

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

UNSTARRED QUESTION NO:3176
ANSWERED ON:30.08.2012
SUBSIDY TO CHEMICAL FERTILIZERS MANUFACTURERS
Reddy Shri Modugula Venugopala

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

- (a) the methodology adopted by the Government for providing subsidy to different kinds of chemical fertilizers manufacturers of the country;
- (b) the justification and benefits of adopting these methods; and
- (c) The steps contemplated by the Government to rationalize the subsidy structure particularly to help the farmers in the country?

Answer

MINISTER OF STATE (INDEPENDENT CHARGE) OF THE MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION AND MINISTER OF STATE IN THE MINISTRY OF CHEMICALS AND FERTILIZERS (SHRI SRIKANT KUMAR JENA)

(a) to (c) : The raw materials for production of urea are available within the country and the country produces approximately 75% of its requirement. Since there is no known reserve of potash and very little reserves of phosphates that too of low quality suitable only for the production of Single Super Phosphate (SSP), the country is fully dependent on imports in case of Potassic fertilizers and to the extent of 90% in case of Phosphatic fertilizers either in the form of finished fertilizers or raw materials. Due to this there are different policies for urea and P&K fertilizers.

Subsidy on Urea is provided under New Pricing Scheme (NPS), whereas subsidy on Phosphatic and Potassic (P&K) fertilizers is provided under Nutrient Based Subsidy (NBS) Policy.

Under NPS the Maximum Retail Price (MRP) of urea is fixed by Government. The difference between the delivered cost at farm gate level and the MRP is provided as subsidy to urea manufacturing companies.

Under NBS Policy a fixed subsidy decided on annual basis, is provided on all subsidized P&K fertilizers based on its nutrient content. The MRP is fixed by fertilizer companies.

Prior to implementation of NBS Policy w.e.f. 1.4.2010 the subsidy on P&K fertilizers was paid under the concession scheme, in which the MRP was fixed by the Government. The MRP of P&K fertilizers being much lower than its delivered cost, led to increase in consumption of fertilizers during the last three decades and consequently there was increase in food grain production. However, it was observed in last few years that the marginal response of agricultural productivity to additional fertilizer usage in the country had fallen sharply, leading to near stagnation in agricultural productivity and consequently agricultural production. The disproportionate NPK application, rising multi-nutrient deficiency and lack of application of organic manures leading to reduction in carbon content of the soil, was attributed to the stagnating agricultural productivity. The fertilizer sector worked in a highly regulated environment with cost of production and selling prices being determined by the Government of India, due to which fertilizer industry suffered from low profitability as compared to other sectors. The growth of fertilizers industry was stagnated with virtually no investments for the past many years. The fertilizer industry had no incentive to invest towards modernization and increase efficiency.

The innovation in fertilizer sector was also suffered as very few products were introduced by fertilizer companies, since they get out priced by subsidized fertilizers. The industry had no incentive to focus on farmers leading to poor farm extension services, which were necessary to educate farmers about the modern fertilizer application techniques, soil health and promote soil test based application of soil and crop specific fertilizers.

The subsidy outgo of Government had increased exponentially by 500% during the past five years (2005-06 to 2009-10) under the Concession Scheme with about 94% of the increase due to increase in international prices of fertilizers and fertilizer inputs, and only 6% attributable to increase in consumption.

It was, thus, observed that over the last few years the product based subsidy regime (erstwhile concession scheme) had been proving to be a losing proposition for all the stake holders viz farmers, industry and the Government. Accordingly, considering all the issues relating to agriculture productivity, balanced fertilization and growth of indigenous fertilizer industry, competitiveness amongst the fertilizer companies and to overcome the deficiency of concession scheme, the Government introduced Nutrient Based Subsidy (NBS) Policy for P&K fertilizers w.e.f 1.4.2010.