

**GOVERNMENT OF INDIA  
CHEMICALS AND FERTILIZERS  
LOK SABHA**

UNSTARRED QUESTION NO:4195  
ANSWERED ON:19.08.2010  
STUDY ON FERTILIZER SUBSIDY  
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**Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:**

(a) whether a Study called 'Fertilizer Subsidy in India who are the beneficiaries' has been conducted by the Indian Institute of Management, Ahmadabad recently; and

(b) if so, the outcome thereof and the reaction of the Government thereto?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF CHEMICALS AND FERTILIZERS (SHRI SRIKANT KUMAR JENA)

(a) Yes, Madam. Indian Institute of Management (IIM), Ahmadabad has brought out a working paper titled 'Fertilizer Subsidy in India: Who are the Beneficiaries?', authored by Prof. Vijay Paul Sharma and Ms. Hrima Thaker in July 2009. A paper with the same title was also published in the journal, Economic & Political Weekly dated 20th March 2010.

(b) The Study examines trends in fertilizer subsidy and the issue of distribution of fertilizer subsidies between farmer and fertilizer industry, across region/states, crops and different farm size. The paper concludes that fertilizer subsidy has increased significantly in the post-reform period (1991-92 to 2008-2009) from Rs. 4389 crore in 1990-91 to Rs. 75849 crore in 2008-09, which reflects increase in share of GDP from 0.85% in 1990-91 to 1.52% in 2008-09. The increase in fertilizer subsidy over the years can be attributed to increase in consumption of fertilizers in the country, which has contributed to the overall increase in production of food grains and other crop products. The increase in subsidy is also attributable to increase in price of fertilizers and fertilizer inputs in the international and domestic markets and absorption of the increase in prices as part of the subsidy by the Government keeping the Maximum Retail Prices paid by the farmer at below 40% of the total cost of fertilizers. The Study concludes that the general perception that about one-third of the fertilizer subsidy goes to fertilizer industry is misleading because it assumes stability in international prices and does not factor in the volatility in prices. Accordingly, the gap between the import parity price (IPP), which is assumed to be stable and the amount of subsidy given by the Government is wrongly attributed as benefit to the fertilizer industry. It may be noted that certain Indian companies incur more cost on production of fertilizer vis-à-vis IPP due to costly feedstock from indigenous sources. As such, cost of feedstock should not be mistaken as benefit to the fertilizer companies. The study mentions that with a shift from the earlier cost plus based approach to import parity pricing, the Indian Fertilizer Industry is subject to the World competition and resultantly, only the efficient units would survive in the world of trade liberalization and globalization.

The Study further infers that fertilizer subsidy is more concentrated in few States, namely Uttar Pradesh, Andhra Pradesh, Maharashtra, Madhya Pradesh and Punjab. Inter-State disparity in fertilizer subsidy and distribution is still high though it has declined over the years. Rice is the most heavily subsidized crop followed by wheat, sugarcane and cotton. The Study highlights the existence of fair degree of equity in distribution of fertilizer subsidy among farm sizes. Small and marginal farmers have larger share in fertilizer subsidy in comparison to their share in cultivated area. It is highlighted in the study that a reduction in fertilizer subsidy is likely to have adverse impact on farm production and income of small and marginal farmers, as they do not benefit from higher output prices but do benefit from lower input prices. However, the Study has expressed reservations on direct transfer of subsidy to farmers, as the policy of direct transfer of subsidy to farmers is neither desirable nor practically implementable. It would be difficult to ensure that direct transfer of subsidy to millions of farmers is actually used by them only for buying fertilizer and there is no leakage in transfer of subsidy. Accordingly, if the subsidy is not used for fertilizer, it might adversely affect agricultural production in the country. The study mentions that it is advisable to route the subsidy through the existing mechanism, which is easy to monitor as well as ensure usage of fertilizers by all category of farmers. The study has mentioned that the introduction of the Nutrient Based Subsidy (NBS) Policy by the Government is a welcome step, as it would ensure balanced application of nutrients and growth of fertilizer industry.