Frank Notes

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Union Budget 2018-19

Focus on Farm Income

Fertiliser Sector Left Out

The Union Budget for 2018-19 was presented against the backdrop of rural distress, caused by consecutive droughts experienced in 2014-15 and 2015-16, followed by a collapse in farm produce prices in last two years. The growth rate per annum in Indian agriculture has been less than 2% between 2014-15 and 2017-18, resulting in poor farm incomes. The government has proposed a number of initiatives in the Union Budget for 2018-19 keeping in view the objective of generating higher income for farmers.

Some of the key initiatives presented in the union budget include better price realization by the farmers, strengthening and broadening of e-NAM coverage, develop and upgrade existing rural haats into Gramin Agricultural Markets, development of cluster based model for identified agriculture produces, favourable taxable treatment to Farmer Producer Organizations, etc. Government has also enhanced the volume of institutional credit and evolves mechanism for including lessee cultivators for eligibility to institutional credit. Other agricultural initiatives include promotion of organic farming, cultivation of highly specialized medicinal and aromatic plants, restructuring National Bamboo Mission, etc. On rural infrastructure, the budget focused on strengthening and widening the ambit of Prime Minister Gram Sadak Yojana to include major link routes which connect habitations to agricultural and rural markets.

As regards, better price realization, government has proposed to have a structure to ensure that farmers get MSP when crop prices are lower. MSP for kharif crops is proposed to be fixed at 1.5 times the cost of production. However, it is not clear which measure of cost the government will take while announcing MSPs in future. Whether it is C2 (comprehensive cost of production) or A2+FL measure which includes paid out costs on inputs plus an imputed value of family labour. The budget directed NITI Aayog "to put in place a foolproof mechanism so that farmers get an adequate price for their produce". It is hoped that NITI Aayog will develop an appropriate mechanism which will ensure adequate price of produce to farmers.

The government aims to strengthen and expand the coverage of e-NAM to 585 APMCs by March 2018. However, more than 86% of our farmers are small and marginal who are not always in a position to directly transact at APMCs and other wholesale markets. For this purpose, the government proposes to develop and upgrade existing 22,000 rural haats into Gramin Agricultural Markets (GrAMs). In these GrAMs, physical infrastructure will be strengthened using MGNREGA and other government schemes. These GrAMs, electronically linked to e-NAM and exempted from regulations of APMCs will provide farmers facility to make direct sales to consumers and bulk purchases. For this, an Agri-Market Infrastructure Fund with a corpus of Rs.2000 crore will be set up for developing and upgrading agricultural marketing infrastructure in the 22000 GrAMs and 585 APMCs.

Over the last few years, a number of Farmer Producer Companies have been set up along the lines of cooperative societies. The budget proposes to allow hundred per cent tax deduction to these companies having annual turnover over Rs. 100 crores in respect of their profits derived from such activities for a period of five years from financial year 2018-19.

To ensure adequate and timely farm credit, the target for agriculture credit has been raised by 10% to Rs 11 lakh crore for 2018-19. Moreover, government will evolve suitable mechanism to enable lessee cultivators to credit without compromising the rights of land owners. Presently, lessee cultivators are not able to avail crop loans from formal sources.

Government also announced plans to develop a cluster-based model of horticulture to assist groups of farmers all the way from production to marketing.

To address production and price fluctuations of the most widely consumed vegetables, viz., onion, potatoes and tomatoes, the budget announced a new programme, "Operation Greens" with an outlay of Rs 500 crore, similar to Operation Flood" which will promote Farmer Producers Organizations, agri-logistics, processing facilities and professional management.
Allocation for food processing sector has been doubled from Rs.715 crore in 2017-18 to Rs.1400 crore in 2018-19. To help Indian farmers benefit from higher exports, the budget promised to liberalize farm export policies and help set up state-of-the-art testing facilities in mega food parks.

Various initiatives mentioned in the foregoing paragraphs are steps in the right direction and demonstrate the intent of the government towards raising farm incomes and the welfare of the farmers. However, there is need for more clarity regarding the mechanism and time frame for implementation of these programmes.

The efforts of the government for farmers' income and welfare will remain incomplete unless the issues of fertiliser sector are suitably addressed. The budget is disappointing as far as fertiliser sector is concerned. Fertilisers are important part of cost of cultivation. Efficient use of fertilisers can increase the output: input ratio and hence farmers' income. Union Budget has failed to address the problem of imbalanced use of plant nutrients and deteriorating health of fertiliser industry. Regulated retail price of urea will continue to be pegged at current low level giving rise to its imprudent use.

There has been sharp increase in global crude oil prices in recent months. There has also been corresponding increase in prices of fertilisers and raw materials. For instance, the current landed price (cost plus freight) of imported DAP is over US$400 per tonne as against US$ 313 per tonne a year before. The cost of fertiliser raw materials and intermediates are also up. CFR (India) price of imported phosphoric acid is now about US$ 678 per tonne as against US$ 567 per tonne last year at this time. Similarly, CFR price of ammonia is now US$ 358 per tonne as against US$ 222 per tonne last year and sulphur (US$ 165 versus US$ 120 per tonne). Further, government has imposed 10% Social Welfare Charge in place of Education Cess and Secondary and Higher Education Cess of 3% on imported goods. This will have additional impact of 7% on aggregate duties of customs on fertilisers and raw materials. Prices of natural gas both domestic and imported have also been rising in recent months. Thus requirement of fertiliser subsidy will be much higher in 2018-19 than in 2017-18.

Budget proposals instead of addressing the issue of unpaid subsidy dues will aggravate the situation. Inspite of large arrears of subsidy dues and increasing cost of fertilisers in last quarter of 2017-18, revised estimate for fertiliser subsidy has been reduced by almost Rs.5000 crore in 2017-18. It means there will be carryover of a high amount of unpaid dues to 2018-19. But again, the provision for 2018-19 remains at Rs.70,090 crore inspite of arrears and increasing cost of fertilisers. It will result in two things – substantial increase in retail price of decontrolled P & K fertilisers and huge burden of unpaid subsidy on the industry. The direct benefit transfer (DBT) scheme of fertiliser subsidy is being rolled out to cover entire country by March 2018. Under DBT, government has committed to pay subsidy within 7 days of confirmation of sales to farmers. How is that possible when subsidy arrears will be over Rs.23,000 crores at the beginning of the next year? Industry was given to understand that arrears will be cleared before implementation of DBT. These hopes have been completely belied. This has also put a question mark on implementation of DBT.

{ Healthy fertiliser industry can play a major role in improving farm productivity by providing innovative products and extension services. }

Industry has been requesting the government for last several years to eliminate the customs duty or reduce it to 1% on imported raw materials, viz., rock phosphate, sulphur, ammonia and phosphoric acid as against the existing rate of duty. This long pending demand of the Industry has remained unaddressed in the Union Budget. With the result, domestic production will continue to face unfair completion from imports. Country continues to remain highly import dependent inspite of sufficient domestic production capacity of P & K fertilisers.

The reduction in corporates tax from 30% to 25% for small and medium scale industries upto a turnover Rs. 50 crores in 2017-18 and Rs. 250 crore in 2018-19 is a step in the right direction. But in the fertiliser sector, the relief will benefit only some of the SSP manufacturing companies. Turnover of urea and complex fertiliser manufacturing companies are much higher than Rs.250 crores annually. It is hoped that government will expand the coverage and large industries also benefit from lower corporate tax.

Outside the budget, urea industry continues to suffer due to denial of reimbursement of its legitimate cost of production. Case in point is the non-payment of increase in fixed cost notified almost 4 years ago. Simultaneously, energy consumption norms were revised downwards in 2015 and proposed to be further revised w.e.f 1st April, 2018. These developments do not augur well for health of Indian fertiliser companies and fertiliser security of the country.

The Union Budget 2018-19 demonstrates the intent of the government for raising farm income through various programmes initiated/ proposed by the government. But there is need for clarity in the mechanism for implementation of the programmes. The efforts towards farmers welfare are incomplete without addressing the issue of inefficient use of fertilisers. There is also need for addressing the issues of the fertiliser industry urgently. These *inter-alia* include adequate provision and timely payment of fertiliser subsidy, payment of revised fixed cost of urea, reduction in customs duty on fertiliser raw materials and clear payment of all arrears before implementation of DBT. Fertilisers are vital input to farmers for higher productivity and income. Healthy fertiliser industry can play a major role in improving farm productivity by providing innovative products and extension services. Therefore, government should ensure that industry remains viable to meet the overall objective of doubling farmers' income by 2022. ■