

Indian Express, P-12, 11-4-16

FARM ERROR

IE P-12
11-4-16

Forcing healthy PSUs to revive fertiliser plants won't help industry or agriculture. Government must deregulate pricing

THERE ARE THREE broad problems with the NDA government's decision to get "healthy" PSUs to invest and revive three fertiliser units also in the public sector. One, without the deregulation of fertiliser prices, the latest step cannot address the longstanding crisis in the fertiliser industry. Two, it does nothing to resolve the problem of grossly imbalanced use of fertilisers in Indian agriculture, which, in turn, is responsible for worsening soil health and stagnant yields. Three, the decision undermines Prime Minister Narendra Modi's inspirational call for "minimum government, maximum governance". In essence, the government's decision points to an attempt to paper over its apparent inability to push for structural reforms in the fertiliser sector.

The problem with India's fertiliser sector is made up of the imbalanced use of fertilisers by farmers and the unviability of fertiliser production. The two problems are interrelated. As against an ideal ratio — 4:2:1 — for the use of nitrogen (N), phosphorus (P) and potassium (K) fertilisers, Indian farmers use twice the amount of nitrogen in the form of urea. The only reason for doing so is that, traditionally, governments have subsidised urea prices by about 70 per cent as against 30-35 per cent for other nutrients like phosphorus, potassium and sulphur. No government has been able to change a subsidy regime wherein government fixes both the market and producer prices and pays the difference as the subsidy to the producers. From the producer's perspective, as a result, there is no incentive to improve efficiency or increase production. Each year, anywhere between Rs 30,000-45,000 crore is stuck in subsidy payments and they are forced to take loans even for working capital. That is also why there hasn't been a single fresh investment in the sector since 1999, notwithstanding two new investment policies in 2008 and 2013. That is the reason, too, why no private firm has showed interest in reviving these plants.

The government should free fertiliser pricing and let private players produce a variety of customised products with differentiated prices and serve the vast market that exists in India. This will also allow farmers to choose the right fertiliser, improve soil health and productivity. But what about the increased input cost for the farmer? Farmers can simply pass on the extra charge to consumers while government incorporates this increase in its calculation of minimum support prices. And what about the increased price for consumers and the general public? Forcing publicly held entities into bad investments and assuredly worsening the soil further is likely to be far more costly. For now, faced with the choice between appearing pro-farmer and being pro-farming, yet another government has chosen poorly.

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