Frank Notes

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Interim Budget 2019-20

Direct Income Support to Farmers Fertilizer Sector Remains Neglected

Production of foodgrains touched a record high of 285 million tonnes in 2017-18 and estimated to remain at the same level during the current year. The production of horticultural crops crossed a record level of 312 million tonnes in 2017-18 and expected to reach 315 million tonnes in the current year according to First Advance Estimate of the Ministry of Agriculture & Farmers Welfare. Production of oilseeds and other cash crops also witnessed significant increase during the period. Against bumper production of foodgrains and various other crops, farm produce prices continued to remain depressed causing widespread distress in farm sector across the country. The financial stress of the Indian farmers for last several years came to the center stage during last one year. Both central and state governments are desperately looking for various ways to provide relief to farmers. MSP of 50% margin over A2+FL costs and Bhavantar Bhugtan Yojana (BBY) in Madhya Pradesh have so far not given expected relief to farmers. Various other initiatives taken by the Central government, including, crop insurance scheme, strengthening and broadening of e-Nam coverage, enhanced volume of institutional credit and a variety of other schemes have also not been able to help due to two basic reasons, viz., low crop productivity and depressed market prices of agri-commodities. A number of state governments have implemented loan waiver schemes. States like Telengana and Odisha have undertaken schemes to provide direct income support to farmers.

In the interim budget 2019-20, Government of India has proposed to launch a Direct Income Support Programme for small & marginal farmers namely " Pradhan Mantri Kisan Samman Nidhi" (PM-KISAN) to provide them an assured income support. Under this programme, farmers having cultivatable land upto 2 hectares will be provided direct income support at the rate of Rs. 6000 per year. This income support will be transferred in three equal installments of Rs. 2000 each. The programme will be funded by the Government of India and would be made effective from 1st December 2018. The first installment for the period upto 31st March 2019 would be paid in the current year itself. An amount of Rs.20,000 crore has been allocated for 2018-19 and Rs.75,000 crore for 2019-20 under PM-KISAN scheme. Ministry of Agriculture is reported to have done the spadework and 12 crore beneficiary number has been arrived at with the help of Agriculture Census Data of 2015-16.

The PM-KISAN scheme is a step in the right direction. However critics feel that the amount of Rs.6,000 per annum is grossly insufficient to meet the costs of all inputs, such as, seeds, fertilizers, pesticides leaving aside human labour cost and other operational costs. It is also argued that while PM-KISAN aims to cover small and marginal farmers (85% of farm population), landless agricultural labourers have been left out. It is hoped that the government will raise the support amount in future and include the landless agricultural labourers in the scheme.

There has been some increase under major heads of Central Sector Schemes / Projects for farmers' welfare in the budget 2019-20. These schemes include crop insurance schemes, interest subsidy for short term credit to farmers, market intervention scheme, PM-AASHA, Distribution of Pulses to States/Union Territories for Welfare Schemes, Promotion of Agricultural Mechanization for Management of Crop Residue. Additional allocation on the Central Sector schemes /Projects excluding Direct Income Support scheme for 2019-20 is about Rs.5,400 crore. It increased from Rs. 32,504 crore in 2018-19 to Rs. 37,900 crore in 2019-20.

There is small increase in allocation for centrally sponsored schemes implemented by the states, such as, Pradhan Mantri Krishi Sinchai Yojana, Rashtriya Krishi Vikas Yojana, National Food Security Mission, National Project on Soil Health & Fertility, Rainfed Area Development and Climate Change, National Mission on Horticulture, etc. Additional allocation on centrally sponsored schemes for 2019-20 is about Rs.1,300 crore. The total budget allocation for agriculture and allied activities is higher at Rs 140,764 crore for 2019-20, compared with the revised estimate of Rs 79026 crore for 2018-19.

Fertilizer subsidy is also a major support to Indian agriculture. While overall budget is supportive of farm based rural economy, fertilizer sector continues to be neglected. Fertilizer as input is an important part of the cost of cultivation. Efficient use of fertilizers can improve the benefit cost ratio and hence farmers' income. Union Budget 2019-20 does not address the problem of imbalanced use of plant nutrients and deteriorating health of fertilizer industry. No effort has been made to use fertilizer subsidy to promote balanced use of plant nutrients. Retail price of urea continue to be pegged at

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current low level causing imbalanced use of plant nutrients.

It was expected that revised budget estimate for 2018-19 will provide some relief to liquidate arrears of unpaid subsidy for the current year. The revised estimate for fertilizer subsidy for 2018-19 remains at Rs.70,090 crore inspite of unpaid dues of several thousand crores and continue to accumulate further during the current year. There has been increase in cost of natural gas of about 34% compared to last year thereby increasing cost of production of urea. Escalation claims due to increase in cost of natural gas for the period March 2017 to second half of November, 2018 are pending. Similarly, there is increase in subsidy rates for P&K fertilizers. There is higher requirement of subsidy by about Rs.14,000 crore for 2018-19 compared to 2017-18. But no additional provision in revised estimates for 2018-19 means a huge carryover of unpaid fertilizer subsidy estimated at over Rs.30,000 crore to 2019-20.

With regard to interim budget 2019-20, total provision on fertilizer subsidy is pegged at Rs.74, 996 crore as against Rs.70,086 crore in 2018-19. There is higher provision for indigenous urea of about Rs. 5011 crore, imported urea Rs. 279 crore and imported P & K fertilizers Rs.399 crore whereas lower provision for indigenous P & K fertilizer of about Rs.674 crore for 2019-20 compared to 2018-19. Thus, total provision for 2019-20 for indigenous urea is Rs.40,000 crore, imported urea Rs.13,634 crore, imported P & K fertilizers Rs. 9,659 crore and indigenous P & K fertilizers Rs.15,146 crore. The increased provision for indigenous urea is expected to take care of additional production by the new units. Small increase in provision for imported urea may perhaps fulfill higher import cost. But the rationale behind reduction in provision for indigenous P & K fertilizers is not clear. This is discouragement to indigenous production.

There has been increase in prices of fertilizers and raw materials in recent times. For instance, the landed price (cost plus freight) of imported DAP during December 2018 was about US$ 420 per tonne as against US$ 370 per tonne during December, 2017. The cost of fertilizer raw materials and intermediates are also up. CFR (India) price of imported phosphoric acid is now about US$ 750 per tonne as against US$ 678 per tonne during same period last year. Exchange rate of rupee per dollar has increased from Rs. 64.24 to Rs. 71 during the period. Prices of natural gas both domestic and imported have also been rising in recent months. Thus the requirement of fertilizer subsidy will be much higher in 2019-20 than the provision made in the budget. It is estimated that provision of at least Rs. 1 lakh crore should have been made for 2019-20 to reduce the level of pending subsidy dues at any given time.

One of the basic features of the DBT model for fertilizer sector is the settlement of subsidy bills on weekly basis. Fertilizer companies have already submitted bills for sales upto second week of December, 2018. But, the payment of subsidy is pending from the fourth week of November, 2018 due to lack of funds. Therefore, one of the basic features of DBT policy has been sacrificed.

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 continues to be ignored. With the result, domestic production will continue to face unfair competition from imports. Country continues to remain highly dependent on import of P & K fertilizers inspite of sufficient domestic production capacity.

Outside the budget, industry continues to suffer due to lack of policy decisions on a number of issues. With the implementation of DBT, the payment of subsidy is now linked to sale of fertilizers to farmers through POS machine against the earlier system of payments linked to materials received in the district. This change itself has resulted in delay of 3 to 6 months in payment of subsidy even if the bills are cleared on weekly basis based on sales through POS machine. The DOF is yet to make suitable amendments to allow additional interest cost on the working capital in the policy for urea. Non-payment of increase in fixed cost notified almost 5 years ago and further non-revision of fixed cost continue to cause substantial under recovery of legitimate costs. Delay in payment of subsidy, non-revision of fixed cost and downward revision of energy consumption norms twice in last three years have affected the viability of urea units. More than 50% of urea units are making net losses.

The Interim Budget 2019-20 placed a strong focus on farm sector. But the efforts towards farmers welfare are incomplete without addressing the issue of inefficient use of fertilizers. There are also other issues affecting the domestic fertilizer industry. These *inter-alia* include adequate provision and timely payment of fertilizer subsidy, payment of revised fixed cost of urea and reduction in customs duty on fertilizer raw materials. While interim budget has not addressed these issues, we are hopeful that final budget will take cognizance of these problems. Because neglect of this vital sector will endanger domestic production and hence supply of fertilizers to the farmers. India being the second largest fertilizer consuming country cannot rely on imports for the fertilizer security. ■