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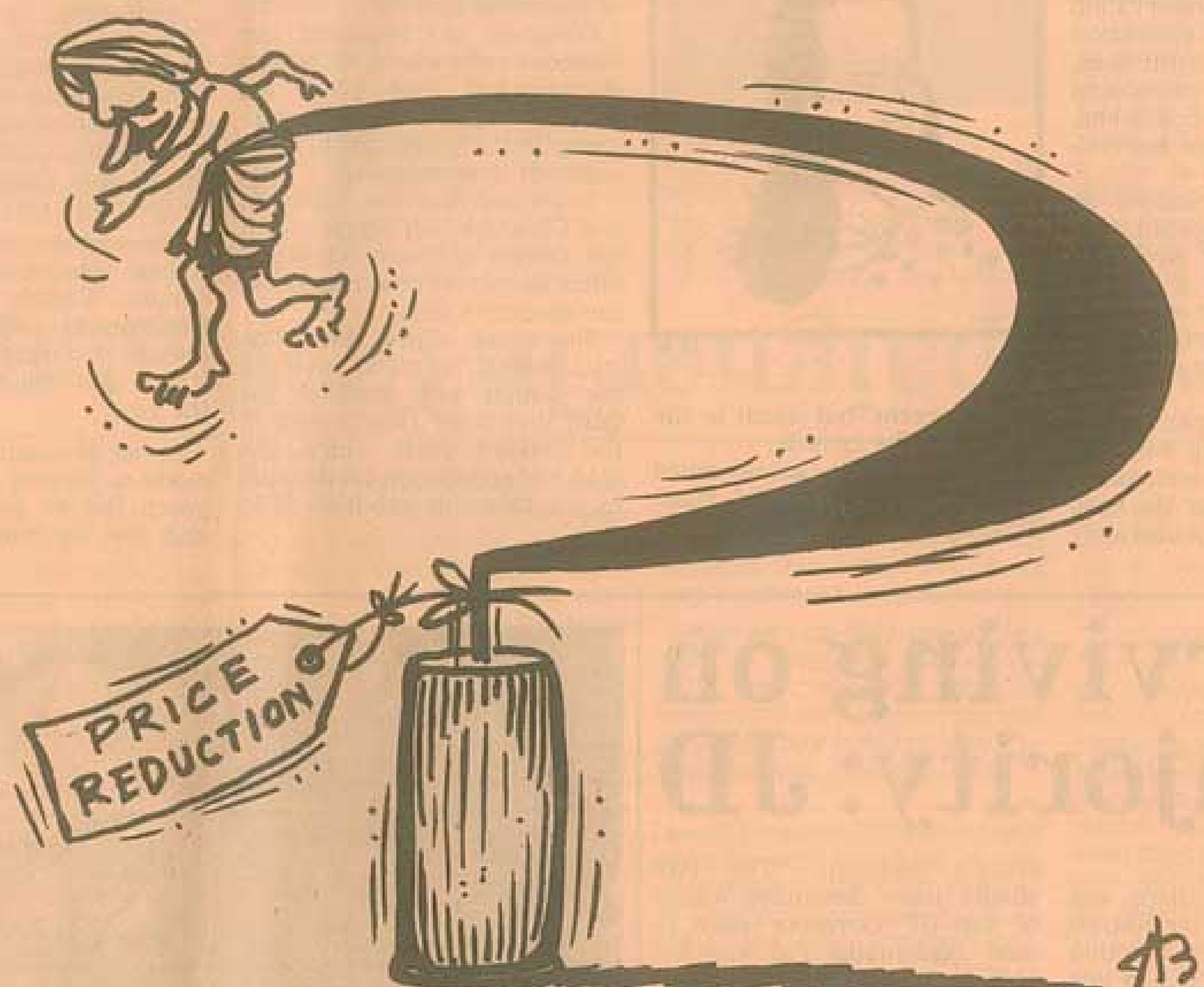
What is the right price?

The problem of imbalance in fertiliser use has been haunting agriculture since the decontrol in 1992, says **Uttam Gupta**



RECENTLY, a proposal mooted by the Union minister for agriculture, Shri Chaturanan Mishra, for reduction in the selling price of urea by Rs 100 per tonne was shot down by the committee of secretaries (CoS). The CoS argued that only about a year back, i e from February 21, 1997, the price was increased by 10 per cent, i e from Rs 3320 per tonne to Rs 3660 per tonne and despite this, consumption continued to rise (from April 1, 1997 to January 31, 1998, urea sales at 16.54 million tonne were 4.7 per cent higher than 15.80 million tonne during April 1, 1996 to January 31, 1997). In view of this, when the farmers were already geared to pay a higher price, there was no point in reducing it.

The CoS decision is, no doubt, welcome. However, it ought to have gone much deeper into the contentious issue of selling price as a satisfactory resolution of this.

At the outset, it is important to know as to what prompted the minister to suggest reduction in the selling price of urea. Only a few days back, the cabinet had taken a decision to reduce the concession on imported DAP and indigenous DAP by Rs 250 per tonne each (proportionate basis for other complex phosphatic fertilisers) in respect of sales during rabi, 1997-98. Reportedly, this was not to the liking of Chaturanan Mishra who wanted the concession amounts to be maintained at the same level as during kharif, 1997.

The reduction in rates, Mr Mishra might have thought, would send a wrong signal to the farmers who, in turn, could have an adverse political fall-out particularly at the time of elections. To counteract this, and in a bid to demonstrate to the farming community that their interest was foremost in the mind of the government, he was tempted to suggest reduction in the selling price of urea.

Urea is the most widely used fertiliser, supplying about 95 per cent of nitrogen from all straight nitrogenous fertilisers and 83 per cent of total N supply. The consumption of N is about 2.5-3.0 times that of phosphate and 6-10 times that of potash. In view of this, the level at which urea price is set arouses mass appeal which successive governments, in the past, have exploited to subserve political objectives. The underlying facts during the last two and half decades amply prove this.

Way back in 1974-75, the price was increased from Rs 1050 per tonne to Rs 2000 per tonne under the impact of oil crisis. Thereafter, it was progressively reduced to reach a low of Rs 1450 per tonne during 1979-80. After two bouts of increases during 1980-81, it was Rs 2350 per tonne. The price stayed at this level throughout the 80s despite continuously rising cost of supply. In July-August 1991, it was increased by 30 per cent (under pressure from IMF) to Rs 3060 per tonne. Then again, it was reduced by 10 per cent in August 1992 to Rs 2760 per tonne.

The minister's move was, thus, quite in line with the tradition. But, it was misguided and totally uncalled for. What prompted him to take a view that reduction in the concession amount on complex phosphatic fertilisers would be anti-farmer? The selling prices of these fertilisers in respect of sales during rabi, 1997-98 had already been notified through an order dated October 7, 1997 and were maintained at the same level as during kharif, 1997, for instance, at Rs 8300 per tonne for DAP. Consequently, in no way, were the farmers affected by the government's decision to reduce the concession rate.

True, in some states, e g Punjab, Western Uttar Pradesh, Gujarat and Bihar, there were shortages during October/November, 1997. However, this had nothing to do with the reduction in rates and was primarily the result of delay in notifying the applicable concession amount (eventually notified on February 3, 1998) and consequent uncertainties affecting planning of supplies, e g there were virtually no imports of DAP during the period.

The reduction in concession rates with selling prices remaining unchanged has led to substantial shortfall in manufacturers/importers' realisation vis-a-vis their reasonable cost of production/imports and distribution. The latter increased sharply on account of depreciation of the rupee and steep increase in the prices of hydrocarbon feedstock/fuel in September/October 1997.

While this has affected the health of the industry and could affect its ability to maintain supplies during the ensuing kharif 1998 and perhaps, even thereafter, the solution to the problem lies in withdrawing the cut in concession rate on phosphatic fertilisers, rather than reducing the selling price of urea. Far from helping the farmers, the latter course would only hurt them by aggregating the imbalance in prices, leading to further worsening of NPK use ratio.

The problem of imbalance in fertiliser use has been haunting Indian agriculture ever since the sudden decontrol of P and K fertilisers in August, 1992. Due to this and despite introduction of the scheme of ad hoc concession w e f October 1, 1992, their selling prices have been rising continuously. For instance, the price of DAP rose from Rs 4680 per tonne in August 1992 to about Rs 10,000 per tonne (with concession of Rs 1000 per tonne) during the second half of 1995-96. In contrast, after 20 per cent increase in June 1994, the price of urea was Rs 3320 per tonne.

In July 1996, the concession amounts were raised steeply, e g on indigenous DAP from Rs 1000 per tonne to Rs 3000 per tonne, and further to Rs 3750 per tonne in April, 1997. This enabled reduction in DAP selling price to about Rs 8300 per tonne during kharif, 1997. Urea price after 10 per cent increase, in February 1997, at Rs 3660 per tonne was still much below. The DAP to urea price ratio, thus, was 2.26:1 as against 1.5:1 before decontrol.

Considering that the ratio is still imbalanced, the government should not remain content with warding off pressure to reduce the price of urea, but in fact, take concrete steps to raise it gradually (steep increase could adversely affect consumption) in furtherance of the objective of promoting balanced fertiliser use.

Even the ninth plan working group on fertilisers recommended an increase of 30 per cent in the urea selling price during 1996-97, followed by an increase of 10 per cent per annum beginning in 1998-99 for four consecutive years. Unfortunately, for the very first year, i e 1996-97, as against the proposed 30 per cent, the actual increase was only 10 per cent and at the fag-end of the year at that.

In the years ahead, the subsidy budget will come under greater pressure due to increases in the administered prices of feedstock/fuel, utilities such as power and water, services such as railways freight. Some of these are already in the pipeline. For instance, the price of natural gas is proposed to be linked to 100 per cent of the cost of international fuels by the year 2000-01 (against 55 per cent at present). Unfortunately, in some quarters, increasing fertiliser subsidy is viewed with contempt.