

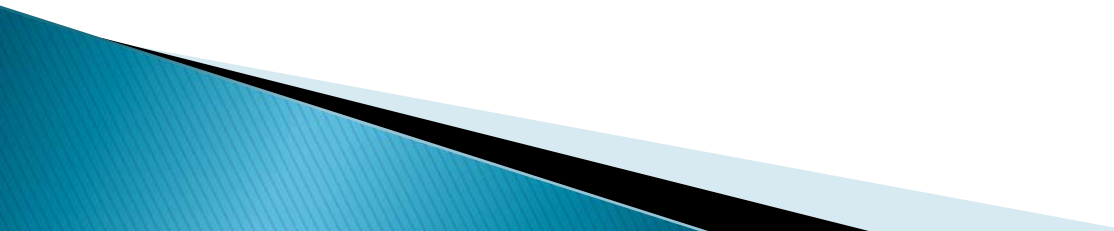
Fertilizer Pricing & Subsidy Policies in India: Implications for Soil Health

Ashok Gulati

Infosys Chair Professor for Agriculture, ICRIER

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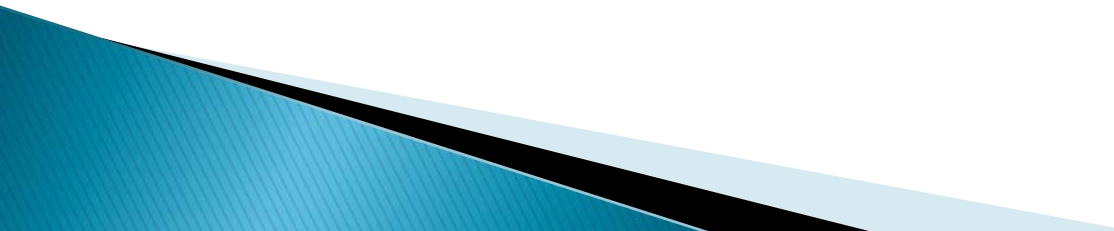
Three issues to address

- ▶ Has India's Fertilizer Pricing and Subsidy (P&S) policy achieved its basic objectives?
 - ▶ What has been the cost to the exchequer?
 - ▶ Exploring options for change with a view to 'Unshackling the Fertilizer Sector' and promoting efficient use of fertilizers
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Fertilizer Pricing and Subsidy policy: 4 major milestones

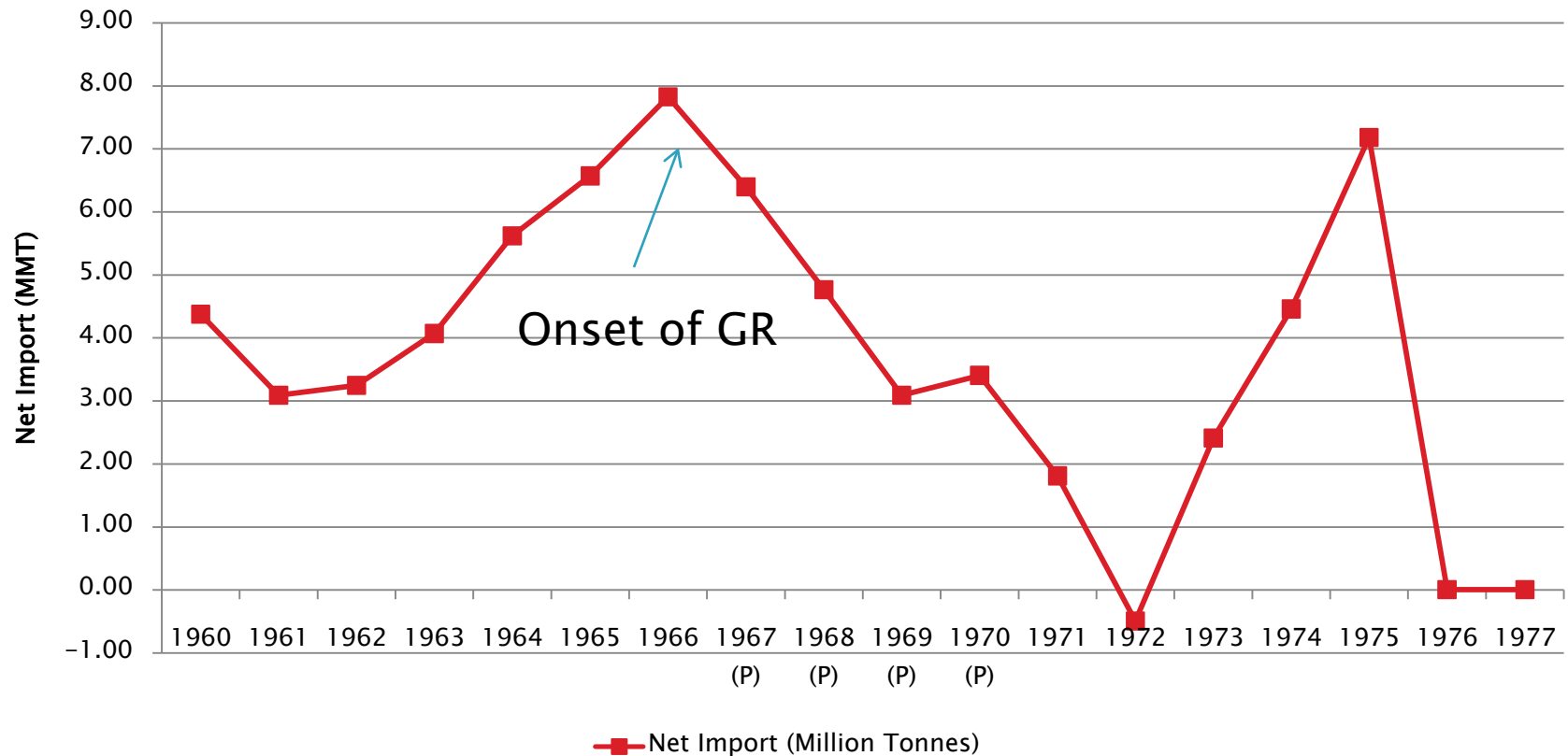
- ▶ 1977: Retention Price Scheme (RPS) (Marathe Committee) (cost plus pricing subject to some efficiency norms))
- ▶ 1991 / 1992: Economic Reforms and Joint Parliamentary Committee (JPC)
- ▶ 2000: Expenditure Reforms Commission (Geethakrishnan)
- ▶ 2010: Nutrient Based Subsidy (NBS)

Backdrop to RPS

- ▶ High imports of wheat during 1973–76 in the wake of global price eruption and weak monsoons at home
 - ▶ Acute scarcity of foreign exchange necessitating self-sufficiency in basic staples and fertilizers (urea)
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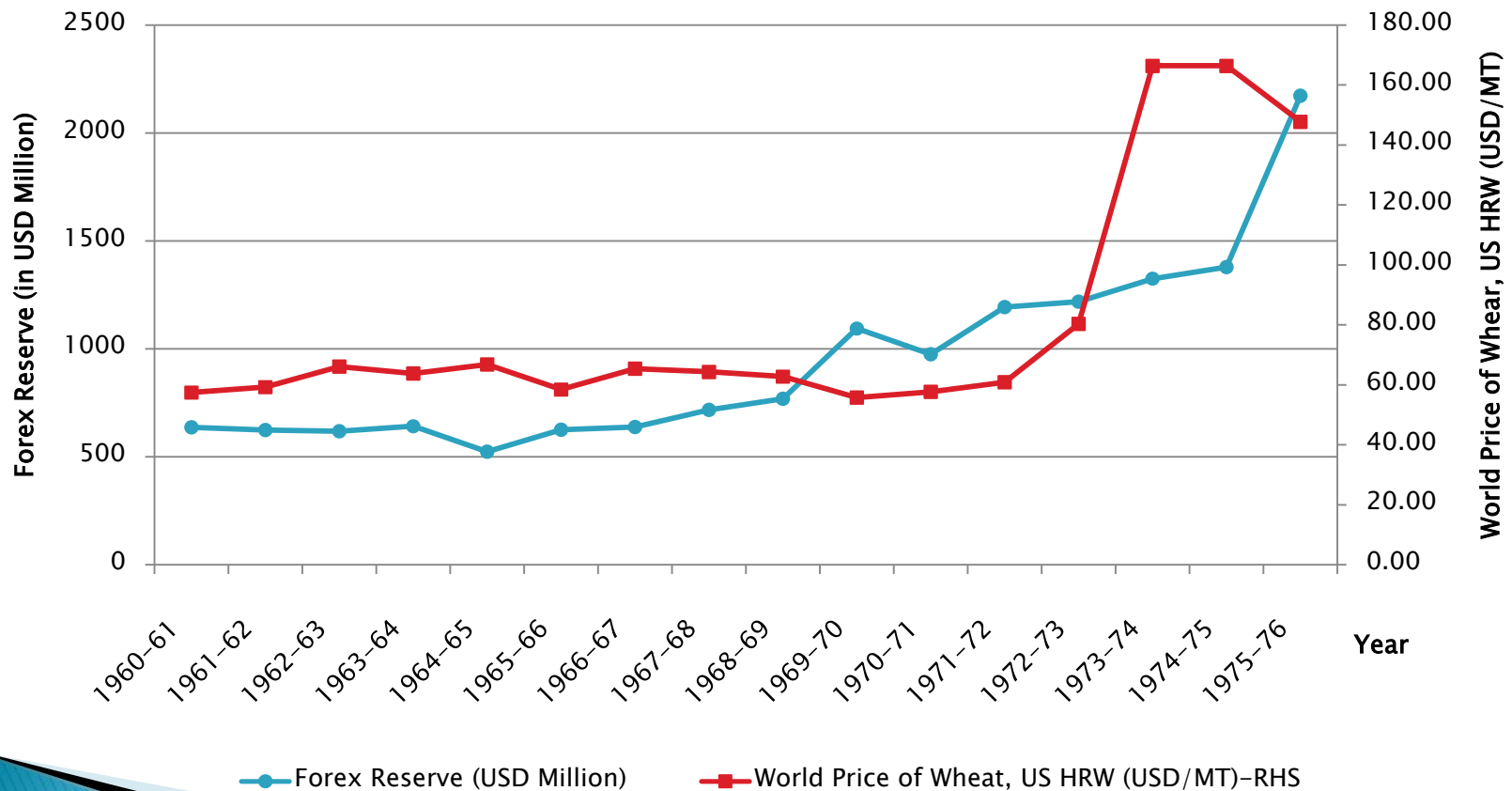
Revisiting Backdrop: Large Imports of Wheat during 1973-75

Net Import of Wheat in India (Million Tonnes)



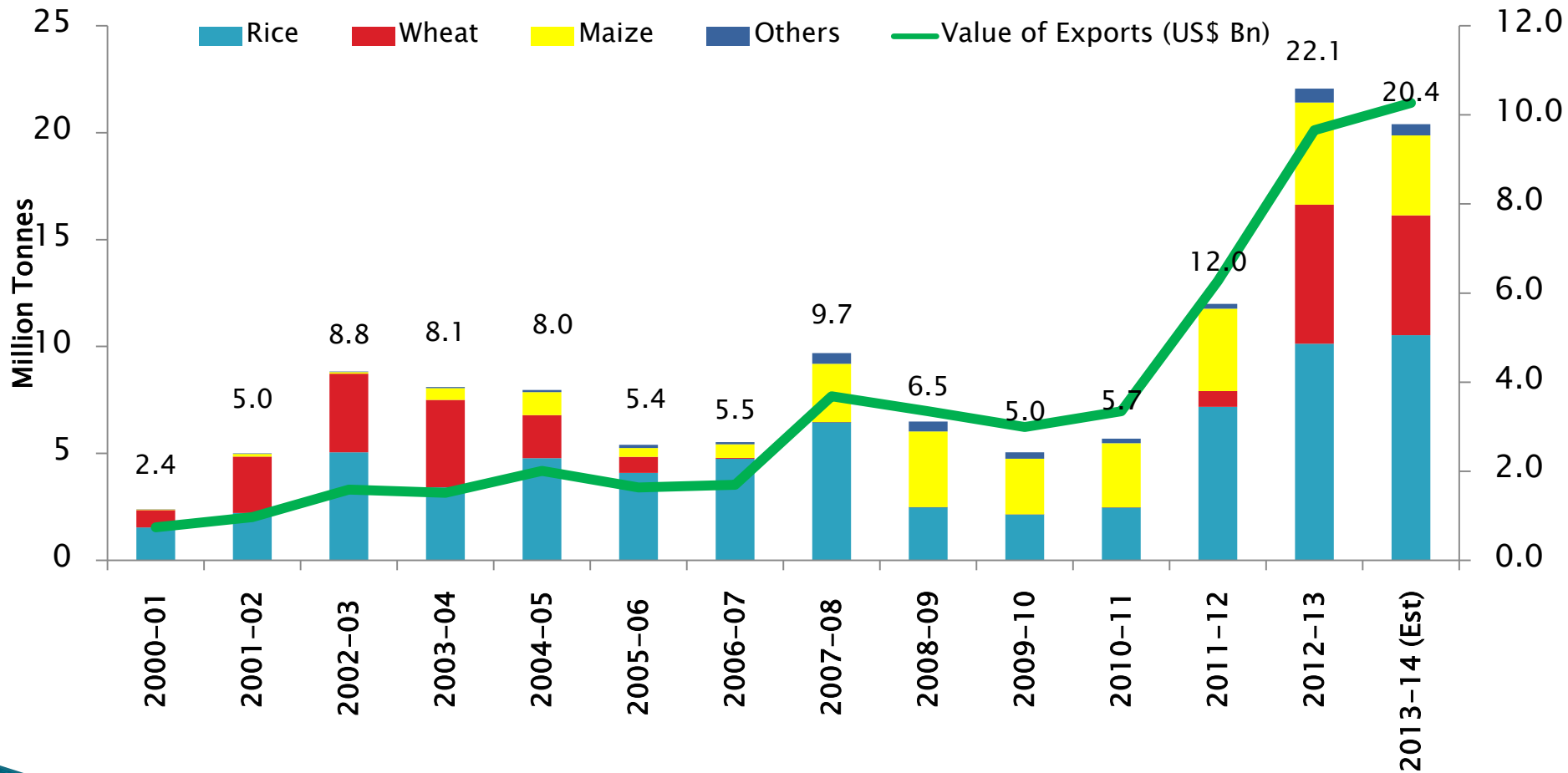
Why Self Sufficiency was Necessary— Low Forex Reserve

Forex Reserve in India vis-a-vis world Price of Wheat
1960-61 to 1975-76

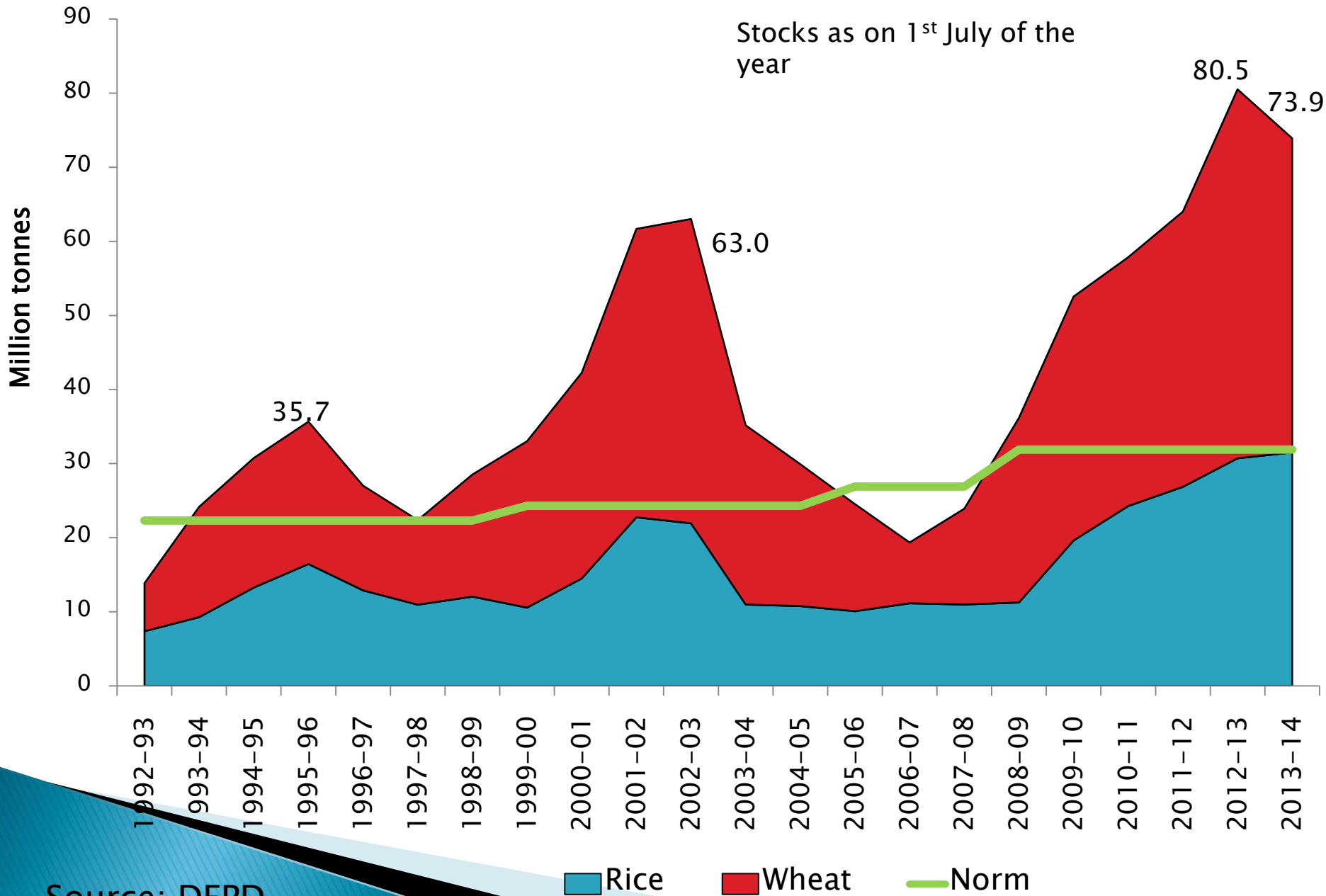


Backdrop has changed : The Cereal Wonder!

increased by more than 10 times in value terms and 8 times in Q terms since 2000-01



Backdrop changed: Bulging grain-stocks

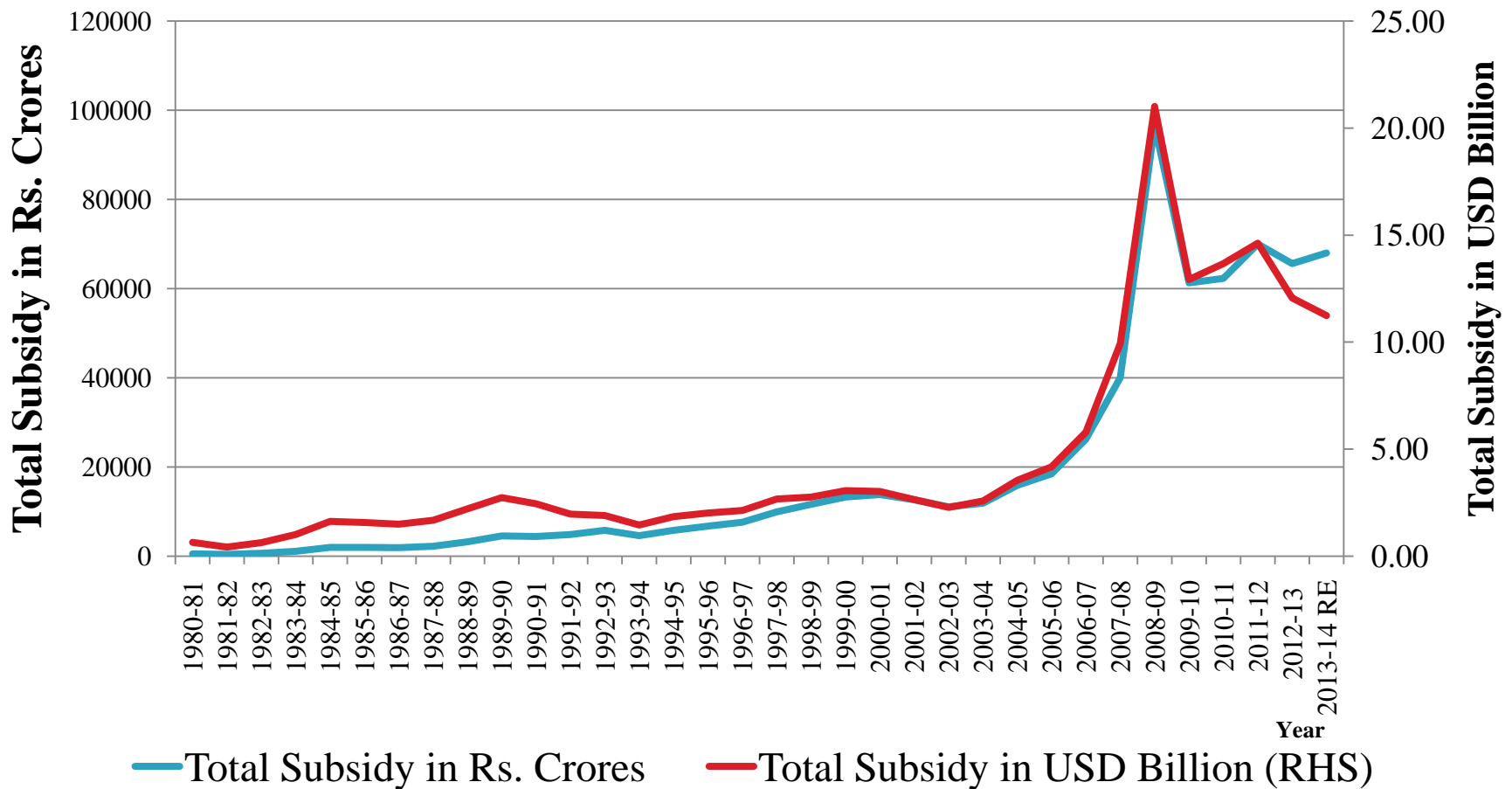


Source: DFPD

Rice Wheat Norm

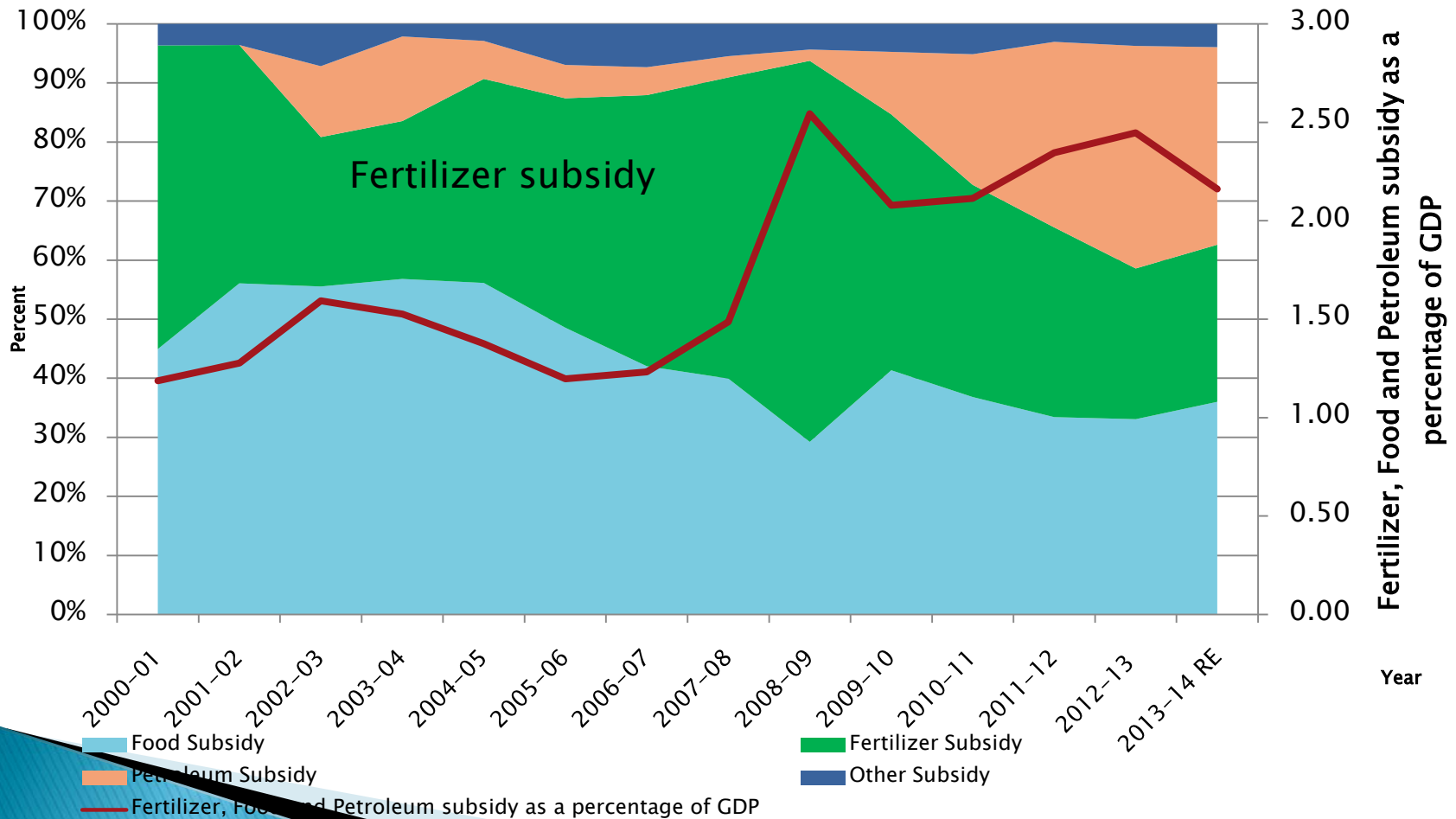
At what cost?

Ballooning fertilizer subsidy...

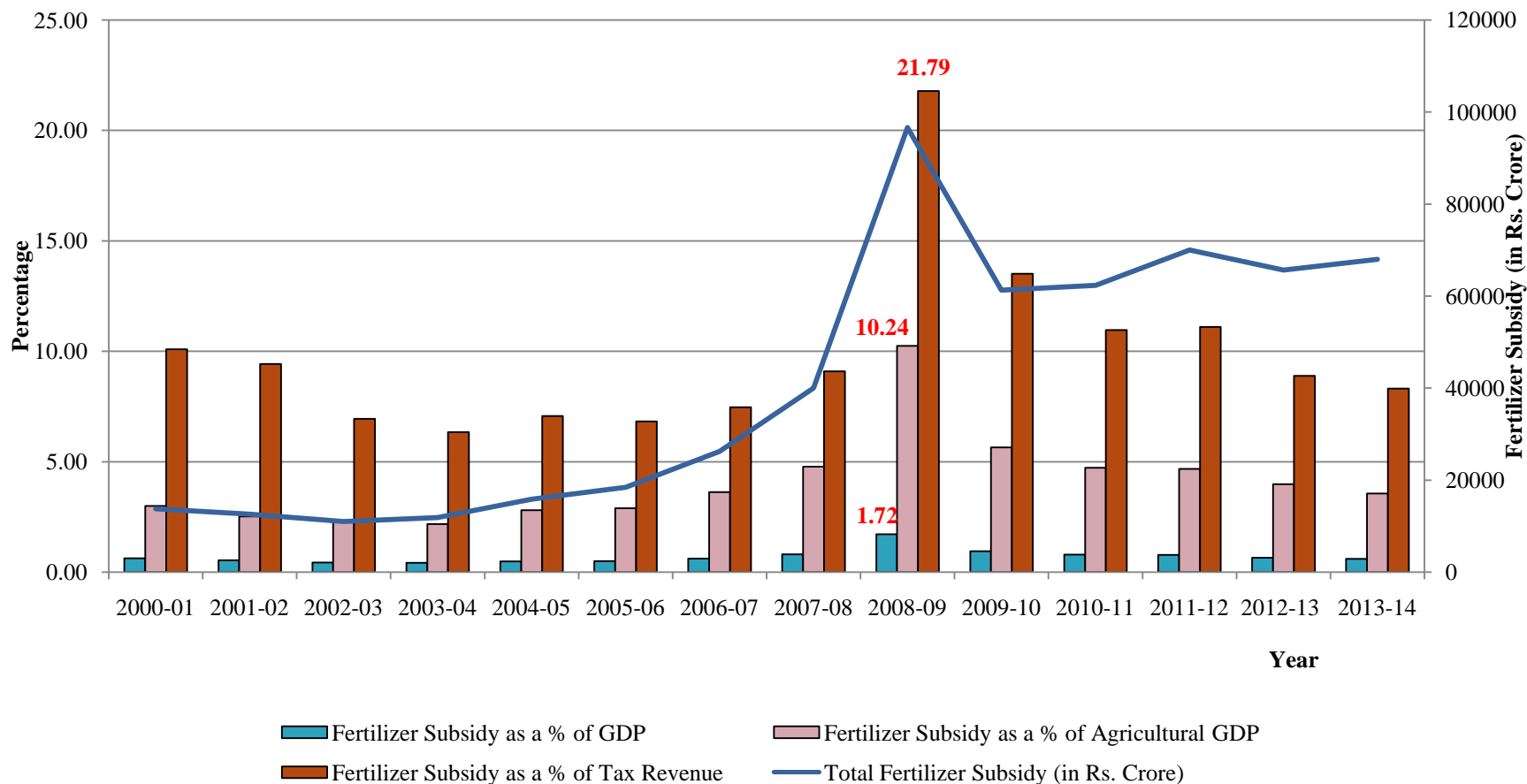


Comparatively speaking...

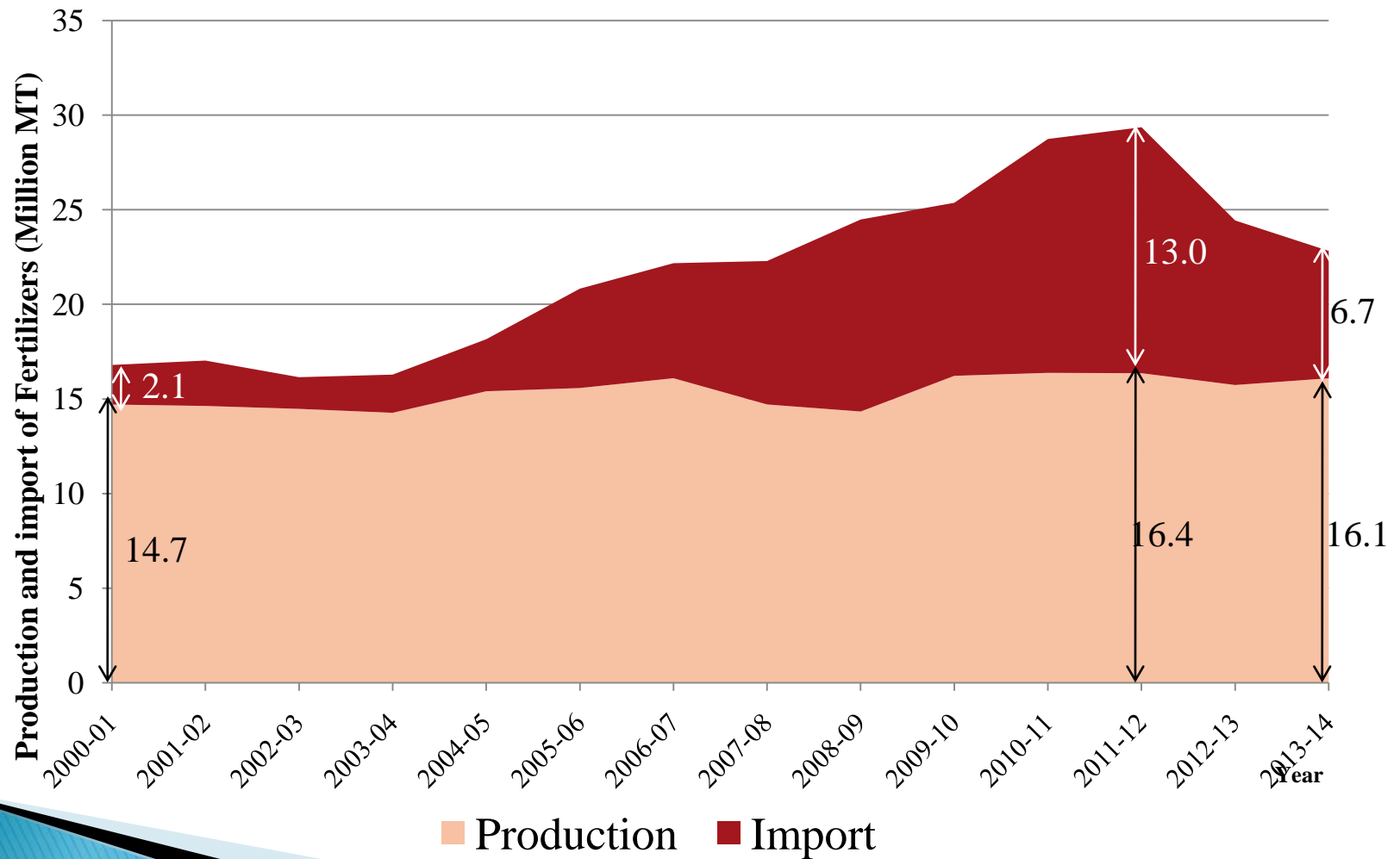
Changing composition of total subsidy



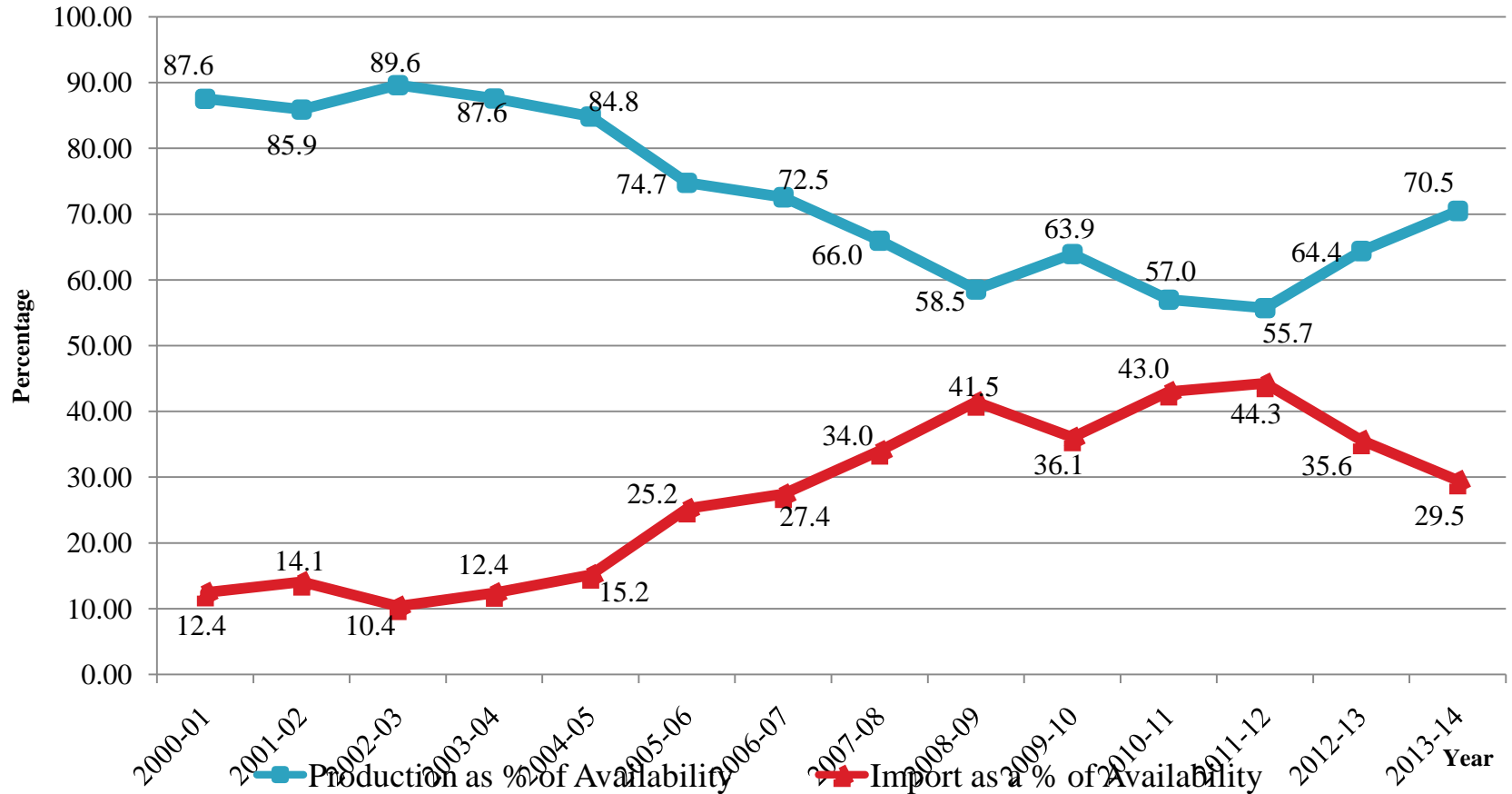
Fertilizer subsidy in relation to other macro-variables...



Rising imports of fertilizers... (nutrients)



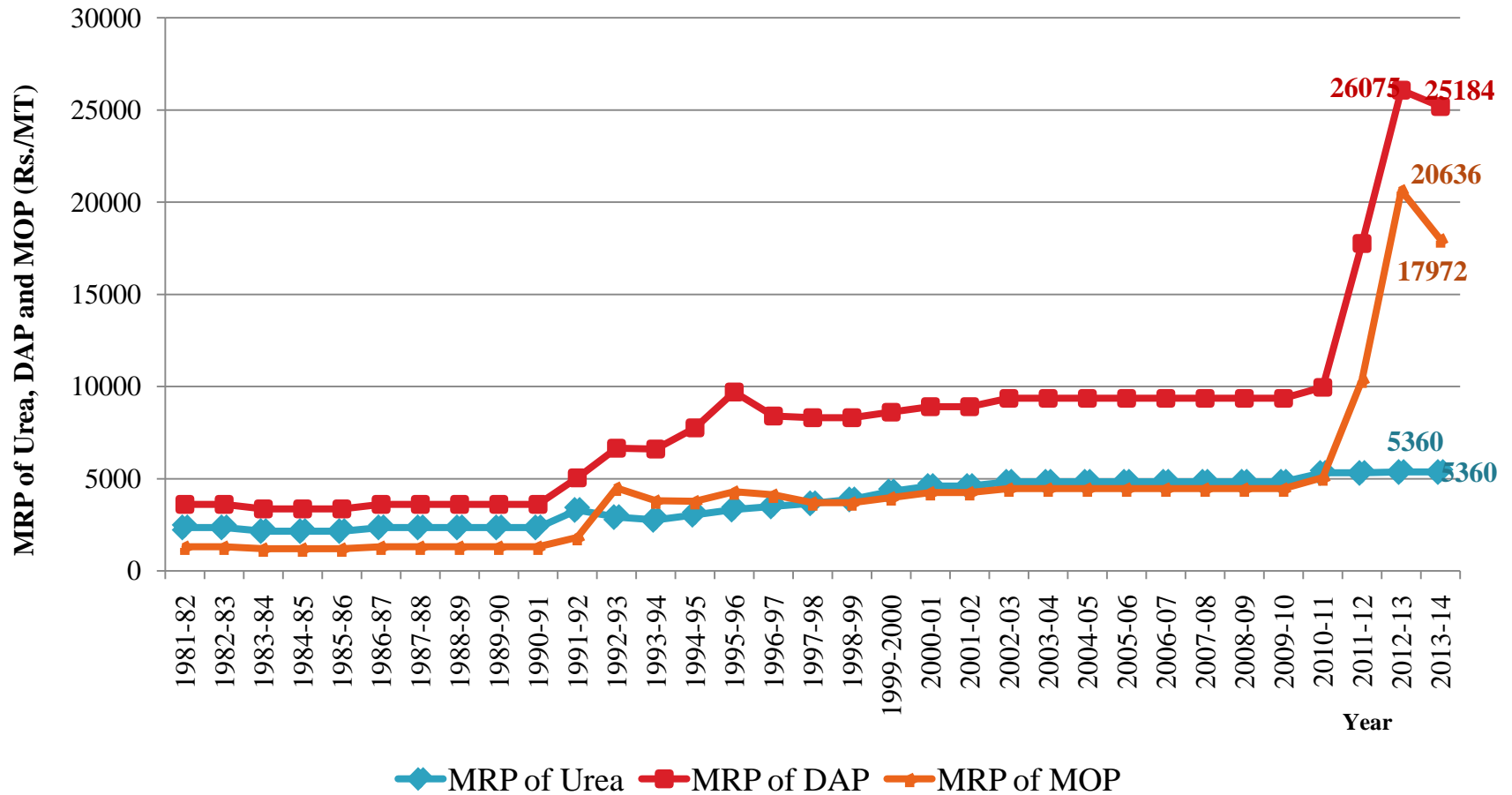
Rising import dependency...



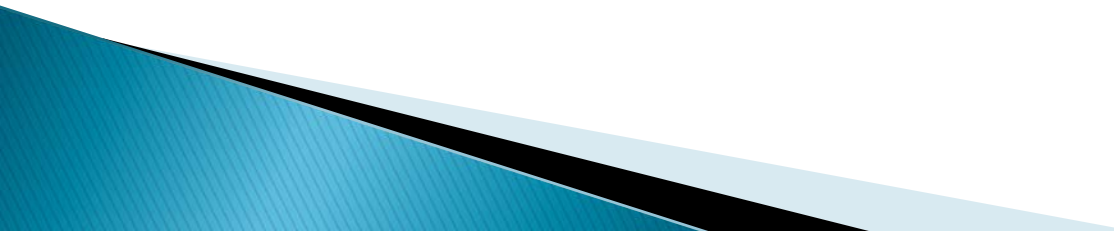
Skewed NPK use...selected states

Year	NPK ratio				
	All-India	Haryana	Punjab	Rajasthan	Andhra Pradesh
1	2	3	4	5	6
2000-01	7.0:2.7:1	73.9:21.3:1	42.5:11.9:1	92.1:30.5:1	6.5:2.9:1
2007-08	5.5:2.1:1	39.8:10.9:1	34.3:9.0:1	33.7:12.5:1	3.8:1.7:1
2008-09	4.6:2.0:1	32.2:10.7:1	23.6:6.7:1	30.2:13.6:1	3.5:1.7:1
2010-11	4.7:2.3:1	20.5:7.1:1	19.1:5.9:1	24.9:11.8:1	3.9:2.1:1
2011-12	6.7:3.1:1	27.2:9.8:1	26.8:8.5:1	34.9:15.9:1	6.1:3.2:1
2012-13	9.9:3.3:1	61.4:18.7:1	61.7:19.2:1	44.9:16.5:1	7.1:2.8:1

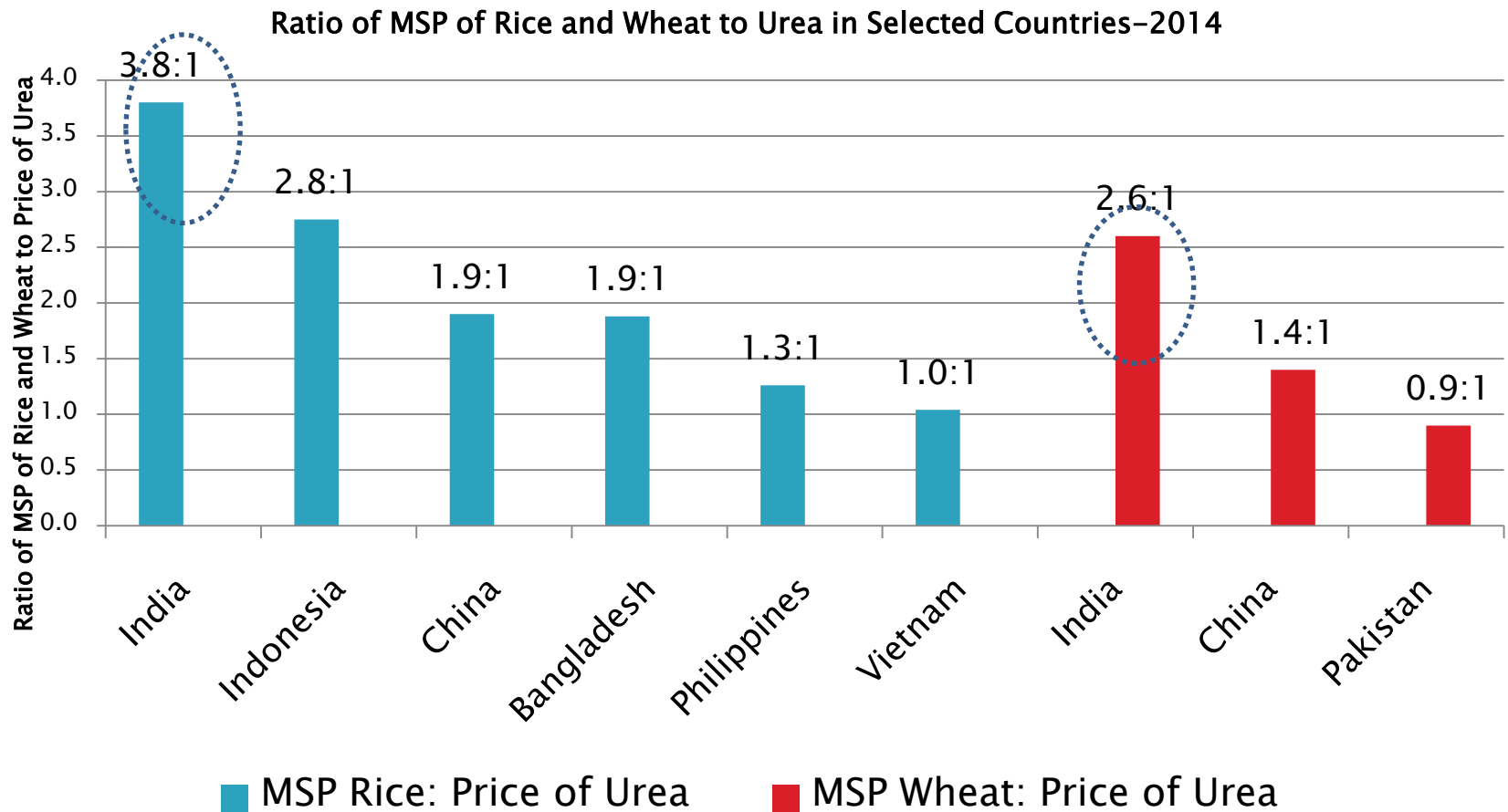
Options for change...Raising urea prices??



Is Indian farmer pampered with low urea prices?

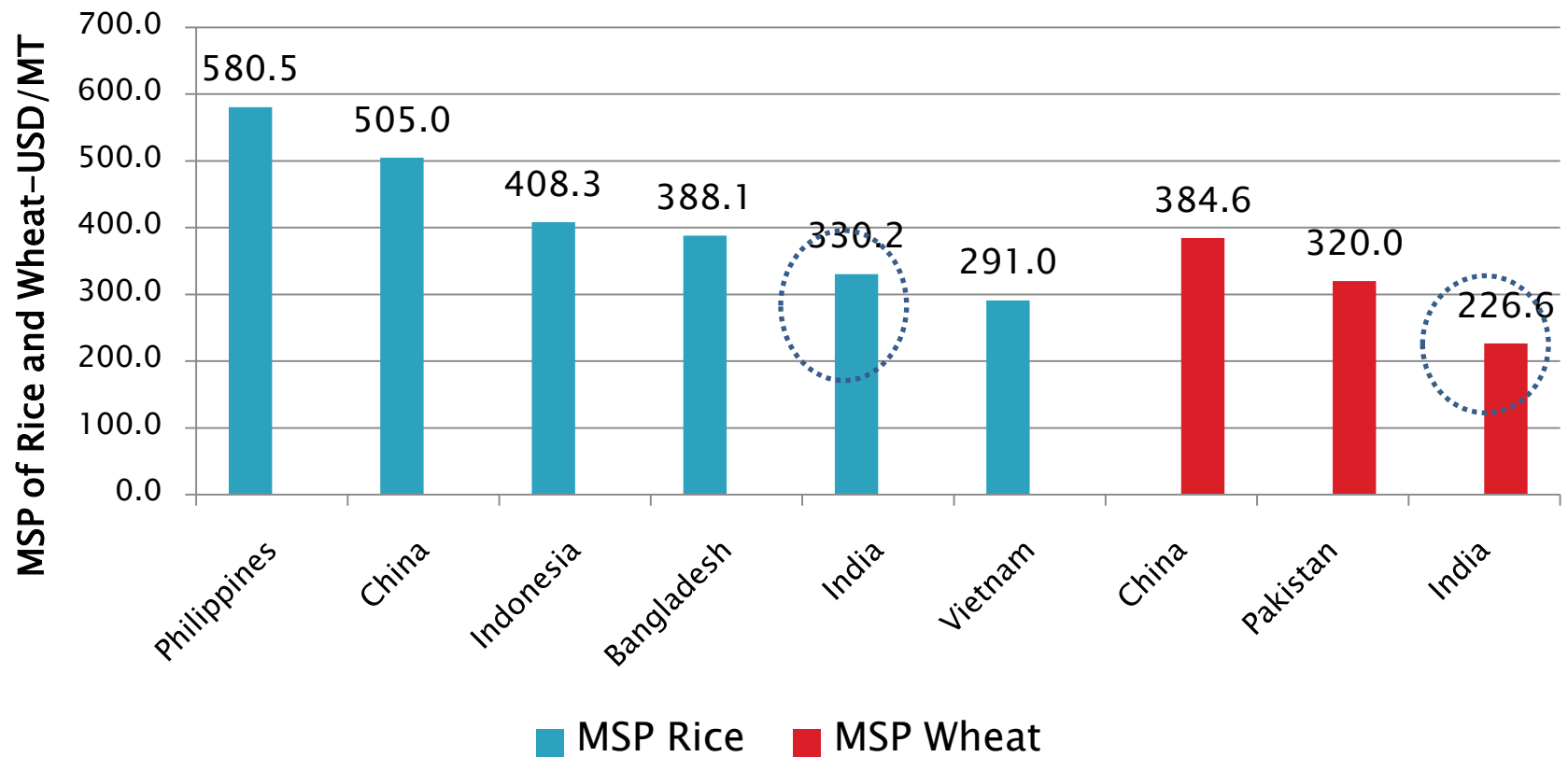
- ▶ Need to see urea prices in relation to minimum support prices (MSPs) for major crops (wheat and rice)
 - ▶ Also see the weight of fertilizers (especially urea) in MSP
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Ratio of MSP to urea prices... illusion of pampered deal to Indian farmer



Reality: MSPs in India very low...


MSP (USD/MT) Comparison Between Selected Countries–2014



Rational assessment: Look at cost of fertilizers in MSP

- ▶ Only 7–8 percent in Punjab
- ▶ If urea prices go up by 200%, and MSP remains frozen, situation worsens for Indian farmer...politically not a viable option
- ▶ But if MSP of say wheat raised to the level of MSP in Pakistan (\$320/MT) or China (\$385/MT), Indian farmer will be much better off (but food subsidy will balloon)

Direct Cash transfer & unshackle (deregulate) fertilizer sector ...

- ▶ Rs 7000/ha (NSA 140 m ha), subject to Soil Health Cards
 - ▶ Deregulate fertilizer prices (including urea) with open imports at zero duty
 - ▶ Provide gas to urea plants at uniform price
 - ▶ Time to switch gears from price policy to income policy...
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Feasibility and expected gains

- ▶ Politically feasible; Operationally possible to link with UID and *Jan Dhan* in 1–2 years (Issue of land records)
- ▶ Expected gains: Diversion to non-agri uses and smuggling to neighboring countries will stop
- ▶ Better NPK usage; better yield response
- ▶ Subsidy bill may come down by 15–20%

The Brave New World:

will urea industry prosper? Depends largely upon at what price it gets gas

Supply Curve of urea and world price

