

**T**HE P and K fertilisers were decontrolled on August 25 last year as part of the overall reforms package for the fertiliser sector in India. Consequential exorbitant increase in the selling prices has adversely affected their consumption. During October-December 1992, the sales of DAP, SSP and MOP were down 30 per cent, 50 per cent and 70 per cent respectively compared to the corresponding period in 1991.

Even as the government is busy evaluating as to what went wrong, there are underlying compulsions on it to enact the second phase of the contemplated de-regulation process. Indeed, an overriding factor is the commitment to completely eliminate fertiliser subsidy by the year 1993-94.

Recently, based on the JPC recommendation, not only did the government decide to retain the controls on urea, but also, reduced its selling price by 10 per cent. But then, that does not dilute the intensity of the undercurrent, an indication of which was given in the 1991-92 budget when the government raised the urea selling price by 40 per cent with effect from July 25, 1991. Subsequent lowering of the price hike to 30 per cent from August 14, 1991, was only in the nature of accommodating the political sensitivities at that time.

Recent observations of the finance minister that in formulating the budget for 1993-94, the government will pursue the goal of phasing out subsidies, give ample credence to the possibility of urea decontrol. But before we take the plunge, there is need for anticipating as to what is likely to follow in terms of the impact on production and consumption.

This is all the more necessary to prevent recurrence of the kind of traumatic experience that we have had in the aftermath of the sudden decontrol of P and K fertilisers.

Currently, farmers pay for urea at the rate of only Rs 2,760 per tonne excluding local taxes. As against this, the weighted average reasonable cost of production and distribution based on outdated notified retention prices and freight worked out to about Rs 4,200 per tonne. But, that is based on the data for October-November 1991 for majority of the units. Since then, there has been increase in coal prices from December 31, 1991; gas prices from January 1, 1992, and later again from January 1, 1993; in naphtha, fuel oil and LSHS prices on September 16, 1992 to quote a few.

A conservative estimate of the impact of last item alone is about Rs 300 per tonne urea. That takes the cost to Rs 4,500 per tonne. The balance items besides the conversion/capital related charges due for revision under the sixth pricing period (commencing with effect from April 1, 1991) etc., to reflect the current cost structure will further push up this figure. At the moment, let us focus on Rs 4,500 per tonne.

In the event of decontrol, the free market price has to rise to at least Rs 4,500 per tonne. But, the moot question is whether the farmer is geared to afford an increase



## The time is not ripe

Urea decontrol will have an adverse impact on production and consumption, says Uttam Gupta

of more than 60 per cent over the present controlled selling price? And this too, at a time when already his pocket has been strained by steep hike in the prices of P and K fertilisers.

A related question is whether having already announced higher procurement prices, the government can initiate another round of hikes? And this too when in a bid to contain food subsidy, the government would wish the extra money to be paid by the consumer and not the exchequer. It should not be forgotten that we can boast of bringing down the inflation rate during the current year primarily on the strength of decline in index of food articles.

Decontrol will be no less painful for the industry. Even assuming that the farmer reconciles to paying Rs 4,500 per tonne which is theoretical, the new units starting from Nagarjuna Fertilisers (commissioned in early 1992) and the three projects along the HBJ pipeline current under implementation, will have little or no chances of surviving.

In fact, at this price, far from earning any return, these plants will not be able to meet even their debt servicing burden. Besides, there is no question of any new investment whether by way of setting up of new projects or expansion of an existing unit, being undertaken now. Needless to mention that even the proposals already approved may be kept on hold. In the case of gas plants, besides the increase in gas price on two occasions, now even the supply of gas is proposed to be denied to the extent it is used as fuel for steam generation and firing of boilers etc.

In view of this and considering the fact that any investment in a fertiliser project takes about 5-6 years to fructify, we are unlikely to have any further addition to the nitrogen capacity till the end of this decade.

Further, in case the market price fails to come up to Rs 4,500 per tonne, which is quite likely considering the recent experience we had in respect of DAP and other phosphatic fertilisers, then there could be a threat to the viability of some existing units as well. Quite clearly, some of our best plants particularly the three units along the HBJ pipeline — Indo-Gulf Fertilisers, Jagdishpur; IFFCO, Aonla; and, NFL, Bijapur — may face a threat to their viability.

The government has announced certain concessions as well. These include elimination of the 15 per cent ad valorem customs duty on fertiliser project imports and the duty on import of plant and machinery used for the modernisation of old plants. The former is inconsequential for two of the projects along the HBJ as bulk of their imported equipment has already arrived. The latter may benefit the expansion projects of the existing units such as MFL and FACT. But, these will not offset the handicap resultant from immediate decontrol of urea.

The message is loud and clear. Whatever may be the macro-economic compulsions, it is the most inappropriate time to take a plunge into the decontrol of the nitrogenous fertilisers. Besides adding to the miseries of the farmers, it can threaten the viability of even the most efficient plants. Besides, there is no question of any further

investment coming in this important industry.

The eighth plan working group on fertilisers has projected the demand for nitrogen at 12.5-12.7 million tonnes by 1999-2000. As against this, after including the contribution of the three HBJ projects currently under implementation, the installed capacity will be only 9.2 million tonnes. Even at 100 per cent utilisation, the domestic production will thus fall short of demand by about 3.3-3.5 million tonnes. Against this backdrop, can we afford to give a signal — don't invest in fertilisers?

A cautious approach is the need of the hour. To come to grips with the situation, the foremost thing that we need to do is to get over the obsession of complete elimination of subsidy at one go. We know we cannot do it. The fact that within just one month of decontrol of P and K fertilisers, subsidy was reintroduced amply proves the point. This time, we must necessarily take a pragmatic view even if it means re-negotiating with the IMF the relevant conditionalities.

► The controlled selling price of urea can be raised by about 25 per cent say, to Rs 3,450 per tonne. Before August 25, 1992, the farmers were paying Rs 3,060 per tonne. Thus, an effective increase of about 13 per cent should not be difficult to absorb. At the same time, this would also give a saving of about Rs 1,000 crore in subsidy. A further increase of 25 per cent could be affected in 1994-95.

► The gas prices should be reduced by 35 per cent over the level prevailing prior to January 1, 1993, in line with the JPC recommendation. This will significantly reduce the cost of production and give a resultant saving of about Rs 570 crore in subsidy. Simultaneously, the decision to cut off supplies of gas to new plants should be rescinded. This will also be consistent with our overall national priorities for utilisation of gas.

► The existing arrangement of naphtha, fuel oil and LSHS supplies to the units at concessional rate has to continue. Pricing on the basis of import parity at this stage can play havoc with the fortunes of the units based on these feedstocks.

► The JPC package with regard to the new projects needs to be urgently implemented. Amongst others, this will include concessional interest rate, that is, 15 per cent on loan capital from the FIs, exempting from taxes and duties on raw materials, feedstock and fuel etc., for a period of five years from the commencement of production for new plants.

These measures should allow for the possibility of narrowing the gap between the cost on the one hand and the selling price to the farmer on the other. We should set a minimum timeframe of two years from now before we could think of freeing urea from pricing and distribution control. Or else, we will land up paying a heavy price in terms of a serious threat to our continued food security.

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