ANTICIPATED CHANGES TO THE FERTILIZER SUBSIDY SCHEME IN INDIA

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INDIAN AGRICULTURE - BASIC FACTS

Total Geographical Area	329 million hectares
•Net Area sown	140 million hectares
•Gross cropped area	194 million hectares
•Cropping Intensity	138 %
•Area under Irrigation	44 %
•Operational holdings	121 million

•2nd largest producer of rice, wheat, pulses, sugarcane, groundnut and fruits & vegetables

•1st largest producer of milk, tea, jute & fibre, etc

Agriculture contributes:

- 17% to GDP
- 11% of total exports
- Livelihood Security of about 600 million people

BASIC FACTS ABOUT THE INDIAN FERTILIZER INDUSTRY

- Annual sales turnover (2008-09) – Rs.124,000 crore (US$ 27 billion)
- Provides large scale employment – Direct or Indirect – Specially in rural economy
- Serves about 600 million people dependent on agriculture
- Total number of plants – 139
- Wide inter-plant variation in respect of feedstock, vintage, technology/ location, etc.

NUMBER OF FERTILIZER PLANTS* AND CAPACITY (As on 1.11.2009)

Fertilizer	No. of plants	Capacity (End-product) (Million te)
Urea	29	21.2
DAP and NP/ NPKs	19	14.2
Ammonium Sulphate	10	0.6
Calcium Ammonium Nitrate	1	0.1
SSP	80	7.7
Total	139	43.8

* = Operating plants

PRODUCTION OF FERTILIZERS (Million te)

Fertilizer	2007-08	2008-09
Urea	19.84	19.92
DAP	4.21	2.99
NP/ NPKs	5.83	6.86
Ammonium Sulphate	0.48	0.56
Calcium Ammonium Nitrate	0.14	0.14
SSP	2.25	2.53
Total Material	32.75	33.01
Total Nutrient - Nitrogen (N) - Phosphorus(P2O5)	10.90 3.71	10.90 3.42

IMPORT OF FERTILIZERS (Million te)

Fertilizer	2007-08	2008-09
Urea	6.93	5.67
DAP	2.72	6.19
MAP	0.27	0.27
MOP	4.42	5.67
SOP	0.03	0.03
Total Material	14.37	18.02*
Total Nutrient - Nitrogen (N) - Phosphorus(P_2O_5) - Potash (K_2O)	3.71 1.39 2.67	3.76 3.07 3.42

- = Includes AS (23 thousand te), CAN (2.5 thousand te)
- and TSP (173.1 thousand te)

CONSUMPTION OF FERTILIZERS (Million te)

Fertilizer	2007-08	2008-09
Urea	25.96	26.65
DAP	7.50	9.23
NP/ NPKs	6.72	7.03
Ammonium Sulphate	0.38	0.38
Calcium Ammonium Nitrate	0.14	0.12
SSP	2.29	2.62
Total Material	45.96	50.41
Total Nutrient - Nitrogen (N)	14.42	15.09
- Phosphorus(P2O5)	5.51	6.51
- Potash (K_2O)	2.64	3.12
-Total	22.57	24.91

INTRODUCTION OF SUBSIDY SCHEME IN INDIA

- GOI introduced flat subsidy of Rs.1250 per tonne of P_2O_5 w.e.f 16^{th} March 1976
- Based on the recommendations of Marathe Committee Report, Retention Pricing Scheme (RPS) was introduced on various fertilizers:

- Nitrogenous fertilizers	- November 1977 (except of A/chl.)
- Complex fertilizers	- February 1979
- Single Super phosphate	- May 1982

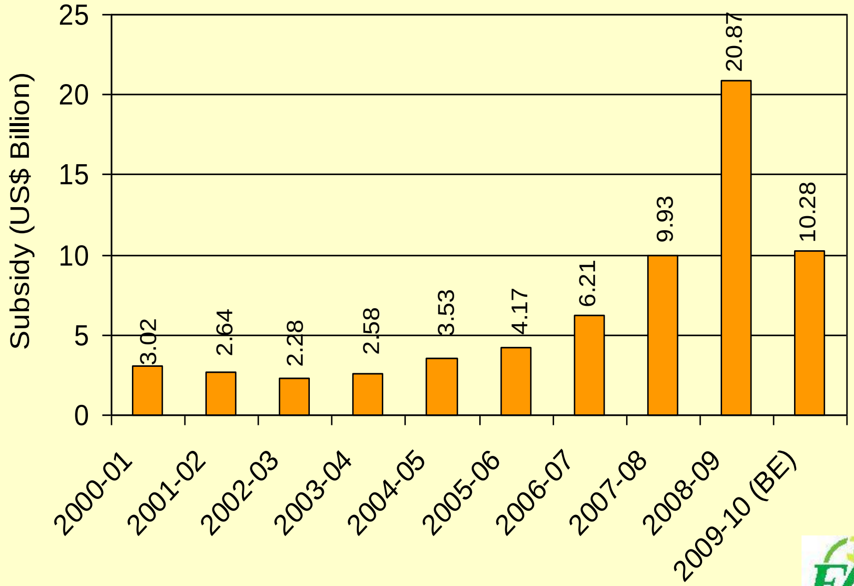
BENEFITS

- Low cost input to the farmers, particularly to the resource-poor
- Insulating the country from volatile International prices
- Compensating for limited credit availability
- Encouraging domestic Fertilizer Industry

CONSTRAINTS

- Budgetary Implications
- Administrative Issues

SUBSIDY ON FERTILIZERS



RECENT POLICIES

- Policy for encouraging production and availability of fortified and coated fertilizers
- Guidelines for production of Customized fertilizers
- Nutrient based pricing of subsidised fertilizers
- Revised policy on P & K fertilizers
- Revised concession scheme for SSP
- Policy for new investments in urea sector
- Policy for uniform freight subsidy on all fertilizers

IMPACT OF RECENT POLICIES

- No tangible results
- Industry is unable to take up new programmes due to financial constraints
- Industry is bogged down with day to day to pricing/subsidy related problems

BUDGET ANNOUNCEMENT - 2009 TOWARDS NUTRIENT BASED SUBSIDY

- In the context of the nation's food security, the declining response of agricultural productivity to increased fertilizer usage in the country is a matter of concern
- To ensure balanced application of fertilizers, the Government intends to move towards a nutrient based subsidy (NBS) regime instead of the current product pricing regime
- NBS will lead to open MRP and fixed subsidy
- In due course, NBS is intended to move to a system of direct transfer of subsidy to the farmers

ISSUES RELATING TO IMPEMENTATION OF NBS

- Level of subsidy
  - Determination of rate of subsidy per tonne on all nutrients
  - Fiscal issues
  - Socio-political considerations
- MRP issues
  - MRP not changed for last 7 years
  - MRP at what level after implementation of NBS
  - Frequency of fixation of MRP
  - Socio political factors
- Packaging of products – legal compulsions
  - Printing of price and nutrient content on the bag

ISSUES RELATING TO IMPEMENTATION OF NBS (Continued)

- Subsidies on existing products or basket of products
  - Currently subsidy is given on 19 products
- Fertilizer Monitoring System (FMS).
  - Govt. of India monitors movement of fertilizers to the districts through FMS. Subsidy is given after the products reach the districts
- Retail network
  - Currently, there are 268,000 sale points across the country. 78% in the private and 22% in the co-operative and institutional channels
  - Need for strengthening of retail network
  - Integration with FMS and bank.

ISSUES RELATING TO IMPEMENTATION OF NBS (Concluded)

- Issue of smart cards with unique identity number
  - Currently pass book system/ smart card issued to the farmers under Kisaan Credit card scheme, National Rural Employment Guarantee Programme, etc.

- Quality issues
  - Quality control through Fertiliser (Control) Order

- Preparation time for implementation of the scheme
  - Government
  - Industry

POSSIBLE IMPACT

- Implementation of the scheme may create teething problem at the initial stage
- Subsequently it is expected to promote efficient and balanced use of fertilizers
- It will lead to availability of innovative fertilizer products in the market at reasonable prices
- Agricultural productivity will be enhanced
- Fertilizer Industry will be able to perform more effectively when it is made free from its day to day problems relating to pricing/subsidy
- This unshackling of the fertilizer manufacturing sector is expected to attract fresh investments in this sector.
- In due course, NBS is intended to move to a system of direct transfer of subsidy to the farmers.

SSP PRICES FREED

- GOI decided to keep the price of SSP (powder, granulated and bromated) open w.e.f 1st October, 2009
- An adhoc concession of Rs.2000 per tonne is now provided to SSP (powder, granulated and bromated)
- Market forces are determining the prices.
- Market has absorbed the new prices
- No reports of resistance from the farmers on market driven prices

CONCLUSIONS

- India is the second largest consumer of fertilizer in the world next to China
- Demand for fertilizer will keep on increasing in future to ensure food security of the country
- To meet increasing demand in future, policies should encourage domestic capacity of fertilizer as international prices are volatile
- Currently, fertilizer Industry operates under stringent regulations.
  It will be able to perform more effectively if it is made free from its day to day problems relating to pricing/subsidy