GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:342
ANSWERED ON:01.08.2014
SWAVALAMBAN SCHEME
Rajesh Shri M. B.;Rathwa Shri Ramsinh Patalyabhai

Will the Minister of FINANCE be pleased to state:

(a) the salient features of subsidy regime under implementation;

(b) the subsidy outgo and its proportion to the Gross Domestic Product (GDP) during each of the last three years and the current year, sector-wise;

(c) the manner in which subsidy compares with other countries like Brazil, Russia, China, South Africa and other developing countries;

(d) whether the Government proposed to bring down the subsidy in a phased manner as a major step towards fiscal consolidation; and

(e) if so, the details thereof indicating the quantum of subsidy likely to be reduced as percentage of GDP during the remaining period of 12th Five Year Plan?

Answer

Minister of Finance (Shri Arun Jaitley)

(a) to (e): A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) to (c) OF LOK SABHA STARRED QUESTION NO. 342 REGARDING - SUBSIDY` RAISED BY SHRI M. B. RAJESH, MP, SHRI RAMSINH RATHWA MP, FOR ANSWER ON 01.08.2014

(a): In order to insulate the common man from the impact of rise in the prices of food grains, petroleum products and fertilizer Government administers their prices and makes available them to the targeted people at a lower price than the market/cost price. The difference between the market determined price/actual cost and the price at which the Govt makes it available to the targeted consumers is described as subsidy.

FOOD:

For food, this occurs mainly due to the difference between the economic cost of the foodgrains, i.e. MSP at which foodgrains are procured from farmers and other procurement incidentals which Government has to bear on storage, transportation etc. and Central Issue Price on which foodgrains are distributed among beneficiaries under TPDS/NFSA and other welfare schemes.

PETROLEUM:

The Government has been modulating the Retail Selling Price (RSP) of Diesel (in retail), PDS Kerosene and Subsidized Domestic LPG, resulting in incidence of under-recovery on their sale to the Public Sector Oil Marketing Companies (OMCs). The Government has evolved a Burden Sharing Mechanism to ensure that the burden of under-recoveries incurred by OMCs is shared by all the stakeholders in the following manner: (i) Government through budgetary assistance; (ii) Public Sector Upstream Oil Companies namely, Oil and Natural Gas Corporation (ONGC), Oil India Limited (OIL) and GAIL (India) Limited by way of price discount on Crude oil and products, (iii) Public Sector Oil Marketing Companies, by absorbing a part of the under-recoveries. (iv) Consumers, by minimal price increase.

FERTILIZERS:

For sustained agricultural growth and to promote balanced nutrient application, fertilizers are made available to farmers at affordable prices. With this objective, urea is sold at statutory notified uniform sale price, and decontrolled Phosphatic and Potassic fertilizes are sold at indicative maximum retail prices (MRPs). The problems faced by the manufactures in earning a reasonable return on their investment with reference to controlled prices, are mitigated by providing support under the New Pricing Scheme for Urea units and the concession Scheme for decontrolled Phosphatic and Potassic fertilizers. The statutorily notified sale price and indicative MRP is generally less than the cost of production of the irrespective manufacturing unit. The difference between the cost of production and the selling price/MRP is paid as subsidy/concession to manufacturers.

(b): Following are the major sector-wise subsidy outgo and their proportion to the Gross Domestic Product (GDP) during each of the last three years and the current year:

Year	Major Subsidies	Food	Fertilizer	Petroleum
	In Rupees Crores			
2011-12	211319	72822	70013	68484
2012-13	247493	8500O	65613	96880
2013-14 RE	245451	92000	67971	S5480
2014-15 BE	251397	115000	72970	63427
	Per cent of GDP			
2011-12	2.35	0.81	0.78	0.76
2012-13	2.45	0.84	0.65	0.96
2013-14 BE	1.94	0.79	0.58	0.57
2013-14 RE	2.16	0.81	0.60	0.75
2014-15 BF.	1.95	0.89	0.57	0.49

(c): Following are the comparison of major subsidy between India and other developing countries like Brazil, Russia, China, South Africa:

Fossil Fuel Subsidy Comparison (in Billion US Dollar)

	Oil	Gas
Russia		
2010	0	20.1
2011	0	21.3
2012	0	24.6
Brazil		
2010	NA	NA
2011	NA	NA
2012	NA	NA
India		
2010	15.5	3.0
2011	28.0	4.4
2012	32.4	3.8
China		
2010	8.1	0
2011	18.8	0
2012	12.9	0.5
South Africa		
2010	0	0
2011	0	0
2012	0	0

Source: International Energy Association; Fossil Fuel Subsidy Data base

Fertilizers:

Majority of the countries implanting subsidies are paying directly the manufacturers/ importers in case or in the form of tax/ tariff and VAT exemptions, preferential energy and transport prices and payments to recover partly or fully fertilizer distribution costs. Some subsidies are paid to distributors/ retailers in exchange for coupons or vouchers from farmer participants of the fertilizer assistance program.

There is subsidy paid directly to formers to promote fertilizer use and assist them for the rehabilitation of their farms, or to recover from losses due to calamities, such as typhoons or to grow specific crops such as paddy/rice (in Asia) or maize/com (in Africa), the staple crop in most of these countries.

Russia is providing a special subsidy for partial compensation on fertilizers (potassium chloride) purchased by farmers from manufacturing plants located in specific regions in Russia as a result of the radioactive contamination due to the accident in the Chernobyl Nuclear Plant.

In China, subsidy on Fertilisers is about 10-30% of the total fertilizer cost regardless of the nutrient. The subsidy is paid directly to manufacturer in terms of preferential energy (gas, electricity) & transport prices, as well as VAT exemptions (paid directly to wholesalers & retailers). Interest free storage for off season products are also enjoyed by producers and wholesalers. Direct subsidy to grain growers is also given.

(d) & (e): Keeping in view the importance of keeping fiscal deficits under control Government proposes to bring down the major subsidies from 2.2 percent ofGDP in 2013-14 (RE) to 2.03 per cent ofGDP in 2014-15 (BE). With active policy measures/reforms of the Government to contain fiscal deficit and the quantum of subsidy bill it is expected that the subsidy will progressively reduce. It is proposed to keep the subsidy level at 1.7per cent and 1.6 per cent of GDP in 2015-16 and 2016-17 respectively.