

Fertilizer

Fertilizer Consumption

8.31 The consumption of fertilizers (NPK) has been rising steadily over the years, and, in nutrient terms, it was 18.07 million tonnes in 1999-2000. In 2000-01, however, fertilizer consumption declined to 16.7 million tonnes due to drought in many parts of the country. In view of the improved weather condition in 2001-02, it is expected that consumption may have touched 19.3 million tonnes (Table 8.15). Average fertilizer consumption rose to 95 kg per hectare. Punjab ranked highest, with 184 kg per hectare followed by Tamil Nadu with 163 kg, and Andhra Pradesh with 158 kg. Orissa had the lowest consumption of 44 kg/ha.

8.32 During the 1980s, kharif crop production accounted for nearly one third of the total fertilizer consumption, which has since increased to around fifty per cent now. The season-wise consumption of fertilizers is given in Table 8.16.

Fertilizer Production

8.33 In 2001-02, fertilizer production (N&P) is expected to increase to 15.04 million tonnes (11 million tonnes of nitrogen and 4.08 million tonnes of phosphate) from 14.7 million tonnes in the preceding year. Domestically produced

nitrogenous fertilizer, urea, is still price controlled and involves a heavy subsidy. The shortfall in domestic production of N and P are met from imports, which involve payment of subsidy/concession, since domestic selling prices are lower than the landed cost of imported fertilizers. In the case of potash (K), the entire requirement is imported. Fertilizer production, imports and subsidy are shown in Table 8.17.

Fertilizer Subsidy

8.34 Urea is the most important and preferred fertilizer. To make fertilizers available to farmers at affordable prices, the Central Government continues to provide a subsidy on urea and concession on decontrolled phosphatic and potassic fertilizers. At present, urea priced at Rs 4,600 per tonne, is the only fertilizer, which is under distribution, price and movement controls (see Table 8.18).

8.35 The main policy instrument for guiding production and use of fertilizers is the Retention Price-cum-Subsidy Scheme (RPS), which was introduced in 1977. The main objective of the scheme was to insulate farmers from the rising trend in fertilizer prices and to ensure that fertilizer consumption should not suffer as its growth was an essential component of the green

TABLE 8.15
Consumption of Fertilizers

(*000 Tonnes of nutrients)

Fertilizers	1997-98	1998-99	1999-2000	2000-01	2001-02*
Nitrogenous Fertilizers	10,901	11,354	11,592	10,920	12,197
Phosphatic Fertilizers	3,914	4,112	4,799	4,215	5,198
Potassic Fertilizers	1,373	1,332	1,678	1,567	1,911
All Fertilizers (NPK)	16,188	16,798	18,069	16,702	19,306
Percentage increase	13.14	3.77	7.57	-7.56	15.59

* Estimated.

TABLE 8.16
Season-wise Consumption of Fertilizers

Year	Kharif	Rabi	Total	Kharif	Rabi
	('000 Tonnes of nutrients)			(Percent share)	
1980-81	2,138	3,378	5,516	38.8	61.2
1990-91	5,741	6,805	12,546	45.8	54.2
1996-97	6,920	7,388	14,308	48.4	51.6
1997-98	8,092	8,096	16,188	50.0	50.0
1998-99	7,834	8,964	16,798	46.6	53.4
1999-2000	8,861	9,208	18,069	49.0	51.0
2000-01	8,034	8,668	16,702	48.1	51.9
2001-02*	9,070	10,236	19,306	46.9	53.1

* Estimated

revolution strategy adopted for agricultural development in the country. Simultaneously, the scheme also ensured a reasonable return on investment to the indigenous manufacturers using various feed stocks.

8.36 The difference between the retention price (based on normative cost of production of urea plus 12 per cent post tax return on net-worth) and the notified sale price minus the

distribution margin is paid as subsidy to the individual manufacturing units. A freight subsidy is also paid to the individual units to cover the cost of transportation of fertilizers from the production points to the consumption centres. Since there is a uniform issue price both for indigenous and imported fertilizers, the difference between the cost of imports and the issue price (reduced by distribution margin) is borne by the Government as subsidy.

8.37 The farm-gate price of urea, which is at present fixed at Rs 4,600 per tonne excluding local levies, is amongst the lowest in the region and is heavily subsidised by the Government. On an average, a subsidy amounting to more than Rs 4,100 per tonne is presently borne by the Government on every tonne of urea sold to the farmers.

8.38 Consequent to decontrol of phosphatic and potassic fertilizers on August 25, 1992, the prices of these fertilizers rose sharply resulting in fall in their consumption. A separate subsidy scheme (called concession scheme) was then introduced to cushion the impact of increase in the prices of these fertilizers. The rates of price

TABLE 8.17
Fertilizer Production, Imports and Subsidy

Year	Production*		Imports*	Subsidy			
	Nitrogen	Phosphate		Imported Controlled Fertilizers	Domestic Controlled Fertilizers	Decontrolled Fertilizers	Total
	('000 Tonnes)		(Rs crore)				
1960-61	98	52	419	—	—	—	—
1970-71	830	229	629	—	—	—	—
1980-81	2,164	841	2,759	335	170	—	505
1990-91	6,993	2,052	2,758	659	3,730	—	4,389
1996-97	8,599	2,556	1,975	1,163	4,743	1,672	7,578
1997-98	10,086	2,976	3,174	722	6,600	2,596	9,918
1998-99	10,480	3,141	3,145	124	7,473	3,790	11,387
1999-2000	10,890	3,399	4,075	74	8,670	4,500	13,244
2000-01	10,962	3,743	2,090	1	9,480	4,319	13,800
2001-02(BE)	10,959	4,082	1,950**	500	7,956	5,714	14,170

* in nutrient terms (BE) – Budget Estimate. ** up to November 2001

TABLE 8.18
Selling Prices of Fertilizer Products
(Rs/Tonne)

Type of Fertilizer	Selling Price
Urea	4,600
Di-Ammonium Phosphate	8,900
Muriate of Potash	4,255
Complex Fertilizers	6,620-8,520
Single Super Phosphate	Varies from State to State

concession (subsidy) on these fertilizers have been substantially increased in recent years. For the year 2001-02, the base rates of concession

have been fixed at Rs 3,700 PMT for indigenous DAP, and Rs 1,550 PMT for imported DAP, and Rs 3,150 PMT for MOP. The rate of concession on Single Super Phosphate (SSP) during 2001-02 applicable from April 1,2001 is Rs 700 per M.T. The level of concession has been proportionately fixed for various complex fertilizers taking into account the NPK content in these fertilizers. Under the Concession Scheme, Maximum Retail Price (MRP) of DAP and MOP has been fixed at Rs 8,900 and Rs 4,255 PMT respectively from February 29, 2000.

8.39 Moving towards a deregulated regime in all the three types of fertilizers, has been under consideration of the Government (Box 8.2).

BOX 8.2

Recommendations of Expenditure Reforms Commission on Fertilizer Subsidy

The Expenditure Reform Commission (ERC) set up in February 2000, reviewed all non-developmental Government Expenditure including subsidies on fertilizers, food etc. The following recommendations were made with regard to urea:

- **Phased decontrol: Replacement of existing RPS by Group Based Concession Scheme.**

A four stage programme for dismantling the control system, leading at the commencement of fourth stage, to a fully decontrolled urea industry which can compete with import, albeit with a small level of protection and a feed stock cost differential compensation to naphtha/LNG based units to ensure self sufficiency.

- **First Phase: February 1, 2001 to March 31, 2002**

The existing Retention Price-cum-Subsidy Scheme (RPS) for Urea units should be replaced by Group-based Concession Scheme. The existing urea units may be classified into five groups with the rate concession being determined on the basis of averaging of retention prices as on April 1, 2000 of the respective group, rounding off the averages to the lower of Rs100 in each group. While working out the rates of concession for units, based on naphtha, FO/LSHS and mixed feed stocks, the Commission has worked out the concession rates on the assumption that these units will either import their feed stocks requirements or procure these from domestic resources if the latter are willing to sell these at import parity price. During the first phase itself the distribution control mechanism may also be done away with. A special provision of Rs200 crore may be made to provide freight subsidy for effecting supplies to the North East, Jammu & Kashmir and other difficult areas. ERC has proposed to deduct Rs100 per MT from the concession amounts payable to urea units to mobilise Rs200 crore for this special freight subsidy.

- **Second Phase: April 1, 2002 to March 31, 2005**

From April 1, 2002, the rates of concession payable to the groups are reduced taking into account the reduction in capital related charges besides the expected progress in improving energy efficiency in the case of three non gas based groups of units.

- **Third Phase: April 1, 2005 to March 31, 2006**

From April 1, 2005, all non-gas based plants are to examine the feasibility of modernisation and switching over to LNG. For plants that do not switch over to LNG as feed stock, only the level of concession that the unit would have been entitled to if it had switched over to LNG would be allowed. However, ERC has also stated (in para 53) that in order to achieve the self-sufficiency in urea production, new plants based on FO/LSHS etc. may also be permitted and provided with feedstock differential cost.

- **Fourth Phase: From April 1, 2006**

The industry is fully decontrolled.

- **7 per cent Annual increase in MRP**

The Commission recommends a 7 per cent increase in the price of urea in real terms every year from April 1, 2001. This way the open market price will reach Rs6,903 by April 1, 2006, a level at which the industry can be freed from all controls and be required to compete with imports, with variable levy ensuring availability of such imports at the farm gate at Rs7,000 per tonne of ureas. While no concession will be necessary from this date onwards for gas based FO/LSHS and mixed feed stock plants, existing naphtha units converting to LNG as also new plants and substantial additions to the existing plants will be entitled to a feed stock differential with that for LNG plants serving as a ceiling.

- **Dual Price Scheme and Employment Guarantee Scheme:**

For protecting small and marginal farmers against the price rise of urea, the Commission has suggested introduction of dual pricing scheme through tradable coupons and expansion of Employment Guarantee Scheme and rural works programmes to increase their purchasing power.

- **Action Taken On ERC's Recommendations**

The Department of Fertilizers has discussed the recommendations of ERC with the concerned Ministries/ Departments and the State Governments. Fertilizer industry as well as many of the State Governments have expressed serious apprehensions over some of the recommendations of the ERC, particularly those pertaining to 7 per cent annual increase in farm gate prices of urea, replacement of existing RPS by a group based concession scheme based on averaging of retention prices, dual pricing scheme etc.

Government expects to finalise the new pricing policy for urea after examining all the relevant aspects and the views of the fertilizer industry and State Governments on ERC's recommendations.