

VIEW POINT

Urea pricing policy needs a flexible approach

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WHILE announcing its decision in Union Budget 2001-02 to implement the ERC (Expenditure Reforms Commission) recommendation for replacement of unit-wise retention price scheme (RPS) for urea by a group-wise uniform concession scheme, the government refrained from implementing the other important recommendation for an increase of 7 per cent per annum in selling price.

Similar recommendations in the past were also ignored. Ironically, there have been instances of government going back on the notified increase. Thus, an increase in the selling price of urea by Rs 1,000 per tonne announced by Yashwant Sinha on June 1, 1998, was rolled back.

Successive governments have shown reluctance in allowing even a small increase in selling price. As a result, in the last two decades, its price has increased from Rs 2,350 per tonne in 1981 to Rs 4,600 at present. In sharp contrast, the cost of production and distribution has increased caused largely by the steep hike in feedstock cost. The progressive widening of the gap between cost and selling price is the root cause of ballooning fertiliser subsidy bill. In view of the low purchasing power of a vast majority of the farm households having small land holding, undoubtedly, there is need for maintaining the price of fertiliser at an 'affordable' level.

In the last two decades, the central issue price of wheat and rice has increased by about 400 per cent and 538 per cent, respectively, much higher than the corresponding increase in urea's selling price. These trends are incongruous when one considers the fact that the latter's importance is derived from its role in increasing production of the former. As regards foodgrain, government decided in early 2000 to link the issue price to the economic cost. Considering this, de-linking urea's selling price from its cost of production and distribution is illogical. We seem to carry an impression that the farmers' interests can be taken care of only by reducing fertiliser prices. What we fail to realise is that availability of material is equally important. It is no use talking of low price unless adequate and timely supplies to farmers is ensured. In a world of inflation, this is not possible unless the difference is subsidised.

Under the RPS, this is precisely what is being done. If one objects to subsidy, then there is no way of ensuring supplies to farmers. Based on the mistaken impression that the benefit of subsidy accrued to the manufacturers, the government has resorted to tightening of the pricing parameters, disallowances of various items of cost, delayed/untimely payment of subsidy dues, including escalation claims and so on. This has affected their ability to maintain a reasonable return on investment apart from leading to a slowdown in the pace of capacity build-up. If this trend continues, domestic supplies may fall substantially short of demand. This will affect farmers by way of reduced availability and decline in consumption.

The government is committed to reducing overall subsidy payments, including on fertilisers. This is notwithstanding the fact that unlike in the 90s, when the balance of payments position was precarious, it is now not under any pressure from multilateral organisations. Considering this there is no escape from tackling the basic causes viz., high price of feedstock and low selling price to bring about a meaningful reduction in fertiliser subsidy. Ideally, the government should aim at increasing the selling price in small doses over a period of time, say, as recommended by ERC. For instance, an increase of 10 per cent works out to Rs 460 per tonne urea entailing an additional expenditure of about Rs 90 per hectare. This will not impose too much burden on the farmers and yield substantial savings in subsidy.

We are living in a world, in which inflation is unavoidable. All the population sections, including small and marginal farmers and poor consumers, have to live with it. While the government is duty bound to provide reasonable protection to these vulnerable groups, in case of urea, there is urgent need for adopting a 'flexible' and 'pragmatic' approach of adjusting the farmers to the realities of higher cost.

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