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Control over Fertilizer Prices and Distribution

by

Dr. Laxmi Narain\*

The role of fertilizers in an agrarian economy like ours cannot be over emphasised. Unfortunately our fertilizer production falls much short of our needs. During 1966-67, for example, we imported about 68 per cent of our fertilizer requirements. Even with much increased indigenous production during 1970-71, it is estimated that we would have to import not less than 50 per cent of the fertilizers, we shall need.

The Central Fertilizer Pool

From the very beginning, the control over the distribution and prices of fertilizers has been in the hands of the Government of India. In 1943-44, a Central Fertilizer Pool for import and distribution of fertilizers was established. As fertilizers were in short supply and their equitable distribution was necessary, the Central Government channalised all fertilizers - imported as well as indigenous - through the Pool, which throughout has been run by the Ministry of Good and Agriculture as a state trading scheme. Till 1965-66, the entire supplies of nitrogenous fertilizers were routed through the Pool to various state governments which sold it to the agriculturists through their Agriculture Departments, through co-operatives and through private agencies. The role of the three distributing channels differing widely from state to state.

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\* Professor of Business Management, Osmania University, Hyderabad.

The distribution of phosphatic fertilizers produced within the country was not covered by the Pool. Similarly, the potassic fertilizers which are all imported by the State Trading Corporation, are distributed through the Indian Potash Supply Agency Ltd., Madras.

The fertilizer prices were fixed by the Pool with the concurrence of the Ministry of Finance.

The Pool is run as a commercial undertaking. Through no profit is intended some margin is kept for unforeseen items of expenses such as demurrage; loss of material during ocean transport and to provide a cushion for possible losses that may be suffered in future.<sup>1</sup> However, during 1951-52 to 1966-67 only in two years losses have been suffered in operating the Pool. But the loss of about 40 crores suffered during 1966-67, has wiped out all the earlier profits.

#### The Fertilizer (Control) Order, 1957

To protect a very large number of illiterate farmers against the malpractices of the trade it was considered essential to regulate the trade in fertilizers and to enforce the quality control. The Standing Committee on Manures and Fertilizers of the Ministry of Food and Agriculture which considered this matter, recommended in 1953 that the Government of India should take steps to prepare a model fertilizer Act on the lines of the U.K. Fertilizer and Feeding Stuffs Act, 1926.<sup>2</sup> The Central Government promulgated in April 1957 the Fertilizer (Control) Order in exercise of the powers conferred by Section 3 of the Essential Commodities Act, 1955 (10 of 1955).<sup>3</sup> This order, inter alia, empowered the Central Government to fix the maximum prices or rates at which any fertilizer may be sold, and it prohibited any manufacturer or dealer from selling or offering to sell any fertilizers at a price exceeding the maximum price fixed by the Government.

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1. A note of the Ministry of Food and Agriculture regarding fertilizers price fixation is given in Annexure I.
  2. Report of the Fertilizer Distribution Enquiry Committee, Ministry of Food and Agriculture, Government of India, New Delhi, 1960, p. 29
  3. Extracts from the Essential Commodities Act have been reproduced in Annexure II.

Under the Order any person dealing in fertilizers had to obtain a licence from the appropriate State Government. A certificate of registration was also to be obtained in respect of any mixture of fertilizers before it was sold in the market. The standards of various fertilizer mixtures were to be laid down by the State governments, and no certificate of registration for a mixture was to be given unless such mixtures complied with the standards. No person, under the Order, was to manufacture for sale, sell, offer for sale, stock or exhibit for sale or distribute any fertilizer which was not of prescribed standard.

Every fertilizer manufacturer was to comply with the requirements with regard to packing etc., as might be specified by the Controller of Fertilizers,<sup>4</sup> and in particular he was to pack every fertilizer container in a manner so that its contents could not be tampered with without breaking the seal. The Control Order also contained provisions in respect of authorities for licensing and registering, and their powers to cancel or suspend licence or registration certificate, and for appeals in this respect, appointment of inspectors and their powers, maintenance of records and submission of returns by the dealers, importers and manufacturers of fertilizers, etc.

The Order was to be enforced by the State Governments.

The working of the Fertilizer (Control) Order has given rise to some difficulties. For example, the provision regarding sealing of the bags in such a way that their contents could not be tampered with without breaking the seal is not being followed widely. Imported fertilizers as well those indigenously produced and machine-stitched do not generally carry lead seals. Such sales are liable to be prosecuted under a strict enforcement of the Order but the infringement in this regard is winked at, perhaps because the imported fertilizer bags distributed through the Pool are all machine-stitched and carry no lead seals. Further, the present provisions do not allow for sale of fertilizers by a producer direct to the silos or containers of the wholesaler or of a large scale consumers. To reduce packing cost, the Control Order should take into account this method of marketing.

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4. The Controller of Fertilizers is appointed by the Central Government.

Further, the decontrol of fertilizers and concessions given to new fertilizer factories allows them freedom for fertilizer distribution. The freedom, however, is not consistent with the powers of the state governments to licence fertilizer dealers, under the Fertilizer (Control) Order.

### Decontrol of fertilizers

In September 1966, Government of India liberalised controls over fertilizers in order to permit the manufacturers to play their part in marketing the fertilizers produced by them. It was considered that close contact with the market will give the manufacturers the necessary urge and incentive to produce more fertilizers at a lower cost. In accordance with this policy, the Government decided that as from 1st October, 1966, the indigenous producers will be free to market 30 per cent of their production in the areas of their choice and at a price to be determined by them. The 70 per cent of the production was to be given to the Government for distribution through the Pool, at the retention price fixed by the Government. The percentage of fertilizers for free market sale was increased to 50 per cent as from 1st October 1967, and to 100 per cent as from 1st October, 1968, subject to Government's option to requisition upto 30 per cent of the total production of any manufacturer at negotiated prices. 5

According to the above policy decision there is at present no price control over nitrogenous fertilizers, yet the price of these continue to be the same or below the prices announced by the Government. This is because the Government continues to provide to the market large quantities of imported fertilizers through the Pool at the prices fixed by it.<sup>6</sup> The public sector enterprise also generally sell their products at the Pool prices,<sup>7</sup> which for all practical purposes governs the market price of fertilizers.

But it needs to be noted that the freedom to the manufacturers to sell their products in areas of their choice, as announced in the Government policy of decontrol was not fully effective in view of the policy of state governments for preferring co-operatives as agencies for distribution of fertilizers. It is understood that the Central Government's request to take a

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5. This option has not been exercised so far. (March, 1969).
  6. Of the total nitrogenous fertilizer consumed in the country during 1966-67, about 69 per cent was imported.
  7. Of the total production of nitrogenous fertilizers within the country public sector contributes about two-thirds.

liberal view in matter of licensing to private parties was not agreed to in all cases or to the extent desired. Incidentally, such a situation could give rise to a constitutional difficulty where, as in the case of distribution of a product, for an entry in the State List (entry 27), the Centre legislates under its power in the Concurrent List (entry 33). It may be argued that the Centre could have revoked the Fertilizer (Control) Order, thereby making the licensing for dealing in fertilizers unnecessary, but that would not take away state governments' power to legislate in the matter in their own right. In any case, such a situation did not arise and the state governments themselves are increasingly issuing licences to private parties. In 1964-65, of the total value of fertilizers sold in the country 79.2 per cent were sold by the co-operatives. This percentage came down to 71.8 in 1965-66, and to 56.6 in 1966-67. The position varies greatly from state to state as co-operatives have been given monopoly for all fertilizers, or for only nitrogenous fertilizers, or have been given no monopoly at all. 8

#### Control over fertilizer prices

Nitrogenous fertilizers are now free from formal price restrictions but the Pool Issue Prices, distributor's margin, and retail prices are announced by the Central Fertilizer Pool for all issues made by the Pool out of the imported fertilizers and such indigenous fertilizers which are routed through the Pool.

Regarding phosphatic fertilizers, till May, 1966, Government was fixing maximum ex-factory prices for single superphosphates, after informal consultations with the industry. On a representation by the industry that increasing prices of raw materials were not being taken into account by the Government price fixation, the industry was allowed to fix its own prices based on the same formula which was being used earlier by the Government. The work of price fixation is now done by the Fertilizer Association of India, which is a Trade Association of Fertilizer Manufacturers in the country. Government and the public are intimated about the prices fixed by Fertilizer Association.

8. Report of the Fertilizer Credit Committee, Fertilizer Association of India, New Delhi, 1968, p.46

Generally, there is no interference in the prices as fixed by the industry itself.

### Concession for new fertilizer factories

On 17th December, 1965, the Government announced that all fertilizer plants licensed upto 31st March 1967 would have for a period of 7 years from the commencement of commercial production freedom to fix prices of their products and organise their own distribution thereof subject to the condition that Government would have the option to buy up to 30 per cent of the products at a negotiated price.

Though the policy gives freedom to manufacturers to organise their own distribution, it goes against the Fertilizer (Control) Order under which the discretion of licensing the distributors lies with the state governments.

### Conclusion

In conclusion, at present there is no control over nitrogenous fertilizers in the country, and it no longer being a sellers' market and along with the Government dominating the market, the prices announced by the Government are virtually the market price. The prices of single superphosphatic fertilizers are fixed by the fertilizer manufacturers' association on the basis of an approved formula. This appears to be a unique way of passing on the responsibility of price fixation to the producers themselves, who in this case happen to be highly organised. For fertilizers other than single superphosphate, and for various fertilizer mixtures there is no price fixation of any sort whatsoever. Regarding distribution, the Fertilizer (Control) Order still regulates the issuance of licences to the dealers and the registration of the fertilizers by the state governments.

## A N N E X U R E - I

No. F.I-13/57-M.A.  
New Delhi, Dated the 19th February, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) giving in detail how the price of fertilisers that were distributed to the cultivators was worked out.

The Ministry of Food and Agriculture is running a State Trading Scheme on "no profit no loss basis" for the purchase and distribution of chemical fertilisers with a view to popularising their use and making them available to the cultivators at reasonable rates in the interest of maximising agricultural production. The requirements of State Governments as well as other interests for fertilisers are first collected and the excess demand over availability from estimated production in the country, is calculated. The procurement of the deficit is arranged through the Ministry of Works, Housing and Supply on global basis. The Fertilisers from all sources are pooled together and sold at a uniform rate throughout the country. Of the chemical fertilisers handled by the pool, Sulphate of Ammonia is the only one produced in the country so far and is very popular with and largely used by the cultivators. The method of fixing pool price for Sulphate of Ammonia and other fertilisers is the same.

2. The main items which are taken into account while fixing the uniform price are as follows:-

- (i) The purchase costs of the material from various sources, (internal as well as external)
- (ii) Handling charges at the ports.
- (iii) Departmental charges levied by the purchasing organisations.
- (iv) Indirect charges incurred by the Ministry (Namely interest on capital and salary of staff employed at the centre and the ports for running the fertiliser pool).
- (v) Internal transport charges based on average freight paid during the previous years from the sources of supply to various centres.
- (vi) In addition to the above usual items a further ad hoc provision was made in 1957-58 to cover an unusual expenditure necessitated by the closure of the Suez Canal, such as demurrage, diversion, shortage, storage, rebagging etc. charges.

A N N E X U R E - II

Extracts of Section 3 sub-section (c) and  
Section 5 of the Essential Commodities Act, 1955

Powers to control production, supply, distribution,  
etc. of essential commodities.

3.(1) If the Central Government is of opinion that **it is** necessary or expedient so to do for maintaining or increasing supplies of any essential commodity or for securing their equitable distribution and availability at fair prices, it may, by order, provide for regulating or prohibiting the production, supply and distribution thereof and trade and commerce therein.

(2) Without prejudice to the generality of the powers conferred by sub-section (1) an order made thereunder may provide -

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(c) for controlling the price at which any essential commodity may be bought or sold;

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Delegation of powers

5. The Central Government may, by notified order, direct that the power to make orders under section 3 shall, in relation to such matters and subject to such conditions, if any, as may be specified in the direction be exercisable also by -

- (a) such officer or authority subordinate to the Central Government, or
- (b) such State Government or such officer or authority subordinate to a State Government.

as may be specified in the direction.