

# FERTILISER SUBSIDIES IN INDIA

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## OUTLINE OF PRESENTATION

**Broad policy**

**Government's approach to subsidy**

**Developments in subsidy policy**

- Changes
- Impact

**Administering fertiliser subsidies**

**Impact on Government budget**

**Sustainability of subsidy**



## BROAD FERTILISER POLICY

Main objectives of the fertiliser policy :

- (1) Ensure adequate and timely availability of quality fertilisers to the farmers at affordable prices
- (2) Equitable distribution of fertilisers across the country
- (3) Encourage domestic capacity to insulate the country from volatile international prices

GOI declared fertilisers as an essential commodity and notified the Fertiliser Control Order (FCO) under the Essential Commodities Act in 1957, modified in 1985.



**Total Fertiliser consumption  
(Production + Import)**

**54 Million tonnes**



**Total Districts  
(640)**



**Total Villages  
(640,867)**



**Farmers  
(138 million  
farm holdings)**



# GOVERNMENT'S APPROACH TO FERTILISER SUBSIDY



## IMPORTANCE OF SUBSIDY

- India is the second largest populated country in the world next to China. Ensuring food security to the population is the prime agenda
- Policies have been framed to keep low input cost to the farmers and low grain output cost to the consumers
- Fertiliser being the vital input is subsidised by the Central government
- Subsidy is routed through the Fertiliser Industry to the farmers.



## DETERMINATION OF SUBSIDY - METHODOLOGY

- Government can fix maximum retail prices (MRP) of fertilisers
- Maximum retail prices (MRPs) are lower than the delivered cost
- Difference between the delivered cost and MRP is called fertiliser subsidy
- Fertiliser subsidy is routed through the industry. The mechanism has been adopted for administrative convenience. The industry is merely a conduit to pass on the subsidy and not the beneficiary
- Urea covered under New Pricing Scheme (NPS)
- P & K fertilisers covered under Nutrient Based Subsidy (NBS) policy.



## DEVELOPMENTS IN SUBSIDY POLICY



## CHANGES IN SUBSIDY POLICY – MAJOR DEVELOPMENTS

Year	Subsidy policies
1976	GOI introduced fixed subsidy of Rs. 1250 per tonne $P_2O_5$ .
1977	Retention Pricing Scheme (RPS ) for nitrogenous fertilisers implemented based on Marathe Committee recommendations.
1979	RPS for complex fertilisers implemented.
1980	Block delivery scheme introduced. Reimbursement of secondary freight.
1982	RPS for SSP implemented.
1992	Decontrol of P & K fertilisers based on the recommendations of JPC.
2000	ERC suggested to dismantle the control system in a phased manner.
2003	New Pricing Scheme (NPS) on urea implemented replacing RPS. NPS implemented in 3 stages.
2010	Nutrient based subsidy policy on P & K fertilisers implemented .



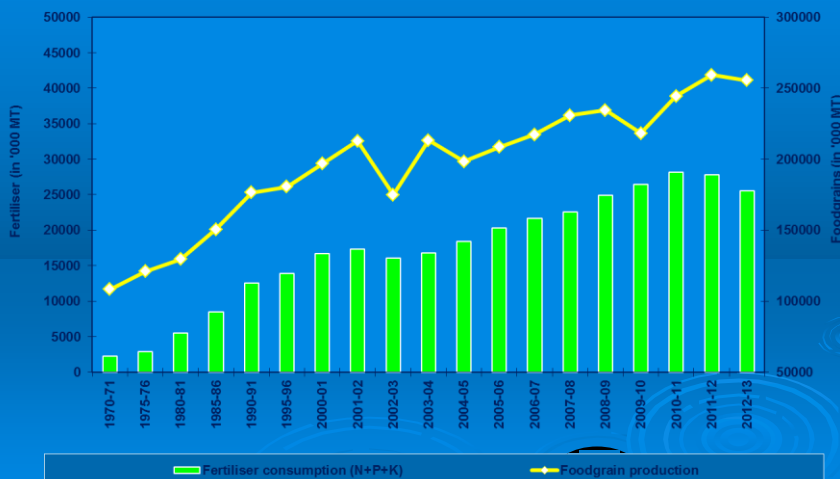
## LONG RUN IMPACT OF SUBSIDY

- Farmers have been able to buy quality fertilisers at reasonable prices
- Fertiliser consumption has increased manifold
- Foodgrain production has multiplied. India has become self-sufficient in foodgrain production
- Fertiliser use has also impacted other crops, such as, oilseeds, sugarcane, fruits & vegetables, cotton, jute, etc.



## FERTILISER CONSUMPTION & FOOD GRAIN PRODUCTION

*India has accorded high priority to use of fertilisers for achieving self-sufficiency in foodgrains production and stipulated growth in other crops.*



## PRESENT SUBSIDY POLICY FOR UREA

- Urea is covered under New Pricing Scheme (NPS)
- NPS is a group based concession scheme . Groups formed on the basis of feed stock and vintage
- NPS implemented in 3 stages:
  - Stage I:** April 2003 to March 2004; **Stage II:** April 2004 to March 2006 extended upto September 2006; **Stage III:** From October.2006
- NPS policy aims at:
  - i) Greater transparency, uniformity and efficiency in disbursements of subsidy
  - ii) Induces to take cost reduction measures by Urea units
  - iii) Encourages Urea units to be competitive
  - iv) Incentivises Urea production beyond 100 per cent capacity
- Retail price (MRP) of Urea continues to remain under government control.



## PRESENT POLICY FOR P & K FERTILISERS

- Nutrient based subsidy (NBS) policy implemented on P & K fertilisers w.e.f. 1<sup>st</sup> April, 2010 as a first step towards reform in the fertiliser sector
- NBS for SSP implemented w.e.f. 1<sup>st</sup> May, 2010. Urea left out
- Currently, NBS is applicable on 22 fertiliser products including DAP, MOP, MAP, TSP, SSP, various grades of complex fertilisers and Ammonium sulphate
- Subsidy under NBS is same both for domestic and imported fertiliser products
- Per tonne subsidy is determined on the basis of :  
Rate of subsidy per kg nutrient x nutrient content in a product
- MRPs of P & K fertilisers are market determined.

## RATE OF SUBSIDY UNDER NBS POLICY (PER KG OF NUTRIENT)

Year	Currency	N	P	K	S
2010-11	INR	23.227	26.276	24.487	1.784
2011-12	INR	27.153	32.338	26.756	1.677
2012-13	INR	24.000	21.804	24.000	1.677
2013-14	INR	20.875	18.679	18.833	1.677

### Average Exchange rate Rs. / US\$ :

2010-11: Rs.45.56; 2011-12: Rs.47.92; 2012-13: Rs.54.45  
2013-14: 59.11 (April-Septt 2013)

## FREIGHT SUBSIDY

- Freight subsidy is paid separately to the manufacturers / importers on all subsidised fertilisers except SSP
- **Primary freight** : Movement by rail
- **Secondary freight** : From rail head to dealers' point
- Both primary and secondary freight subsidy are allowed on Urea
- Only primary freight subsidy is given on P & K fertilisers except SSP.



## IMPACT OF NBS ON P & K FERTILISERS

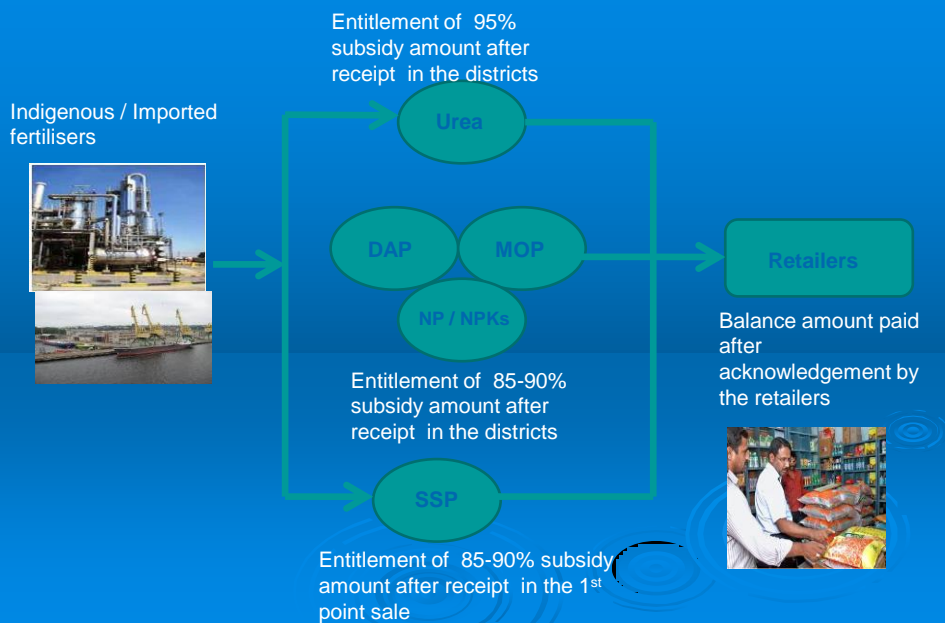
- Subsidy calculation procedure simplified
- Fiscal concerns addressed
- Uncertainties removed
- Freedom to take commercial decisions
- Adequate availability
- Competition in the market
- More products in the market.





# ADMINISTERING FERTILISER SUBSIDIES

## MECHANISM OF SUBSIDY PAYMENT



## CURRENT ISSUES OF THE FERTILISER INDUSTRY

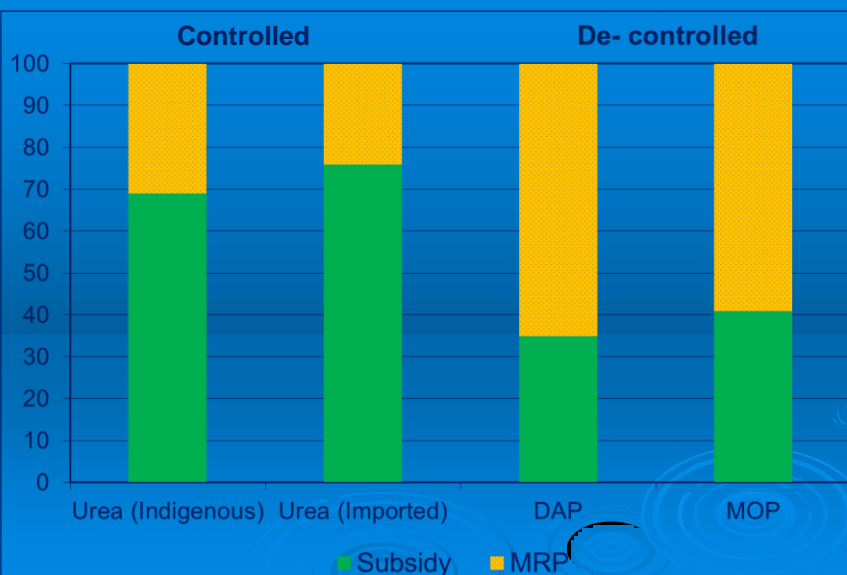
- Under provision in the Union Budget
- Delay in payment of subsidy. Industry has to borrow money at high interest rates to sustain production
- Partial implementation of NBS has led to imbalance in fertiliser price ratio
- Disproportionately low price of urea vis-a-vis prices of P & K fertilisers has led to imbalance in NPK use ratio
- Deterioration in soil health

## SUSTAINABILITY OF FERTILISER SUBSIDY

- ✓ Farmer's price (MRP) is a function of :
  - i) cost of production/ imports
  - ii) Subsidy given
- ✓ In case of Urea – increase in the cost of feedstock or increase in cost of international price of urea leads to increase in subsidy
- ✓ In case of P & K fertilisers – increase in the cost of raw materials / finished products leads to increase in the farmers' price.



## SHARE OF SUBSIDY AND RETAIL PRICE TO TOTAL COST



## SUSTAINABILITY OF FERTILISER SUBSIDY

- ✓ Fertiliser subsidy for 2012-13 was INR 659.74 billion (US\$ 12.1 billion)
- ✓ This amounts to 0.6% of GDP and 4.6% of total expenditure of the Government for 2012-13
- ✓ Requirement of fertiliser subsidy for 2013-14 (including carry forward from the previous year) works out to INR 1050 billion (US\$ 17.8 billion)
- ✓ Sustainability of fertiliser subsidy is a major issue.

## WAY FORWARD

- Need for extension of NBS on urea to:
  - i) Sustain subsidy at manageable level
  - ii) Promote balanced fertilisation
- Ultimate decontrol of the fertiliser sector.
- Direct subsidy to farmers – process initiated.



Thank you

