Fertiliser Subsidy

For Prelims: Fertiliser Subsidy, Urea, DAP, Nutrient Based Subsidy (NBS) Scheme

For Mains: Issues Related with Fertiliser Subsidy and the Way Forward.

Why in News?

High government subsidies are leading to **excessive use of two** fertilisers **-** Urea **and** Di-Ammonium Phosphate (DAP).

What is Fertiliser Subsidy?

- **About Fertiliser:**
  - **A fertiliser** is a natural or artificial substance **containing chemical elements (such as Nitrogen (N), Phosphorus (P) and Potassium (K))** that improve **growth and productiveness of plants**.
  - There are **3 basic fertilisers** in India - **Urea, DAP and Muriate of Potash (MOP).**
- **About Fertiliser Subsidy:**
  - The government **pays a** subsidy to fertiliser producers to allow **farmers to buy fertilisers at below-market rates.**
  - The difference between the cost of production/import of a fertiliser and the actual amount paid by farmers is the **subsidy portion borne by the government.**
- **Subsidy on Urea:**
  - In India, **urea is the most produced, imported, consumed and physically regulated fertiliser** of all. It is subsidised only for agricultural uses.
  - The Centre **pays a subsidy** on urea to fertiliser manufacturers on the basis of cost of production at each plant and the units are required to sell the fertiliser at the government-set Maximum Retail Price (MRP).
    - The **MRP** of urea is currently **fixed at Rs 5,628 per tonne.**
- **Subsidy on Non-Urea Fertilisers:**
  - The MRPs of **non-urea fertilisers are decontrolled or fixed by the companies.**
  - But the government has, in **recent times**, and especially with the **global price surge post the** Russia-Ukraine war**, brought these fertilisers under the control regime.**
  - All Non-Urea based fertilisers are regulated under **Nutrient Based Subsidy (NBS) Scheme.**
  - **Examples of non-urea fertilisers** - DAP and MOP.
    - Companies **do not sell DAP at more than Rs 27,000 per tonne.**

What are the Related Initiatives for Fertilisers?

- **Neem Coating of Urea:**
  - The Department of Fertilizers (DoF) has **made it mandatory for all the domestic producers** to produce 100% urea as **Neem Coated Urea (NCU).**
- New Urea Policy (NUP) 2015:

    - Objectives of the policy are-
        - To maximize indigenous urea production.
        - To promote energy efficiency in the urea units.
        - To rationalize the subsidy burden on the Government of India.
- **Policy on Promotion of City Compost:**
    - Approved a policy on promotion of City Compost, notified by the Department of Fertilisers (DoF) in 2016 granting Market Development Assistance of Rs. 1500/- for scaling up production and consumption of city compost.
    - **To increase sales volumes, compost manufacturers** willing to market city compost were allowed to sell city compost in bulk directly to farmers.
    - Fertilizer companies marketing city compost are covered under the **Direct Benefit Transfer (DBT)** for Fertilizers.
- **Use of Space Technology in Fertilizer Sector:**
    - DoF commissioned a **three-year Pilot Study on** "Resource Mapping of Rock Phosphate using Reflectance Spectroscopy and Earth Observations Data" by National Remote Sensing Centre under **ISRO,** in collaboration with Geological Survey of India (GSI) and the Atomic Mineral Directorate (AMD).

What are the Issues Related to Fertiliser Subsidy?

- **Imbalance in Price of Fertilisers:**
    - The high subsidy on urea and DAP makes them much **cheaper for farmers relative to other fertilisers.**
    - While **urea is retailing at a fourth of the price of packed common salt, DAP** has also become **far cheaper than other fertilizers.**
    - The **prices of the other fertilizers which were decontrolled have gone up** which has led the farmers to **use more urea and DAP than before.**
- **Nutrient Imbalance:**
    - The **use of N, P and K in the country** has over the last few years sharply **deviated from the ideal NPK use ratio of 4:2:1.**
    - Urea and DAP contain **more than 30% of any single nutrient.**
        - **Urea has 46% N**, while **DAP has 46% P** and also **18% N.**
    - The resulting **nutrient imbalance** owing to their **use, disproportionate to other, more expensive fertilisers,** could have implications for **soil health, ultimately affecting crop yields.**
- **Damage to Fiscal Health:**
    - Fertiliser subsidies are damaging the fiscal health of the economy.
    - **Subsidized** urea is getting **diverted to bulk buyers/traders** or even non-agricultural users such as plywood and animal feed makers.
        - It is being **smuggled** to neighbouring countries like **Bangladesh** and **Nepal.**

Way Forward

- Considering that all three nutrients namely N (nitrogen), P (phosphorus) and K (potassium) are critical to increasing crop yields and quality of produce, the government must necessarily go for a **uniform policy for all fertilisers.**
- In the long run, **NBS itself should be replaced by a flat per-acre cash subsidy** that could be used to purchase any fertiliser.
    - This subsidy must **include value-added and customised products** containing not just other nutrients but delivering even nitrogen more efficiently than urea.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. With reference to chemical fertilizers in India, consider the following statements: (2020)

1. At present, the retail price of chemical fertilizers is market-driven and not administered by the Government.
2. Ammonia, which is an input of urea, is produced from natural gas.
3. Sulphur, which is a raw material for phosphoric acid fertilizer, is a by-product of oil refineries.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 and 3 only
(c) 2 only
(d) 1, 2 and 3

Ans: (b)

Exp:

- The Government of India subsidizes fertilizers to ensure that fertilizers are easily available to farmers and the country remains self-sufficient in agriculture production. The same has been achieved largely by controlling the price of fertilizer and the amount of production. **Hence, statement 1 is not correct.**
- Ammonia (NH_3) has been synthesized from natural gas. In this process, natural gas molecules are reduced to carbon and hydrogen. The hydrogen is then purified and reacted with nitrogen to produce ammonia. This synthetic ammonia is used as fertilizer, either directly as ammonia or indirectly after synthesis as urea, ammonium nitrate, and monoammonium or diammonium phosphates. **Hence, statement 2 is correct.**
- Sulfur is a major by-product of oil refining and gas processing. Most crude oil grades contain some sulfur, most of which must be removed during the refining process to meet strict sulfur content limits in refined products. This is done through hydrotreating and results in production of H_2S gas, which is converted into elemental sulfur. Sulfur can also be mined from underground, naturally-occurring deposits, but this is more costly than sourcing from oil and gas and has largely been discontinued. Sulfuric acid is used in the production of both Monoammonium Phosphate (MAP) and Diammonium Phosphate (DAP). **Hence, statement 3 is correct.**
- **Therefore, option B is the correct answer.**

Mains

Q1. How do subsidies affect the cropping pattern, crop diversity and the economy of farmers? What is the significance of crop insurance, minimum support price and food processing for small and marginal farmers? **(2017)**

Q2. In what way could replacement of price subsidy with direct benefit Transfer (DBT) change the scenario of subsidies in India? Discuss. **(2015)**

Q3. What are the different types of agriculture subsidies given to farmers at the national and at state levels? Critically, analyse the agricultural subsidy regime with reference to the distortions created by it. **(2013)**

Source: IE