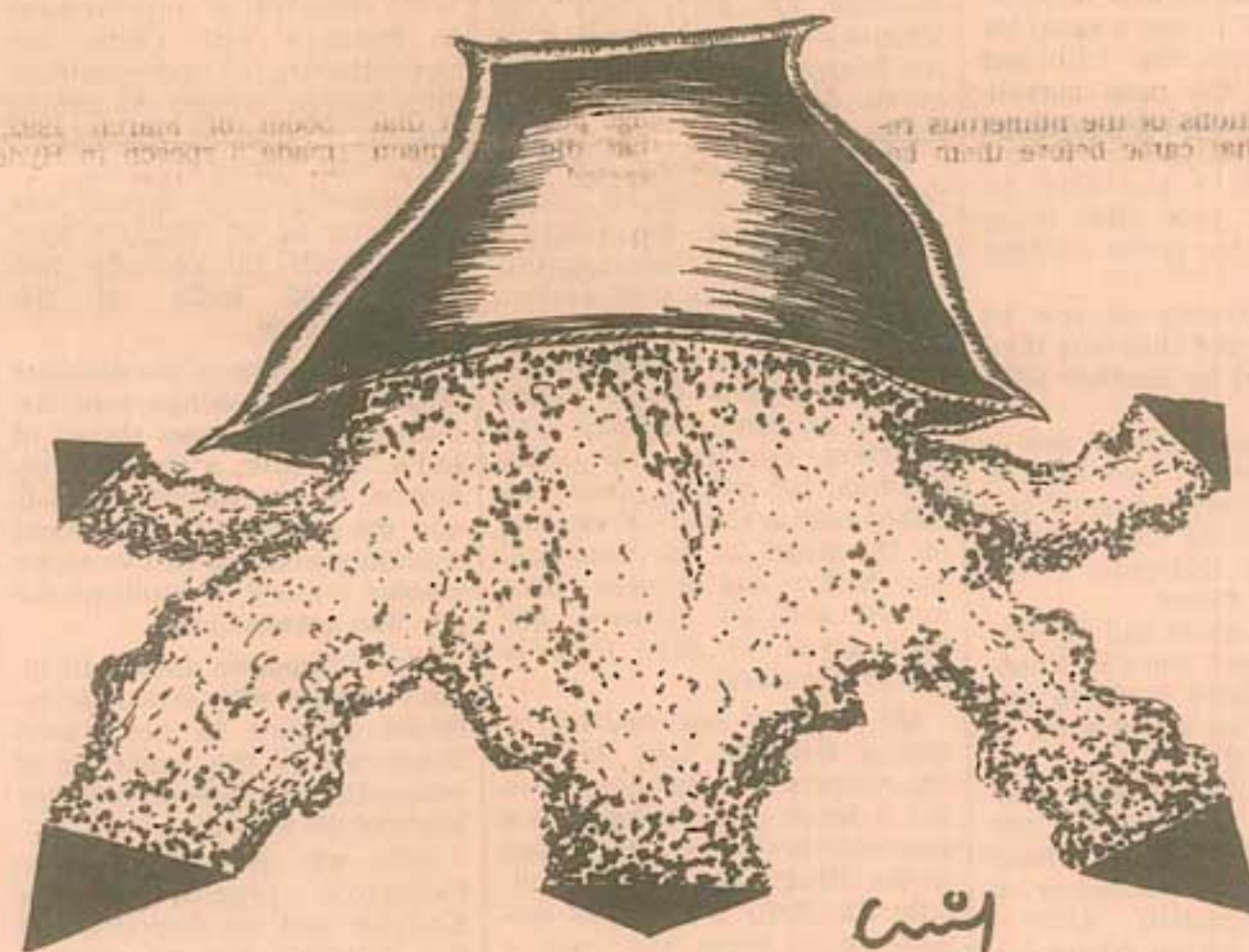
However, it is a little difficult for both producers and consumers to adjust to the free market dispensation thrust upon them. First, existence of controls during the last two and a half decades and the fact that this was also the period when we achieved self-sufficiency in foodgrains, has created a mind-set that there is an irrevocable link between the two.

Second, in the short-run, the sudden decontrol of P and K fertilisers and introduction of free market forces has produced adverse effect on fertiliser consumption. This may give an impression that the change has not been good and that the earlier dispensation was better. Third, there is an implicit assumption that welfare of the masses is not complete without government intervention.

Whatever maybe the hurdles, legitimate or otherwise, we have to take a clear-cut view whether we propose to work under the new free market dispensation or get back to the regime

of controls. There is need to evolve a political consensus without further loss of time. The process of economic reforms is claimed to be irreversible. Recently, even the finance minister is reported to have said that farm subsidy should go.

Right now, it does not seem desirable or feasible to stem the tide of globalisation and competition both at home and abroad. That being the situation, let the consensus veer around to this view and a categorical approach indicated for all those connected with agriculture, including the suppliers of farm inputs.



Having done so, the government will have to address a few fundamental tasks. First, the handicap of the domestic phosphatic industry, which has already been exposed to global competition through decontrol and decanalisation of imported DAP, should be removed by creating a level playing field.

In this context, imposition of a customs duty on imported DAP merits consideration. As we open up, it is unwise to move suddenly from a totally regulatory regime to free-for-all where the multinationals have unfettered entry.

Second, some newly commissioned units are handicapped by the high capital cost caused by inflation and rupee devaluation. Technologically

and operationally, these plants are efficient and can become cost competitive. But, there is need for a special dispensation to help them out in the present crisis situation.

This may be done by giving them one-time capital subsidy appropriately determined in each case. This outgo from the exchequer has to be evaluated against the gains that will accrue in terms of preventing imports from rising.

In the past, imported DAP cost US \$475 per tonne C&F in the 70s, \$240 per tonne in 1990-91 and \$160 per tonne in March/April 1993, lately

rising to \$200 per tonne. After decontrol, the government has substantially raised the procurement price of cereals. In January 1993, the price of wheat was raised by 20 per cent. More recently, it has been raised by another seven per cent.

This has helped in restoring the profitability of fertiliser-use by farmers although recovery is not to the pre-decontrol levels. But, farmers are unlikely to benefit from it unless they get additional funds to buy costlier fertilisers and get the necessary advice and training to put them to best use.

Additional institutional credit should be made available to the farmers and the extension support systems should be strengthened. To

fully accommodate the impact of decontrol on selling prices, credit availability will have to increase by about 20 per cent over the existing levels.

On urea, the preferred policy has been to continue the pricing and distribution controls. Some uncertainty has, however, crept in after press reports regarding imminent decontrol of urea. The government must come out with a policy statement to continue control on urea for another two to three years and also declare its intentions, if that be to decontrol it, say, three years from now.

The intervening period should be utilised for preparing both farmers and industry to face the challenge. This would involve raising the selling price of urea by 20-25 per cent per annum, on the one hand, and implementing the JPC recommendations with regard to feedstock prices, tax and duties and interest rates, on the other.

Along with decontrol, the question of decanalisation of importation of urea will also come up. The consequences of DAP decanalisation and its import at zero customs duty resulted in a severe setback to the entire domestic phosphatic industry which suffered seriously from dumping of material by overseas suppliers. Depending on the behaviour of the international suppliers of urea, and to give reasonable protection to the domestic industry, we will have to think in terms of a variable customs duty on urea imports as and when the government decides to decontrol.

Frequent state intervention, even after decontrol, have marred the fertiliser sector situation and adversely affected consumption prospects. State authorities are still dictating selling prices of decontrolled fertilisers despite removal of price controls. This was a result of the government's decision to provide ad hoc subsidy at prescribed rates to lower prices. Such subsidies, if considered necessary as temporary measure, should be administered directly through the industry as that would be much more cost-effective, efficient and less time-consuming.

Finally, even as the fertiliser industry adjusts itself to the free market dispensation, the organisations supplying inputs, including raw materials and feedstock, will have to be liberated from government controls.