

Chapter V :FERTILISER PRICING AND DISTRIBUTION POLICIES

In a planned economy like ours, Government's policies play a crucial role for the achievement of certain socio-economic objectives, which may not necessarily be the prime objectives of the industry. Since the initiation of 'Grow More Food' campaign in the early 1940's, the agricultural sector has been receiving prime importance under all development programmes at the national level. The supply of manures and fertilisers, seeds, implements, etc., formed an essential feature of all the development programmes. Since the fertiliser was and has remained a relatively scarce commodity, greater focus of Government policies, with respect to fertiliser, has been on its distribution, price stabilisation and transport cost equalisation. We will discuss these policies in some detail in this chapter.

Distribution of fertiliser

The promotion of the use of chemical fertiliser formed an essential feature of the 'Grow More Food' campaign which was initiated in the country, on the recommendation of a high level conference held in Bombay, in 1942.¹ As the indigenous

¹ Report of The Fertiliser Distribution Enquiry Committee (1960)"
Ministry of Food and Agriculture, (Department of Agriculture),
Government of India, New Delhi, p.11.

production of nitrogenous fertiliser at that time was very small, it was decided to import fertilisers from the international market. However, in the international market also the supply of nitrogenous fertiliser dwindled owing to increased use of ammonia for ammunition production during World War II. In order to overcome the scarcity of various commodities, being experienced in many countries, an 'International Emergency Food Council' (IEFC) of the allies was formed to act as a 'co-ordinating agency' for allocating supplies of various commodities, including fertilisers, from surplus to deficit countries. Since IEFC allotments were made only to Governments of the allied countries, 'Central Fertiliser Pool' was formed in the Ministry of Food and Agriculture in 1944 to import as well as distribute nitrogenous fertilisers in India.

However, in order to ensure equitable distribution of fertilisers at fair prices throughout the country, the distribution of indigenous nitrogenous fertilisers was also brought under fertiliser pool soon after its formation.

The popularisation of the use of nitrogenous fertiliser² apprehended the indigenous superphosphate fertiliser manufacturers. Hence, they asked for tariff protection. On the basis of Tariff Commissions recommendations the Government of India formed a 'Superphosphate Pool' in 1949, for the procurement as

2 Ammonium sulphate was the only nitrogenous fertiliser which was distributed in the country.

well as distribution of superphosphate fertiliser. However, in 1952, 'superphosphate pool' was abolished, as the Government of India felt that there was no reason for the superphosphate manufacturers to apprehend because the demand for this fertiliser was keeping pace with supply. The Superphosphate Pool was formed for avoiding gluts as well as price fluctuations of superphosphate fertilisers.

The distribution of pool fertilisers was made through State Governments and within the State, by the Department of Agriculture and private agencies. In the distribution of fertilisers co-operative played a predominant role. Time and again, complaints were made about the imperfection in their working system. To patch-up the weaknesses, the Government of India set-up a Committee known as 'Fertiliser Distribution Enquiry Committee' under the Chairmanship of Dr. J.S. Patel with the following terms of reference :

1. to study the system followed for assessing the demand of nitrogenous fertilisers, mode of distribution in vogue and, to recommend steps for improvement wherever necessary;
2. to study the role of distribution agencies employed, their share in the distribution margin allowed and to recommend such adjustments as may be necessary in the distribution margin;

3. to recommend steps that should be taken to ensure that the cultivators get the fertilisers of the required quality and at notified price, and
4. to study the system in vogue for the distribution of superphosphate and the cost of distribution and to suggest such improvements as may be considered necessary.

The Committee in its report submitted to the Government of India in 1960, criticised the functioning of the co-operatives and appreciated the private dealers. The report stated, "with the starting of new plants a situation is likely to develop where the supplies may temporarily exceed demand Even in the present situation of shortage, co-operative organisations which distribute fertilisers in U.P., Bihar and Punjab are reluctant to accept for sale, fertilisers other than sulphate of ammonia. In Uttar Pradesh the other fertilisers like urea, ammonium sulphate nitrate (ASN) and calcium ammonium nitrate (CAN) are sold through the seed stores of Agriculture Department since the co-operatives are unwilling to handle these relatively new fertilisers which will hereafter be provided in large quantities than sulphate of ammonia In these circumstances the committee feels that the distribution agents in the States, which are mainly co-operative organisations, need to develop an aggressive sales programme if they wish to stay in the fertiliser business. Again in these

circumstances, there will no longer be any justification for giving the co-operative organisations the monopoly of fertiliser trade. On the contrary, the interests of agricultural production as well as of farmers would be best served by throwing the trade open to competition."³ To support their recommendation, the Committee cited an example of the progressive nature of the system of superphosphate fertiliser distribution: "it is interesting to note that, this disparity between supply and demand is either not present or is not acute in the areas where the distribution is handled by the agents of manufacturers, who provide the necessary sales drive, incentive and supervision. It is only in the areas where State Governments have undertaken distribution in general, through co-operative societies or through their own depots that stagnation in the sales of superphosphate has occurred."⁴

The working group for Fourth Five Year Plan estimated that, about 44 per cent of additional food production could result from fertiliser use. Since co-operatives failed to achieve desired success in fertiliser promotion, and under the prevailing situation of fertiliser shortages, the Government of India hesitated to throw the trade open for competition, a resolution was passed on 1st October 1964 for the constitution

3 "Report of the Fertiliser Distribution Enquiry Committee(1960)", p.71.

4 Ibid, p.71.

of another Committee under the Chairmanship of Shri B. Sivaraman to look into the problems pertaining to fertiliser consumption, pricing, distribution, marketing and sales promotion. This Committee, in their report submitted to the Government of India in 1965, recommended to continue the distribution of nitrogenous fertilisers through Fertiliser Pool for the following reasons:⁵

1. Higher cost of production of indigenous fertilisers than the price of imported fertilisers.
2. Regional imbalance in the production and consumption of fertilisers.

In the first case fertiliser pool protects the interest of manufacturers by avoiding competition between pool and indigenous fertilisers and, in the second case it protects the interests of the consumers by providing fertilisers at reasonable prices.

Since private business does not flourish under atmosphere of controls, the committee recommended for relinquishing all controls on fertiliser distribution after reaching a certain stage of production, which the committee thought would be reached by 1969-70. In December 1965, drastic changes were made in the fertiliser policy, by the Government of India, with the object of providing greater incentive to the flow of

5 "Report of The Sivaraman Committee on Fertilisers",
Ministry of Food & Agriculture, Government of India, 1965,
pp.47-48.

private capital - both rupee and foreign - into the fertilisers industry. One of the important policy decisions was that fertiliser projects which were licenced before March 1967 and later extended to December 1967 would be offered freedom to market their products through private agencies and in areas of their own choice, and at prices to be determined by them for a period of seven years from the date of starting commercial production. These relaxations were extended to the existing factories also. However, the Government reserved the right to take up for its own distribution 30% of the factory's production, at prices to be negotiated with the factories. Thus, the new policy had relaxed all controls on fertiliser distribution.

During 1965-66 and 1966-67 the country faced acute shortage of food-grains due to bad weather. Hence, substantial imports of food grains had to be arranged on unprecedented scale, and distress movements were made to scarcity areas. Consequently, the movement of other commodities, including fertilisers, suffered major transport bottlenecks. During 1966-67, a campaign for the extension in area under HYV crops was launched at the national level. Hence, the Government anticipated a steep increase in the demand for fertilisers, in the near future, due to increase in area brought under HYV crops. Therefore, following Sivaraman Committee's recommendations, for the relaxation of control on distribution, and keeping in

view the new fertiliser policy, the Department of Agriculture, Government of India, issued a letter on September 29, 1966, allowing manufacturers to sell 30 per cent of their production in the areas of their choice with effect from 1st October, 1966. Since the production of fertiliser did not reach a satisfactory level, in the second stage of relaxation of control, they were allowed to sell only 50 per cent of their production in the free market with effect from 1st October, 1967. However, they were advised to deliver the balance of their production to the Government of India for distribution by the Central Fertiliser Pool. Again the Department of Agriculture, Government of India in a letter dated 15th March, 1968, permitted all the manufacturers of all nitrogenous fertilisers to market directly 70 per cent of their production at prices determined by them, with effect from 1st October, 1968, and thereafter, with effect from 1st April, 1969, they were permitted to market their entire production, subject to the condition that the Government have the right to take 30 per cent of their production at discretion at a negotiated price. The manufacturers developed markets far and wide and Fertiliser Pool competed with indigenous manufacturers in the open market.⁶

Often, the predictions go wrong. Indigenous production did not reach the anticipated level and shortage of fertilisers

6 Information contained in this and subsequent paragraphs was obtained from The Ministry of Agriculture and Irrigation, Government of India.

occured in many parts of the country. The manufacturers took advantage of the situation of rising prices and shortage of fertilisers in the country. Complaints about non-availability of fertilisers, hoardings, adulteration and over-charging were received all over the country. The only measure to tackle the situation immediately was to reimpose statutory control on the supply and distribution of fertilisers. Initially, the manufacturers of ammonium sulphate fertiliser were asked to distribute 30 per cent of their production through Central Fertiliser Pool for a period of 6 months, for certain priority uses, with effect from 1st July, 1972. On 1st July, 1972, an order was issued by the Government of India under section 3 of Essential Commodities Act 1955 to control despatches of State-wise allocation of fertilisers, in accordance with the decisions arrived at Biannual Zonal Conferences. Since then, the Central Fertiliser Pool, in the Ministry of Agriculture and Irrigation, arranges zonal conferences prior to each crop season - Rabi and Kharif - which is attended by representatives of the Government of India, State Governments, Union Territories, commodity Boards, Fertiliser manufacturers etc. In these conferences fertiliser requirements of each State, Union Territory and Commodity Board is assessed for each crop season. It is important to mention here that, at zonal conferences the assessment is made in terms of fertiliser nutrients.

- nitrogen, phosphorus and potash - and subsequently these requirements are converted into quantities of different types of fertiliser materials. After taking into consideration the total requirements and carry over stocks by States/Union Territories/Commodity Boards and also indigenous availability of fertilisers, as per the commitments of manufacturers, the quantities to be supplied by Fertiliser Pool out of imports are assessed. With the object of ensuring that the imported fertiliser stocks do not affect the disposal of stocks with the indigenous manufacturers, the Government of India has taken a decision to treat Central Fertiliser Pool only as a residuary supplier.

Prior to 1968, imported non-potassic fertilisers were handled by the Regional Directors of Food. In 1968, Food Corporation of India (FCI) was established and the handling and distribution work of non-potassic imported fertilisers was entrusted to it. Since then, the FCI has been working as an agent of the Department of Agriculture of the Government of India. With effect from 1st March, 1976, FCI has taken up the handling and distribution of non-potassic imported fertilisers on ownership basis, and under this system, it purchases the fertilisers on high-seas. This has shifted the financing for imported non-potassic fertilisers from the Consolidated Fund of India to the Commercial Banks and has also relieved pressure on Government's Budget.

However, FCI found it difficult to handle the entire quantity of growing imports of fertilisers. Hence, in May 1978, it was decided to introduce other agencies for handling and distributing imported non-potassic fertilisers on ownership basis. Besides FCI, the other agencies which were entrusted the job of handling and distributing imported non-potassic fertilisers were (1) Indian Potash Ltd., (2) Hindustan Fertiliser Corporation Ltd., (3) Southern Petrochemical Industries Corporation Ltd., (4) Mangalore Chemicals and Fertilisers Ltd., (5) Madras Fertilisers Ltd. (6) Shaw Wallace & Co. and (7) Rashtriya Chemicals & Fertilisers Ltd. These agencies have their own network of fertiliser distribution.

Due to non-availability of potassic resources in the country, entire demand for potassic fertilisers is met through imports. The distribution of potassic fertilisers is done only by the Indian Potash Ltd.

Price control and mechanism of prices fixation

With a view to regulate the quality, price and distribution, fertiliser was declared to be an 'essential commodity' on 29th March 1957 under the Essential Commodities Act 1955, and soon after that, on 23rd April, 1957, the Fertiliser (Control) Order, under Section 3 of the Essential Commodities Act 1955, was promulgated which came into force from 15th May, 1957.

Two types of fertiliser price controls are being exercised in the country. They are: (a) informal price control and (b) formal price control. Under informal price control, the price of fertiliser is voluntarily regulated by the industry, which is consistent with certain parameters on which the Government and the industry agree. The price control on single superphosphate has been informal since 1952-53. Under formal price control, the prices are statutorily fixed under the relevant statute. The prices of important nitrogenous fertilisers have been statutorily fixed since the establishment of central Fertiliser Pool. At present the prices of urea, DAP, NP-NPK complex fertilisers, etc., have been formally controlled. In short, whether the control on price be formal or informal depends on the demand and supply position of the product and, its importance from the national point of view. There are different formulae for fixing the prices of different types of fertilisers.

The Tariff Commission suggested a formula for determining the ex-factory price of superphosphate fertilisers in 1951. This formula was based on certain assumptions made by the Tariff Commission about the market conditions and the installed capacity of the fertiliser units. Although, the Superphosphate Pool was discontinued in 1952, the Government of India continued to fix the maximum ex-factory prices of superphosphate

fertilisers on the basis of this formula until 1966 and since then, this work has been assigned to the Fertiliser Association of India, which also follows the same formula. The formula in its equation form can be written as :

$$P_s = 180 + 0.6 (x-110) + 0.134 (y-180) + (z-21)$$

where

P_s denotes price per tonne of superphosphate,
 x denotes the current price of rock-phosphate,
 y denotes the current price of sulphur, and
 z denotes the current price of alkathene-lined jute bags required for packing one tonne of superphosphate fertiliser.

The coefficients in the formula indicate the raw materials and their quantities that went into production of one tonne of superphosphate. The constant represents the base ex-works price of one tonne of superphosphate for all manufacturing units. Constants within the brackets indicate the base unit price of the raw materials. In February 1974 the base price of fertiliser was raised to 220 for compensating the general increase in prices. The main feature of the formula is that it provides for adjustment in prices, in response to changes in the prices of major inputs.

Price retention schemes were introduced for nitrogenous fertilisers (since November 1977) and for NP-NPK complex

fertilisers (since February 1979). This scheme is based on Marathe Committee's recommendations⁷ and it ensures 12% post-tax or 28.4% pre-tax return on the net-worth. For price assessment the employed capital is divided into net-worth and borrowed funds on the basis of the latest information available in the published balance sheet of the individual unit.

Interest on borrowings has been calculated on an average rate at which the same is paid on various loans. Individual price for each product is fixed for different units on the basis of 80% capacity utilisation of ammonia plants and reasonable norms of consumption of raw materials and utilities that have been worked out by the technical experts with a view to record them in the Report. In case of a unit which imports intermediates in addition to its own production, the quantity of imported ammonia has also been taken into account. In case of complex fertilisers, in addition to ammonia capacity utilisation, another constraint of 70% phosphoric acid plant capacity utilisation, if any, has also been taken into account. The cost per tonne of fertiliser is computed applying these norms and the latest rates of inputs. According to the Committee, the basic pre-requisite that any imposed price should satisfy is that, the producer should be able to earn a return at least

7 Pratap Narayan, "Fertiliser Pricing", Fertiliser Industry Co-ordinating Committee, Ministry of Fertilisers and Chemicals, Government of India, New Delhi, (Unpublished Paper), p.7.

equal to his cost of capital. Thus, the fixed price should be such that at the minimum :

$$\begin{aligned} \text{Net profit} &= \text{Cost of Capital} \\ &= \text{Sales Revenue} - \text{Cost of Equity} + \text{Cost of Borrowing} \end{aligned}$$

Fertiliser price stabilisation policy

As we have noted earlier, India has depended on large quantities of imports of fertilisers. International prices of fertilisers have been fluctuating more than would be desirable, from the point of view of inducement to the farmers to use fertilisers. Besides, there is a disparity between internal prices and imported prices. Imported prices have been generally lower than the cost of production^{for} indigenous manufacturers. Hence, there was also a question of protection of internal industry. Also there are regional disparities in the production as well as consumption of fertilisers. Keeping these aspects of the situation in view it became one of the important objectives of the fertiliser pool to regulate and stabilise the prices of fertilisers, over the years. And this would be done in a way that sometimes pool could make a surplus out of this dealing which would go to subsidise the prices in some other years. In general and over the years the pool would work on 'no profit - no loss' basis.

Thus for the determination of market price, the prices of imported as well as indigenous fertilisers were pooled together and a fair market price was fixed in such a way that the exchequer would not incur any loss. Since the price of imported fertiliser was lower than the retention price (i.e., procurement price), the competition between indigenous as well as imported fertilisers was avoided by pooling the prices.

Table 5.1 shows the procurement ~~and~~ price, import price and market price of fertilisers during 1961-62 to 1965-66. It is seen from the table that the procurement price for all fertilisers was higher than the import price. However, the distribution prices (i.e. pool prices) and procurement prices were more stable than the import prices. With the object of promoting the consumption of new fertilisers such as CAN, ASN, Nitrophosphates etc., they were sold at subsidised price.

Although, the object of the Fertiliser Pool at the time of its formation was to operate at 'no profit - no loss' basis, in course of time, the Government of India started considering it as a revenue yielding commercial undertaking. The prices were generally fixed at higher level in order to keep some margin for unforeseen expenses such as demurage, loss of material during ocean transit, price fluctuations in the international market, granting rebate to states on unsold high priced stocks when the Pool price was reduced, etc.

Table 5.1 : Procurement Price, Import Price (C.I.F) and Market price
(excluding inland railway freight) of fertilisers in India.
 (Rs. per tonne)

Fertiliser	Price	1961-62	1962-63	1963-64	1964-65	1965-66
1. Ammonium Sulphate	Procurement	246-336	246-365	246-335	246-316	246-316
	Import	219.65	210.36	201.65	284.48	307.73
	Pool	315.50	302.80	302.40	302.00	299.00
2. Urea	Procurement	646.00	646.00	672.00	582.00	582.00
	Import	470.40	438.45	NA	411.14	504.64
	Pool	605.53	640.00	640.00	540.00	537.00
3. CAN(Calcium Ammonium Nitrate)	Procurement	275.00	275.00	280.00	256.00	256.00
	Import	211.00	---	no import	---	---
	Pool	291.00	239.00	239.00	239.00	239.00
3. Ammonium Sulphate Nitrate (ASN)	Procurement	394.00	394.00	405.00	426.00	426.00
	Import	265.00	---	no import	---	---
	Pool	372.00	370.00	370.00	372.00	369.00
5. Ammonium Phosphate (20-20-0)	Procurement	-- indigenous production not handled by pool.				
	Import	-	461.00	449.06	488.09	500.89
	Pool	-	491.26	477.83	519.05	532.17
6. Nitro-phosphate	Procurement	-- No indigenous production --				
	Import	-	485.12	358.33	395.75	no import
	Pool	-	535.90	345.00	345.00	345.00

Source: The Sivaraman Committee: Report on Fertilisers, 1965, The Ministry of Food and Agriculture (Dept. of Agriculture), Government of India, New Delhi.

Table 5.2 : Profit or loss of fertiliser pool during 1944-45 to 1964-65.

Year	Total Profit/Loss (Rs.)	Year	Total Profit/Loss (Rs.)
1944-45	6,71,853	1955-56	8,75,985
1945-46	25,64,061	1956-57	22,58,216
1946-47	(-) 4,40,316	1957-58	154,78,413
1947-48	14,29,857	1958-59	350,50,140
1948-49	1,42,639	1959-60	637,07,000
1949-50	19,63,799	1960-61	744,81,003
1950-51	11,43,466	1961-62	947,19,930
1951-52	4,44,627	1962-63	850,06,580
1952-53	3,40,158	1963-64	514,33,663
1953-54	68,70,760	1964-65	46,29,141
1954-55	(-)45,47,472		

Source: 1. Report of the Fertiliser Distribution Enquiry Committee 1960, Ministry of Food and Agriculture, Government of India, New Delhi, 1960.
 2. Sivaraman Committee : Report on Fertilisers, 1965. Ministry of Food & Agriculture, Department of Agriculture, Government of India, New Delhi, 1965.

It is seen from Table 5.2 that the Fertiliser Pool earned profits during all the years prior to 1964-65 except in 1946-47 and 1954-55. These profits were regarded as a source of revenue for the exchequer. The observations made by the Public Accounts Committee in their 23rd Report in 1963-64 on the Working of the Central Fertiliser Pool are reproduced below :⁸

⁸ The Sivaraman Committee Report on Fertilisers 1965, op.cit., p.27.

"It is evident that the profits accruing to the Pool were not incidental due to the imported price of fertiliser being low in a particular period of one or two years but due to the fact that prices have deliberately been kept high with a view to making profits. Thus, the Committee regrets to point out, was not consistent with the object of the Pool."

Before February 1966, Fertiliser Pool used to sell fertilisers to plantations and other States at discriminated prices. Table 5.3 shows the pool price of ammonium sulphate, the then most popular fertiliser, between 1957 and 1965. While recommending for the abolition of differential consumer prices for plantations, the Sivaraman Committee remarked: "The argument appears to be that plantations can bear higher prices because they have better profit margins. This is not always true as indicated by the Chari Committee's Report on Tea Industry."⁹

In 1965 a new agricultural policy was adopted by the Government of India with a view to stimulate the growth of agricultural sector. In 1966-67 a campaign for the promotion of fertiliser responsive high yielding varieties of crops which, subsequently, brought green revolution in the country, was initiated at the national level. Therefore, for the success of this programme it was but natural to fix the market prices of fertilisers at reasonable level. Hence, for the first time in India, uniform prices of fertilisers were fixed with effect

9 Ibid, p.30.

Table 5.3 : Price of ammonium sulphate during 1957 to 1965
(Exclusive of sales tax and other local taxes)

(Figures in Rs. per tonne)

Effective from	For Plantations other than Tea in North-East India	For Tea Plantations in North-East India	For Cultivators in			
			Uttar Pradesh	Tamil Nadu*	Orissa	Other States & Union Territories
July 12, 1957	422.00	405.00	380.00	380.00	380.00	380.00
Nov. 11, 1957	-do-	-do-	386.00	-do-	-do-	-do-
July 21, 1958	-do-	-do-	-do-	390.00	-do-	-do-
Aug. 18, 1959	-do-	-do-	-do-	-do-	390.80	-do-
Oct. 23, 1961	415.80	399.10	380.00	385.14	384.50	374.50
Dec. 1, 1961	-do-	-do-	366.00	371.00	370.00	360.00
Dec. 13, 1961	-do-	-do-	-do-	370.20	-do-	-do-
Jan. 1, 1962	401.30	384.60	-do-	-do-	-do-	-do-
Oct. 5, 1962	384.60	-do-	-do-	-do-	-do-	-do-
Jan. 1, 1964	384.60	384.60	366.00	370.20	373.00	360.00
April 1, 1964	374.60	-do-	-do-	-do-	-do-	-do-
Oct. 1, 1964	-do-	374.60	-do-	-do-	-do-	-do-
April 15, 1965	-do-	-do-	366.00 (374.60)	370.20 (374.60)	373.00 (374.00)	360.00 (374.60)
Aug. 8, 1965	-do-	-do-	360.00	370.20 (374.60)	373.00 -	360.00 (370.60)

Notes : 1. *Inclusive of sales tax and other local duties.

2. Prices are in rupees per long tonne until Oct. 22, 1961 and in rupees per metric tonne thereafter.

3. Figures in parentheses indicate prices of pool fertilisers when sold for the use of tea, coffee or rubber plantations in the States mentioned above.

Source: Fertiliser Statistics (volumes for various years)

from 2nd February, 1966 for all States, Union Territories and Commodity Boards.

Another event that occurred in the mid of 1960's was the devaluation of Indian rupee to the tune of about 57% in June 1966 as a result of which the prices of imported fertilisers and raw materials skyrocketed. Domestic prices also showed sharp increase. Immediately the Pool extended protection to farmers by keeping the market prices at relatively lower level. On the other hand, had the Government continued the procurement price at the pre-devaluation level, the industry would have suffered severely. Therefore, after due consideration, the Government of India revised the procurement prices so that the manufacturers would also not incur any loss. In certain cases the Government also provided subsidy to the domestic manufacture.

Table 5.4 shows the profit or loss incurred by Fertiliser Pool since 1966-67. This table, which gives totally reverse picture of Table 5.2, shows that except in 1970-71 and 1971-72 the Fertiliser Pool incurred substantial losses during all the years. The loss increased from Rs.590.87 million in 1966-67 to 1693.14 million in 1978-79. During 1974-75 and 1975-76 the losses incurred by Fertiliser Pool shot up to the levels of Rs.3494.23 million and Rs.2424.38 million respectively.

Table 5.4 : Cost and recovery of pool fertilisers during 1966-67 to 1978-79.

Year	Total expenditure Rs.	Total Recovery Rs.	Total Profits/Loss Rs.
1966-67	169,44,54,279	110,35,84,528	- 59,08,69,751
1967-68	219,86,72,995	189,57,37,328	- 30,29,35,667
1968-69	202,36,60,213	NA	NA
1969-70	148,31,51,000	118,00,82,000	- 30,30,69,000
1970-71	100,27,29,200	103,52,64,200	3,25,35,000
1971-72	134,94,90,000	155,47,97,000	20,53,07,000
1972-73	223,08,07,000	217,62,07,000	- 5,46,00,000
1973-74	276,76,90,000	216,65,20,000	- 60,11,70,000
1974-75	838,74,01,125	489,31,74,000	-349,42,27,125
1975-76	798,13,85,305	555,70,05,138	-242,43,80,167
1976-77	431,39,08,407	381,06,91,212	- 50,32,17,195
1977-78	500,96,01,764	341,86,57,573	-159,09,44,191
1978-79	752,05,75,158	582,74,33,778	-169,31,41,380

Source: Department of Accounts, Ministry of Agriculture and Irrigation, Government of India, New Delhi.

Although, in 1969 the indigenous manufacturers were given the freedom to market their entire products, the retention prices of urea, AS and CAN were statutorily fixed. As the import prices of urea, AS and CAN were lower than the indigenous retention prices until the mid of 1972, protection to domestic industry was extended by fixing the prices at levels which

avoided competition between indigenous and imported fertilisers. After the mid of 1972, prices of fertilisers escalated very sharply in the international market and consequently, domestic manufacturers attained favourable position. Table 5.5 shows the average c.i.f. price of imported fertilisers since 1967-68. This table shows that the prices of imported fertilisers skyrocketed in 1974-75. For example, the c.i.f. price of

Table 5.5 : Import price of fertilisers (average c.i.f.)

(Figures in Rs. per tonne)

Year (April to March)	Ammonium sulphate	Urea	Calcium ammonium nitrate	Di-ammo- nium phosphate 18-46-0	NPK Fer- tilisers of various grades
1967-68	445.21	652.00	397.60	622.09	644.44
1968-69	350.53	683.55	421.11	778.45	691.15
1969-70	332.62	661.66	428.23	521.18	677.72
1970-71	330.13	588.48	388.85	591.67	544.63
1971-72	167.20	453.78	358.45	566.89	635.29
1972-73	214.51	503.69	383.70	787.23	643.70
1973-74	513.83	712.93	575.79	1057.61	803.64
1974-75	1112.29	2179.65	1556.17	2253.04	2082.11
1975-76	1496.88	2374.63	1556.82	2756.72	2057.44
1976-77	-	1110.09	1088.89	1441.86	1701.49
1977-78	736.84	1230.90	867.13	1495.09	-
1978-79	762.54	1284.45	886.67	1354.62	-
1979-80	731.61	1496.85	1059.72	1728.95	-

Note: c.i.f. = Cost, insurance and freight.

Source: Computed from Fertiliser Statistics, 1979-80
Fertiliser Association of India, New Delhi, 1979-80,
p.I-50.

ammonium sulphate increased from Rs.513.83 per tonne in 1973-74 to Rs.1112.29 per tonne in 1974-75. This means that, there was an increase to the tune of 116.4%% in the price of imported ammonium sulphate. Similarly, the c.i.f. prices of imported urea, CAN, DAP and NP-NPK fertilisers of various grades registered an increase to the tune of 205.73%, 170.27%, 113.03% and 159.08% respectively in 1974-75 over 1973-74 prices.

"The c.i.f. price of urea was Rs.2045 per tonne in April 1974. The sale price including auxiliary duty and countervailing duty and other handling charges worked out to Rs.2890 per tonne."¹⁰ Since the Government had to protect the interests of farming community by keeping the fertiliser prices at the lowest possible level, the burden of subsidy became unbearable for the Fertiliser Pool. Even by increasing the market price of fertilisers, the Pool was incurring substantial losses. For the first time, the domestic fertiliser manufacturers in India were in a position to compete with pool fertilisers. With the object of putting limitations on the enormous profits of domestic manufacturers, the Government of India introduced the concept of 'Fertiliser Pool Equalisation Charge' (FPEC) with effect from 1st July, 1974. Under this scheme, the manufacturers were required to remit the unintended benefits, to the extent of difference between statutorily controlled retail price and the fair delivery price, to the Government as FPEC.

10 Pratap Narayan: Fertiliser Pricing, op.cit., p.2.

Table 5.6 : Fertiliser pool equalisation charge for fertilisers.

(Figures in Rs. per tonne)

With effect from	Urea	Ammonium sulphate (AS)	Calcium ammonium nitrate (CAN)
1st June 1974	610.00	195.00	295.00
July 18 th , 1975	335.00	135.00	155.00
September 15, 1975	265.00	100.00	115.00
March 16, 1976	165.00	100.00	115.00
October 12, 1977	65.00	100.00	115.00
March 1, 1979	65.00	100.00	115.00

Source: Fertiliser Industry Co-Ordination Committee, Ministry of Petroleum, Chemicals & Fertilisers, Government of India, New Delhi.

Table 5.6 shows the FPEC payable by manufacturers, to the Government of India, on the sale of each tonne of fertiliser. FPEC was fixed at Rs.610, Rs.195 and Rs.295 for urea, AS and CAN respectively, at the time of its introduction. In the subsequent years FPEC was reduced for making adjustments in the market price build-up. The break-up of urea fertiliser price under FPEC scheme is shown in Table 5.7. Although, the ex-factory prices varied from unit to unit, this table gives only average ex-factory price of urea. The table also shows that, over and above the ex-factory price, the other components which are taken into account while computing the fair market

Table 5.7 : Break-up of indigenous urea fertiliser price under fertiliser pool equalisation policy.

(Rs. per tonne)

	Average ex-factory price	Excise duty	Fertiliser pool equalisation charge	Dealer's margin	Notional freight	Market price
June, 1974	1106	166	610	80	38	2000
18 th July, 1975	1183	179	335	115	38	1850
September, 1976	1245	187	265	115	38	1850
March, 1976	1245	187	165	115	38	1750
February, 1977	1245	187	65	115	38	1650
12 th Oct., 1977	1158	174	65	115	38	1550
1 st March, 1979	1145	87	65	115	38	1450
8 th June, 1980*	1158	nil	nil	115	38	2000

*Excess recovery by manufacturers to be adjusted through retention pricing mechanism.

(Ref. Handbook on Fertiliser Marketing, FAI, New Delhi, 1980, p.234)

Source: Fertiliser Industry Co-Ordination Committee, Ministry of Petroleum, Chemicals & Fertilisers, Government of India, New Delhi.

price are excise duty, FPEC, dealers' margin and notional freight. We shall discuss these components in their respective places. It is obvious from the table that market prices of fertilisers were altered by making adjustments in the price components, keeping in mind fair returns to capital invested in the industry. The break-up in the price of AS and CAN for the years 1975 and 1979 has been shown in Table 5.8, and for other

Table 5.8 : Break-up of indigenous fertiliser prices for ammonium sulphate and calcium ammonium nitrate.

(Figures in Rs. per tonne)

Product and year	Ex-factory price	Ex-cise duty	Fertiliser pool equalisation charge	Dealers' margin	Notional freight	Market price
<u>Ammonium Sulphate</u>						
July 18, 1975	615	95	100	75	40	925
March 10, 1979	637	48	100	75	40	900
<u>Calcium Ammonium Nitrate</u>						
July 18, 1975	686	104	115	70	40	1015
March 10, 1979	723	52	115	70	40	1000

Source: Fertiliser Industry Co-Ordination Committee, Ministry of Petroleum, Chemicals & Fertilisers, Government of India, New Delhi.

years the break-up is not available. Similarly the break-up in the prices of complex fertilisers is also not available.

Table 5.9 shows variations in the prices of fertilisers since 1966-67. In April 1967, the market prices of AS, Urea, CAN and SSP were fixed at Rs.492, Rs.840, Rs.510 and Rs.300.95 per tonne respectively. Due to increase in distribution margin, the market price of AS was increased by Rs.10 per tonne with effect from 1st April 1968. "In case of urea an increased of Rs.20 per tonne was allowed from 1st April 1968, but it was withdrawn in March 1971.¹¹ The price of SSP was increased by Rs.10.75 per

11 Ibid.

Table 5.9 : Maximum retail prices of Fertilisers (exclusive of sales tax and local taxes and inclusive of excise duty)

(Figures in Rs. per tonne)

As on Date	Ammonium sulphate* (20.6%N)	Urea (46% N)	Calcium Ammonium nitrate (CAN) (25% N)	Single Super-phosphate (SSP)(16%P ₂ O ₅)
February, 1966	405	680	365**	212.04
February, 1967	405	680	385**	272.95
April, 1967	492	840	510	300.95
April, 1968	502	860	510	311.70
April 1, 1969	539	943	545	299.78
March 9, 1971	529	923	545	301.79
March 30, 1972	549	959	565	291.18
October 11, 1973	600	1050	615	353.00
June 1, 1974	925	2000	1095	690.00
July 18, 1975	925	1850	1095	735.00***
March 16, 1976	925	1750	1095	483.00***
February 8, 1977	925	1650	1095	332.00***
October 12, 1977	925	1550	1015	332.00***
March 10, 1979	890	1450	1000	371.00***

Note:

* For 100 kg packing retail price is higher by Rs.11/- a tonne upto 10-10-1973 and Rs.10/- a tonne w.e.f. 11-10-1973 when supplied in 50 kg capacity bags.

** CAN grade 20.5% N.

*** After deducting the incidence of subsidy which is Rs.1250/- per tonne of P₂O₅ in force from March 1, 1976.

Source: Fertiliser Statistics, Fertiliser Association of India, New Delhi, 1979.

tonne from 1st April, 1968. In March 1969 advalorem excise duty, to the tune of 10%, was imposed on AS, Urea, and CAN as a result of which their market prices increased respectively by Rs.37, Rs.83 and Rs.35 per tonne with effect from 1st April 1969. In March 1972 the rate of advalorem excise duty was increased to 15% as a consequence of which, the market prices of AS, Urea and CAN increased to the level of Rs.549, Rs.959, and Rs.565 per tonne respectively. It should be noted here that the ex-factory prices remained unchanged between April 1967 and September 1973. The ex-factory prices of SSP remained under informal control and varied from unit to unit. With a view to compensate the increase in the cost of production caused by increase in the prices of Naphtha and Fuel Oil, in June and thereafter, in September 1973, as shown in Tables 5.10 and 5.11, the ex-factory prices of AS, Urea and CAN were increased with effect from June 1974. In the case of AS and CAN the ex-factory prices were fixed entirely on the basis of the nutrient contents in these two products as compared to urea. Hence, their actual cost of production was overlooked. In July 1975, with a view to compensate the increase in the cost of production caused by increase in wages as well as prices of naphtha, fuel oil and power since June 1974, the ex-factory price of urea was increased by Rs.77 per tonne. In July 1975 the distribution margin was also increased and in the case of urea, distribution margin

**Table 5.10 : Prices of fertiliser raw material naphtha for fertiliser industry - ex-companies
(Rs. per Metric Tonne)**

With effect from	Gauhati/ Barauni/ Digboi/ Haldia	Kardla	Okha	Koyali/ Bombay	Goa	Cochin	Madras	Vizag.	Calcutta	Increase/ decrease in price
Before	20.00	90.40	90.05	89.65	87.45	188.46	105.82	125.97	104.70	
1-6-1970		114.90	114.55	114.15	111.95	112.96	130.32	120.47	129.20	+ 24.50
28-5-1971		144.88	144.53	144.13	141.93	142.94	160.30	150.45	159.18	+ 29.98
11-6-1973		193.00	192.65	192.25	190.05	191.06	208.42	198.57	207.30	+ 48.12
1-9-1973		253.00	252.65	252.25	250.05	251.06	268.42	258.57	267.30	+ 60.00
1-6-1974		487.05	486.70	486.31	484.10	485.11	502.48	429.63	501.36	+234.06
1-9-1975		650.92	658.83	592.31	654.57	595.11	612.48	602.63	653.58	+110.00
17-8-1979	611.36	650.92	658.83	596.31	654.57	595.11	612.48	602.63	653.58	Nil
8-6-1980	1086.36	1125.92	1133.83	1071.31	1129.57	1070.11	1087.48	1077.63	1128.58	+475.00

Note: The price of Naphtha is exclusive of basic custom/excise duties chargeable extra at applicable rates.

Source: Fertiliser Statistics, Fertiliser Association of India, New Delhi, 1979-80.

Table 5.11 : Prices of fertiliser raw material fuel oil (inclusive of duties) for fertiliser industry - ex-companies storage points etc.
(Rs. per Kiloliter)

With effect from	Gauhati/ Borauni/ Digboi/ Haldia	Kandla	Okha	Koyali/ Bombay	Goa	Cochin	Madras	Vizag.	Calcutta	Increase/ decrease in price.
28-5-1971		433.73	233.40	232.78	231.19	232.06	247.50	239.11	246.53	-
11-6-1973		249.65	249.32	248.71	247.98	247.98	263.43	255.04	262.46	+ 15.93
2-3-1974		605.07	604.73	604.12	602.52	603.39	618.84	610.45	617.87	+355.41
18-9-1974		655.07	654.73	654.12	652.52	653.39	668.84	660.45	667.87	+ 50.00
1-3-1975		684.02	683.68	683.07	681.47	682.34	697.79	689.40	696.82	+ 28.95
14-7-1975		805.17	817.88	763.07	800.38	762.34	777.79	769.40	801.13	+ 80.00
1-12-1975		925.17	937.88	883.07	920.38	882.34	897.79	889.40	921.13	+120.00
13-3-1978	902.81	931.16	943.87	889.06	926.37	888.33	903.78	895.39	927.12	+ 5.99
17-8-1979	842.81	871.16	883.87	829.06	866.37	828.33	843.78	835.39	867.12	- 60.00
<u>Ex-points (within Free delivery zones)</u>										
28-5-1971		243.73	243.40	242.78	241.19	242.06	257.50	249.11	256.53	
11-6-1973		255.90	255.57	254.96	253.36	254.23	269.68	261.29	268.71	+ 12.18
2-3-1974		611.32	610.98	610.37	608.77	609.64	625.09	616.70	624.12	+355.41
18-9-1974		661.32	660.98	660.37	658.77	659.64	675.09	666.70	674.12	+ 50.00

Note: Excise Duty on Furnace oil, when used for fertiliser manufacture, was withdrawn with effect from September 25, 1972. Its incidence was Rs.113/- per tonne.

Source: Fertiliser Statistics, Fertiliser Association of India, New Delhi, 1979-80.

increased by Rs.35 per tonne. The reduction in retail price and increase in ex-factory price and dealers' margin was equalised by reducing FPEC. Similar adjustments were also made in the prices of AS and CAN. In October 1977, the price of urea was reduced by reducing the ex-factory price and in March 1979, the price was further reduced by reducing the ex-factory price as well as the rate of excise duty from 15% to 7.5%. The market prices of AS and CAN remained unchanged between June 1974 and March 1979. With effect from 8th June 1980, the advalorem excise duty on all fertilisers except AS and CAN has been withdrawn. The prices of AS and CAN have also been decontrolled with effect from 8th June 1980. At present, the incidence of excise duty for AS and CAN is 7.5% advalorem. It should be noted here that there is only one all India maximum selling price for each fertiliser product except SSP irrespective of the marketing regions for each fertiliser plant.

The Tariff Commission's formula for the computation of superphosphate price is based on only three aspects viz., price of rock phosphate, price of sulphur and price of packing material. Therefore, with the spurt in the prices of rock-phosphate and sulphur during 1974-75 and 1975-76, as shown in Table 5.12, the market price of SSP escalated very sharply. The prices of NP/NPK fertilisers also sky-rocketed. The manufacturers were apprehensive of farmers resistance to purchase

Table 5.12 : Price of imported phosphate rock and sulphur.

(Figures in Rs. per tonne)

Price as on	C.I.F. Price of phosphate rock		Ex-godown price of sulphur
	Jordan-rock (70/72% BPL)	Morocco rock (70/72% BPL)	
January, 1973	155	211	360
April, 1973	185	211	400
July, 1973	211	211	406
October, 1973	235	211	406
January, 1974	525	211	592
July, 1974	630	689	884
April, 1975	600	689	773
July, 1975	560	689	773
October, 1975	570	689	773
January, 1976	540	665	700
April, 1976	440*	665	625
October, 1976	410*	665	625
January, 1977	376*	665	625
April, 1977	359*	665	625
January, 1978	335*	665	605
April, 1978	355*	665	605
July, 1978	345*	665	600
January, 1979	363*	519*	765
July, 1979	460*	616*	1035
January, 1980	567*	672*	1410

Note : * 15% import duty as well as 5% auxiliary duty have been withdrawn with effect from 16th March, 1976.

Source: Fertiliser Statistics, FAI, 1979-80.

fertilisers. They, therefore, put a forceful plea that the only remedy for checking this growing imbalance would be to subsidise the P_2O_5 price to the farmer. The Government of India accepted this proposal and for administrative convenience, a subsidy to the tune of Rs.1250 per tonne of P_2O_5 was routed through manufacturers with effect from 16th March, 1976. As a consequence of this subsidy, the prices of uncontrolled fertilisers were also brought under informal control. In order to ensure that the entire benefit of subsidy is reaped by the consumers, maximum selling price of SSP was fixed for each individual unit from October 1976 and the manufacturers were asked to mark the maximum price on the fertiliser packed bag. The Government also reduced the rate of excise duty on SSP from 15% to 7.5% with effect from 1st December, 1975 and from 22nd March, 1979 the rate of excise duty has further been brought down to 3.75%. As the ex-factory price of SSP depends upon the type of rock phosphate used (imported or indigenous or mix of both) and cost incurred on transport of raw materials etc., therefore, maximum selling price, which is computed after taking into consideration the dealer's margin and freight cost on finished product, varies from plant to plant even in the same State.

Messrs Indian Potash Ltd. (IPL) are the sole distributors of potassic fertilisers in the country. Due to non-availability

of potash deposits in the country, entire demand is met through imports. The subsidy is directly paid to IPL for selling potassic fertilisers at the notified price.

A variety of factors such as location of the plant, vintage, capital investment, raw materials, process employed, etc., influence the cost of production. Since maximum selling prices for nitrogenous and complex fertilisers were statutorily fixed, many units were on the verge of crisis due to high cost of production. With a view to protect the interests of the industry the Government of India appointed a high level committee in January 1976 under the Chairmanship of Shri S.S. Marathe, the then Chairman of Bureau of Industrial Costs and Prices, to examine the entire question of pricing of fertilisers and recommend a rational pricing policy which would ensure a fair return on investment for all manufacturers. The committee submitted their report in two parts: Part I of the report which deals with nitrogenous fertilisers, was submitted in 1977. On the basis of its recommendations, the Government of India introduced a system of retention prices with effect from 1st November, 1977 for units manufacturing nitrogenous fertilisers. Part II of the report which deals with complex fertilisers was submitted in 1978 and on the basis of its recommendations complex fertilisers were also

brought under price retention scheme with effect from 1st February, 1979. The work of administering the Fertiliser Fund Account and revising/reviewing the retention prices for subsequent years has been entrusted to the Fertiliser Industry Coordination Committee (FICC) which functions under ^{the} Chairmanship of the Secretary of the Ministry of Chemicals and Fertilisers.

The price retention scheme takes into account the consumption norms, selling expenses, interest on borrowed capital, depreciation and profit margin. However, in case of those units which commenced production recently, appropriate provision has been made for higher incidence of repairs and maintenance costs. In case of those units whose ex-factory realisation price, as part of the consumer price after taking into account excise duty, notional freight cost, and dealer's margin, is less than computed retention price, the difference is paid by the FICC to the concerned unit so that it is able to achieve a reasonable return on investment notwithstanding the lower consumer price fixed statutorily. On the other hand, where ex-factory realisation price is higher than the retention price, the unit pays back the difference to the Government so that it does not reap any unintended benefit.

The fixation of 80% ammonia plant capacity utilisation under the price retention scheme also provides incentives

for the industry. For example, if the concerned unit does not come upto this level, it would not be able to realise the desired cost of capital and, therefore, should make all out efforts to improve efficiency. On the other hand, the plant that operates at higher than the capacity norm, would realise higher amount of return than mere cost of capital as fixed costs would have been fully covered at the level of achievable production and returns over and above that level would be some sort of bonus for the manufacturers. This scheme discourages under utilisation of capacity.

Fertiliser transport cost equalisation policy

The main object of transport cost equalisation policy is to ensure that fertiliser is made available to the farmer at equitable price, even in the remote and inaccessible areas of the country. Prior to 1962 the prices of both imported as well as indigenous nitrogenous fertilisers were pooled together and after making provisions for overhead expenses such as dealers margin, freight cost, etc., maximum selling price was fixed statutorily. The delivery by the Fertiliser Pool was made at ex-port or ex-factory level and the freight cost upto F.O.R. destination points was borne by the Pool. Thus, the market prices varied from district to district due to variation in the cost of transportation of fertilisers from the F.O.R. destination points.

However, in special circumstances, subsidy was provided to the State Governments for meeting high cost of internal transportation and/or other expenses of distribution. As the dealers were paid fixed distribution margin, which also included transportation expenses, in certain cases the distribution was confined only to points near rail-heads and hence, in the interior areas, farmers were not aware of the use of chemical fertilisers at all. With a view to promote the consumption of fertilisers in the interior areas, the Fertiliser Distribution Committee (1960) recommended differential road transport subsidy on the basis of destination from rail-heads in difficult terrain such as Jammu & Kashmir, Assam, etc. Following these recommendations, the Fertiliser Pool made certain provisions in 1962 for : (a) the reimbursement of extra cost on movement of fertilisers by road and (b) grant of subsidy for meeting high cost of transportation in hilly and inaccessible areas.

In case of phosphatic fertilisers, the maximum selling prices were fixed by pooling the average rail-head transport costs and distribution margin. Similarly, the prices of potassic fertilisers were also fixed after taking into account the c.i.f. price, transport cost and dealer's margin.

The Sivaraman Committee (1965) recommended the system

of uniform rail head prices to all distributors throughout the country, by pooling the transport costs. The committee also recommended the pooling of additional transport costs incurred in the maintenance of buffer stocks and their distribution. With a view to promote the consumption of fertilisers in the interior areas, the Committee recommended that, the retailers should have the freedom to arrange their own transport from the wholesale godowns and they may be allowed rebates on the ex-godown price on a sliding scale with reference to the distance of retail depot from the wholesale godown.

The Government of India implemented the recommendations of Sivaraman Committee Report and from 1st February, 1966 all-India uniform prices for all the nitrogenous fertilisers were fixed. The Government also gave rebates to distant retail depots and off-season rebates on stocks lifted by State Governments. This system caused much inconvenience to the retailers because under this scheme, rebate could be sanctioned only after verifying that the fertiliser consignment had actually been transported to the retail sales points. Thus, the retailers had to do lot of up and down leg work. Another scheme which was being followed since 1962 in the hilly and inaccessible areas was, to provide an additional allowance to the tune of Rs.10 and later extended to Rs.15 over and above

the distribution margin for retailers and in addition to this, the transport cost for carrying fertilisers to the retail depots in excess of this amount was shared by the Central and State Governments on 75:25 basis. This scheme also could not yield satisfactory results because the retailers had the tendency to dispose off the fertilisers near the wholesalers' delivery points and, thus, pocket the additional allowance. Since there was not much scope for the expansion of markets in these areas, indigenous manufacturers were reluctant to supply fertilisers. For example, "during Kharif 1976 no manufacturer indicated his willingness to supply any fertiliser to Jammu & Kashmir."¹²

Co-operatives, by definition, are village based while the private retailers do their business in the urban areas. As the distance of a retailing point increases from a rail-head, the selling of fertiliser at the statutorily notified price, inclusive of distribution margin which is uniform all over India, becomes progressively unattractive for the private retailer. This is one of the major hurdles for distributing fertilisers in the interior areas. Table 5.13 shows the break-up of distribution margin for urea. The component for transport cost constitutes only 7.83% of the total distribution margin. The Government of India is aware of all such problems.

12 Sikder, B.P., 'Central Fertiliser Pool', Fertiliser Marketing News, May 1976, FAI, New Delhi, p.5.

Table 5.13 : Break-up of distribution margin for urea fertilisers.

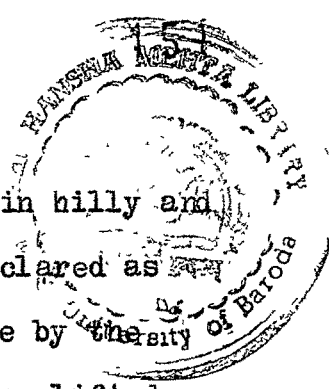
Particulars	Rs. per tonne	per-cent
1. Commission to the wholesaler/retailer.	25.69	22.34
2. Transport charges (36 paise per km. for 25 kms)	9.00	7.83
3. Loading/unloading (Rs.1.06 per tonne for 5 operations)	5.30	4.61
4. Godown rent (Rs.3 for 3 months)	9.00	7.83
5. Shortage	8.79	7.64
6. Interest charge (14% for 3 months)	57.22	49.75
Total	115.00	100.00

Source: Sodhi A.J.S. "Reaching Fertiliser to Farmer's Doorstep"
FAI Seminar, 1979, p.IV-1/16.

Table 5.14 : Road-head points declared as rail-heads for fertiliser pool.

Name of the State	No.of points
1. Assam	64
2. Meghalaya	60
3. Sikkim	4
4. Himachal Pradesh	11
5. Nagaland	2
Total	141

Source: Sodhi, A.J.S. "Reaching Fertiliser to Farmer's Doorstep",
FAI Seminar, 1979, p.IV-1/16.



Therefore, with a view to reach the fertilisers in hilly and inaccessible terrains, 141 roadheads have been declared as rail-heads upto which the transport cost is borne by the Fertiliser Pool and from there the fertilisers are lifted by the distributors at their own cost. Table 5.14 shows the number of road-head points declared as rail-head points for the distribution of pool fertilisers in different states. The number of these points is maximum in Assam and Meghalaya. Of the total 141 road-head points, 64 are in Assam and 60 are in Meghalaya. In Sikkim, Himachal Pradesh and Nagaland the number of road-head points are 4, 11 and 2 respectively.

Although, promotional activities have been carried on in India since the initiation of "Grow More Food" Campaign, over 200 blocks in the country still do not have even a single retail outlet. Table 5.15 shows total number of ~~blocks and~~ blocks that do and do not have fertiliser retail points in each zone. The Marathe Committee on Fertiliser Prices has strongly recommended the system of fertiliser delivery at the block level so that the secondary transport may, by and large, be within the limits provided for in the distribution margin.

The retention price system which is being followed at present makes provision for notional freight cost. The notional freight cost is the equated freight cost which the manufacturers

Table 5.15 : Zone-wise number of blocks.

Zone	Number of blocks	Number of blocks having fertiliser retail points	No. of blocks, not having fertiliser retail points
South zone	1022	1011	11
West zone	1173	1140	33
North zone	1220	1218	2
East zone	1478	1317	161
Total	4893	4686	207

Source: Sodhi A.J.S. "Reaching Fertiliser To Farmer's Poorstep", FAI Seminar 1979, p.IV-1/15.

are entitled to get for the transport of fertilisers, from the factory/godowns to the destination points. Since the actual incidence of freight varies from unit to unit, following Marathe Committee's recommendations for freight cost, etc., the Fertiliser Industry Co-ordination Committee (FICC) had allowed the payment/retention of actual equated freight cost. This scheme had retrospective effect from 1st November, 1977 for nitrogenous fertilisers and from 1st February, 1979 for complex fertilisers. Under this scheme the difference between actual incidence of freight and equated freight was reimbursed if the incidence of actual freight was higher or, recovered if it was lower, than the equated freight.

During 1978, the inadequacy of wagons hampered the movement of fertilisers. Therefore, in order to ensure that this did not act as a constraint to fertiliser consumption, the Government of India announced a road subsidy scheme for nitrogenous and complex fertilisers with effect from 16th August, 1978. Under this scheme, extra costs incurred by manufacturers by resorting to road movement even upto 1000 kms. destination, under certain circumstances, were reimbursed.

Some of the important features of this scheme were :

- (a) No compensation was permissible for ex-factory movement by road upto the destination of 200 kms.
- (b) To encourage block rake loading, the scheme permitted road movement from a block rake destination to various points upto 250 kms. Similarly, at the loading points, road bridging upto a distance of 250 kms could be undertaken to avail easy availability of wagons in a nearby area. The difference between the actual freight by road and through rail freight to the nearest rail-head was reimbursed.
- (c) Subsidy was applicable to movement by road from the railway break of gauge point if the supplies were brought to this point by rail from factory, and
- (d) In case of coastal movement (to avoid transshipment) difference between cost of coastal sea transportation including port charges and rail freight were reimbursed.

Under this scheme the manufacturers were asked to use the shortest route for transportation. Table 5.16 shows the total amount of subsidy paid by FICC to the manufacturers of fertilisers during 1977-78 to 1979-80. This subsidy also includes subsidy paid for road transport. The amount of subsidy increased from Rs.109.92 crores in 1977-78 to Rs.299.33 crores in 1979-80. Although, this scheme was quite favourable for manufacturers but it was very cumbersome for administration. The manufacturers had to report the total number of vehicles shipped, quantity of fertilisers despatched, truck number, destination, etc. Consequently there was heavy billing which posed accounting problems.

Table 5.16 : Total subsidy paid by fertiliser industry co-ordinating committee to indigenous fertiliser manufacturers.

(Figures in Rs. crores)

Year	Phosphatic fertilisers	Nitrogenous fertilisers	Total
1977-78	82.53	27.39	109.92
1978-79	88.85	93.24	182.09
1979-80	140.22	159.11	299.33

Source: Fertiliser Industry Co-ordination Committee, Ministry of Chemicals & Fertilisers, Government of India, New Delhi.

A rationalised equated freight cost scheme which takes into account rail-road movement has been notified. Under this scheme, the manufacturers have the liberty to use any mode of

transport. Since additional incidence on freight would be borne by the manufacturers themselves, this scheme tends to reduce subsidy on fertiliser transportation.

Conclusion

Fertiliser Pool plays an important role in regulating the supply of fertilisers in all the regions of the country. Fertiliser Pool also ensures the maintenance of stability in fertiliser prices. For this purpose fertiliser was declared to be an 'essential commodity' on 29th March, 1957. Soon after that, the Fertiliser (Control) order, under section 3 of the Essential Commodities Act, (1955), was promulgated which came into force from 15th May, 1957. The main objective of this order was to ensure an equitable distribution of fertilisers at fair prices, throughout the country.

Since the farmer would use fertiliser only if its use is beneficial, substantial amount of subsidy is given by the exchequer for maintaining the fertiliser price at reasonable level. The Government of India has also introduced the concept of 'Fertiliser Pool Equalisation Charge' with a view to recover the excess amount of profits from the indigenous fertiliser manufacturers and this amount is adjusted with subsidy which is given to various fertiliser manufacturing units in the country.

The Fertiliser Pool has declared many road-head points as rail-heads in order to supply fertilisers in hilly and inaccessible areas of the country. The transport cost is also subsidised with a view to supply fertiliser, at uniform price, throughout the country.

Apparently, fertiliser policies, pertaining to distribution, price stabilisation and transport cost equalisation have played a crucial role in promoting the consumption as well as production of fertilisers, in the country, by protecting the interests of both, the farmers as well as the fertiliser manufacturers.