

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

STARRED QUESTION NO:327
ANSWERED ON:02.12.2010
FERTILIZER SUBSIDY
Ghubaya Shri Sher Singh

Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

- (a) whether the Government has adopted different methods for providing subsidy to different kinds of chemical fertilizer manufacturers of the country;
- (b) if so, the details thereof;
- (c) the justification and benefits for adopting these methods; and
- (d) the steps contemplated to rationalize the subsidy structure particularly to help farmers in the country?

Answer

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

(a) to (d): A statement is laid on the table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (d) OF LOK SABHA STARRED QUESTION NO. 327 TO BE ANSWERED ON 2.12.2010 REGARDING FERTILIZER SUBSIDY ASKED BY SHRI SHER SINGH GHUBAYA.

(a) to (d) Department of Fertilizers is presently administering two subsidy schemes viz. New Pricing Scheme for Urea and Nutrient Based Subsidy Policy for decontrolled Phosphatic & Potassic fertilizers.

1. Urea :-

Urea has been under statutory price, movement and distribution control since 1977 under the Retention Price cum Subsidy Scheme upto 31.3.2003. Then, New Pricing Scheme for Urea was introduced to rationalize the Urea subsidy policy with the objective of attracting investments in the urea sector in the country as well as under the Joint Ventures abroad to promote production and availability of Urea in the Country. As per the New Pricing Scheme-III (NPS-III), Urea industry is divided into six groups (1) Pre-1992 Gas based units, (2) Post-1992 Gas based units, (3) Pre-1992 Naphtha based units, (4) Post-1992 Naphtha based units, (5) FO/LSHS based units and (6) Mixed energy based units. Concession price of each group is calculated and the difference between Concession Scheme price & MRP is paid as subsidy. The salient features of the NPS-III policy are to maximize urea production from the indigenous units including conversion of non-gas based units to gas based, incentivising additional urea production and encourage investment in Joint Venture (JV) projects abroad. It is also aimed at establishing a more efficient urea distribution and movement system in order to ensure availability of urea in the remotest corners of the country. A new policy regime for the urea sector is under consideration of the Government, which is aimed at promoting the production and availability of indigenous urea and further rationalizing the fertilizer subsidy structure for Urea.

2. Phosphatic & Potassic fertilizers :-

Government of India introduced Concession Scheme for decontrolled P & K fertilizers on adhoc basis with effect from October 1992. Then onwards, this scheme has been allowed to continue with changed parameters from time to time with the objective of ensuring balanced use of fertilizers for maximizing food productivity in the country. In the pursuit of the rationalization of the release of subsidy on Phosphatic & Potassic fertilizers, the Government has been releasing concession on Phosphatic & Potassic fertilizers based on the recommendations of the Tariff Commission on the basis of its cost price study since 2002-03. With effect from 1.4.2008, the Government has been releasing payment of concession on the basis of the recommendation of the Tariff Commission reports of December 2007 and Expert Group, which were slightly amended during 2009- 10. Accordingly, Sulphur has also been allowed subsidy with effect from 1.4.2008 in addition to the subsidy on NPK nutrients in the complex fertilizers. Traditionally, DAP, MOP, NPK complexes and SSP have been covered under the Concession Scheme, however MAP, Ammonium Sulphate (AS) and TSP has also been introduced into the scheme subsequently in order to enlarge the basket of subsidized fertilizers.

In the implementation of Concession Scheme it has been experienced that the fertilizer industry under the subsidy regime suffered from low profitability as compared to other sectors. No investment took place in the Urea sector for the past 11 years. the subsidy outgo increased exponentially by 530% during 2004 to 2009 with about 90% of the increase due to rise in the international prices of fertilizers and inputs. The agricultural productivity did not register increase in commensurate with the increase in the subsidy bill. The MRP of the fertilizers remained constant from 2002 onwards. The requirement of fertilizers also increased but not in the desired proportion.

An Inter-Ministerial Group constituted to look into all aspects of the fertilizer regime recommended that Nutrient Based Subsidy (NBS) may be introduced based on the contents of the nutrients in the subsidized fertilizers. The Hon'ble Finance Minister in its Budget Speech 2009 also announced for introduction of Nutrient Based Subsidy Policy for Phosphatic & Potassic fertilizers with the objective of ensuring Nation's food security, improving agricultural productivity and ensuring the balanced application of fertilizers. The Group of Ministers also recommended for introducing Nutrient Based Subsidy. Resultantly, the Government introduced NBS w.e.f. 1.4.2010 for decontrolled Phosphatic and Potassic (P&K) fertilizers (w.e.f. 1.5.2010 for SSP). An Inter-Ministerial Committee (IMC) constituted under the Chairmanship of Secretary (Fertilizers) recommended the rates of subsidy for 2010-11 and 2011-12. As per Nutrient Based Subsidy policy, subsidy is also given on the fertilizers fortified with Boron and Zinc. Freight subsidy has also been allowed to transport the fertilizers. The Mixture/customized fertilizers manufacturers have been allowed to use the subsidized straight fertilizers. Additional subsidy has been provided for a period of 2 years to the NPK complex fertilizers based on naphtha for procuring Nitrogen thereon. In order to ensure supply of fertilizers in the difficult areas, NBS provides for 20% of the sale under the Essential Commodity Act 1955. NBS also provides for sale of fertilizers to the dealers network of the other big fertilizers companies for ensuring the requisite availability of fertilizers all over the country. NBS also provides for increasing the basket of subsidized fertilizers with the recommendation of ICAR/DARE so that the farmers are privileged to make available the fertilizers of their choice and requirement. The announcement of the NBS rates well in advance gives a signal to the suppliers of fertilizers/raw materials in the international market for favorable prices for Indian Market. The MRP of the Phosphatic & Potassic fertilizers has been deregulated with the option to fix the MRP of the Phosphatic & Potassic fertilizers by the manufacturers and importers. It will enhance a healthy competition among the entrepreneurs in the fertilizer sector. The Government has decided to fix subsidy in such a manner that the prices of fertilizers do not affect adversely consequent upon the introduction of Nutrient Based Subsidy Policy. With the introduction of NBS, the MRP of the fertilizers has increased by Rs. 30 per bag. There is practically no change in the price of MOP. The MRP of SSP has reduced by Rs. 70 per bag during 2010-11. The revision of MRP of fertilizers has taken place after a period of 8 years whereas the Minimum Support Price of the foodgrains has been revised from time to time. With the objective of enhancing the production of SSP in the country for ensuring a viable substitute for DAP, the manufacturers are required to produce 50% of their annual installed capacity. As on today, the farmers have to pay only 25-40% of the actual cost of the fertilizers as their purchase price. The Government has always ensured the requisite availability of fertilizers in the States based on the assessment of consumption of the fertilizers. In order to rationalize the system for release of payment of subsidy, Department of Fertilizers has allowed the manufacturers/importers to get their payment based on receipt of fertilizers in the Districts. It is expected that with the introduction of NBS, desired results would be emanating in the interest of all the stakeholders in the fertilizer sector and ensure food productivity in the country. It will definitely help the farmers in the country.