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**Panel Session on Fertilizer Subsidies**

Summary of the Main Findings  
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**I. Subsidies play an important role in increasing fertilizer use and agricultural productivity**

- Different countries have different forms of “Fertilizer Subsidy” based on their local social/political/economic factors. Developed as well as developing countries give Subsidy to promote and sustain agriculture.
- Subsidies played a vital role in increasing fertilizer usage leading to increasing agriculture production in developing countries and ensuring Food Security and Nutrition. Enhanced fertilizer usage certainly enabled higher crop production across the globe.
- Developing countries are saddled with the constraint of fragmented land holdings and many farmers produce no or a very limited marketable surplus of agricultural produce. Small and marginal farmers have, therefore, benefitted considerably through Fertilizer Subsidy resulting in affordability and use efficiency of land and labour. Regional Subsidies for encouraging land consolidation are also being offered (e.g. China).
- Low input - low output price in agriculture is preferred to protect low-income populations. High input-high output price may price out small and marginal farmers and poorer consumers of food grains.
- In order to keep fertilizer prices affordable, subsidies are also being given on feed stocks and inputs (Natural Gas / Power) as well as on Cost Components in Value Chain such as Rail Transportation, Storage etc. Transport subsidy is particularly relevant in land-locked and remote areas. Other forms of subsidy include interest subsidy on loans for Buffer Stocking of fertilizers during off season, special subsidies for foliar application of fertilizer on winter wheat in later growth stage to increase yield (China).
- Removal of Fertilizer Subsidy may make farming unprofitable. Any drastic or sudden reduction is beset with serious implications.

**II. Fertilizer Subsidies present a significant challenge for developing countries’ budgets**

- Fertilizer subsidies account for significant share of the total support to agriculture and have considerably increased during the last 7-8 years mainly due to steep increase in international prices of fertilizers and feedstocks/raw materials, increased consumption and lower/unchanged farm gate prices.

- Subsidies are progressively becoming less relevant and posing heavy fiscal burdens. Sustainability of Fertilizer Subsidy is becoming questionable and a major issue. Providing fertilizer subsidy at manageable levels is very important for fiscal budgets. Financial crisis in certain countries has resulted in some curtailment of subsidies.

### **III. Fertilizer Pricing Policies and extent of subsidization in large consumer countries can significantly impact world trade in fertilizer.**

#### **IV. Fertilizer subsidies can lead to imbalanced nutrient management**

- Over use of cheaper subsidized fertilizer has contributed towards imbalanced and inefficient fertilization. Deterioration in ground water table, soil condition, negative fertilizer response ratios are some adverse consequences of such over usage.
- Fertilizer Pricing Policies need to be rationalized. Experience of Nutrient Based Subsidy Scheme for P&K fertilizers (in India) is relevant. Decontrol in retail price only for some fertilizers could create more aberrations/distortions as experienced in India (P&K vs. Urea). Price distortions have resulted in unbalanced use of Urea vs. P&K fertilizers in India.

#### **V. Considerations on Reforming Subsidies**

##### **Reducing the Fiscal Burden**

- De-regulation of fertilizer prices and decontrol of the sector has enabled increased domestic fertilizer production and availability; higher crop production as a result of enhanced/balanced fertilizer usage; reduction in subsidy burden; increase in fertilizer prices, but higher imbalance in fertilizer usage in case of partial decontrol.
- Retail price increase of fertilizers in recent years has been lower than for other commodities. Lower farm gate retail prices have kept farmers isolated from market price realities. Fertilizer prices should be adjusted in line with inflation to contain subsidy level.
- To contain subsidy levels, avoidable taxes/duties such as VAT should be eliminated.
- Increased domestic fertilizer production with supply of Energy and other Inputs at reasonable cost has enabled countries to contain their subsidy bill. Fertilizer subsidy through prioritization and price subsidization in supply of feed-stocks (like NG) is, however, becoming increasingly difficult. There are increasing pressures from other sectors like “Power” to get Gas on priority over Fertilizer sector. Countries have started imposing restrictions on allocation of additional natural gas for increased fertilizer production including its concessional price.

## **Promoting Balanced Nutrient Management**

- Fertilizer subsidy policy should promote balanced fertilizer use and enhance fertilizer use efficiency through Integrated Nutrient Management System.
- Instead of spending increasing Government funds on Fertilizer Subsidy, it should be utilized for farmers' education and providing them with means to carry out efficient agriculture.
- Fertilizer distribution and Crop Marketing Systems should be made more efficient and cost effective.

## **Channeling Subsidies Effectively**

- Fertilizer Industry has been made to act as a conduit for disbursement of Fertilizer Subsidy to farmers. Fertilizer Subsidy has created negative public perception of Fertilizer Industry, which needs to be corrected. People perceive it as an inefficient industry needing financial support by way of subsidy from Government to sustain itself.
- Ease of administering a fertilizer policy is important for its efficiency and to protect farmer's interests. Fertilizer sector growth has been constrained in certain countries due to highly intrusive subsidy policies such as the need for seeking Government approvals for adding fertilizer capacities and their project costs; allowing only specific fertilizer grades that can be produced; allocation and pricing of feedstock; methodology for recognizing costs for quantification of subsidy: curtailing subsidy budget by reducing industry margins; fertilizer supply and distribution controls, restrictions on fertilizer import/exports etc.
- Direct Subsidy to farmers is a better concept and it can enable moving towards targeted subsidy. Fertilizer subsidy is also routed through Retailers in some countries.
- Fertilizer Industry in developing country needs to earn reasonable profit margins to sustain itself. Revamps of old/ageing plants need constant investment to maintain production levels with efficiency. Much needed fresh investments to ramp up production capacity can be attracted provided a reasonable return on investment is assured. Subsidy Policy should provide for rational and realistic recognition of inputs and conversion costs while quantifying fertilizer subsidies or fixing farmer retail prices.
- Large Fertilizer producers want subsidies to be either removed or paid directly to eligible farmers instead of being routed through manufacturers.
- Ultimately Fertilizer sector needs to be decontrolled and farmers made to gradually move towards market driven prices. Of course, affordability of farm gate price to farmer cannot be ignored.
- Government funding is needed to improve infrastructure and logistics to reduce costs and can help to keep fertilizer prices at more affordable levels (e.g. Port infrastructure to avoid vessel delays / demurrage; facility for handling Panamax Vessels to reduce ocean transportation costs, Rail links for hinterland movement).

### **Other...**

- Differential pricing of fertilizers based on crops (food vs. cash crops) was tried and given up due to leakage from low to high value crops (Philippines).
- Organic Manure is unlikely to substitute chemical fertilizers in the near future. However, it will continue to increasingly supplement Chemical Fertilizers. A sustainable subsidy policy is essential to foster growth to meet the increasing fertilizer demand.

### **WAY FORWARD**

1. IFA may undertake a project for an in-depth study of select key countries to capture and analyse their experiences in fertilizer (and food) subsidies over the past two decades. How have the subsidy policies impacted nutrient management? What have been the impacts of such subsidies on Government budgets, farmers and sectoral growth of the industry?
2. The analyses of different policies may enable IFA to suggest certain formulations for Policy Reforms in the context of optimizing the benefits of subsidy.