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Fertiliser subsidies are not the solution

Instead of pumping more subsidies the Government should push for nano fertilisers which are efficient and cost-effective



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The Union Minister of Health and Family Welfare and Chemicals and Fertilizers Mansukh Mandaviya has stated that during 2023-24, around Rs 46,000 crore would be needed for fertilizer subsidy payments over and above Rs 175,000 crore being the budget estimate (BE) given by the Finance Minister Nirmala Sitharaman in the budget presented on February 1, 2023. On the other hand, the Ministry of Finance (MoF) feels, payments could be even less than BE.

Fertilizer subsidy is payments made to manufacturers or importers to cover the excess of the cost of production/import and distribution (or cost of supply) over a low maximum retail price (MRP) they are directed by the Union government to charge from the farmers. The subsidy on each ton of fertilizer produced (or imported) and sold is the difference between the cost of supply and MRP. Multiplied by the total quantity of fertilizer sold, it gives aggregate subsidy payments.

In the case of urea, MRP is under 'statutory' control. The excess cost of supply over MRP is reimbursed to the manufacturer as a subsidy which varies from unit to unit depending on the cost. These reimbursements are made under the so-called New Pricing Scheme (NPS). For non-urea fertilizers which are de jure decontrolled, the MRP is 'indirectly' controlled. The government gives a 'uniform' subsidy on a per-nutrient basis to all manufacturers and importers under the Nutrient Based Scheme (NBS). The latter must deduct this from the cost to arrive at the MRP. All these exercises/determinations are made by the fertilizer ministry and arrive at the tentative estimates of subsidy requirements under each category viz. urea and non-urea fertilizers. The precise number is finalized in consultation with the MoF.

What makes the fertilizer minister feel that the actual requirement will be more than the BE for 2023-24?

For a better understanding, we need to look at both the financial years 2022-23 and 2023-24. For 2022-23, against BE of Rs 105,000 crore, Sitharaman put the revised estimate (RE) at Rs 225,000 crore. This was based on actual payments during the first 10 months of the FY and likely outgo during the remaining two months i.e. February and March 2023. The actual was even higher at Rs 253,000 crore.

Under a business-as-usual scenario, if the allocation for 2022-23 had remained frozen at the level of RE i.e. Rs 225,000 crore, the shortfall of Rs 28,000 crore would have to be carried forward to 2023-24 and paid for from the current year's budget. Now, that full amount has been provided in 2022-23 itself, hence no spillover, Rs 28,000 crore need not be paid from the 2023-24 budget.

Subsidy payments during 2022-23 leapfrogged to a peak of over Rs 250,000 crore because global fertilizer prices increased sharply. For instance, in April 2022, the price of urea touched US\$980 per ton while that of di-ammonium phosphate (DAP) - a widely used fertilizer in the non-urea category - was US\$925 per ton. The price of phosphoric acid and ammonia - raw materials (RMs) used in the production of non-urea fertilizers - were US\$1,530 per ton



and US\$1,050 per ton respectively. The price of muriate of potash (MOP) was US\$590 per ton.

The price of imported LNG - it meets over one-third of natural gas requirements for domestic production of urea - was at a high of around US\$24 per million Btu (British thermal unit) in April 2022. The price of domestic gas (it supplies the remaining two-thirds) for old and regulated fields was US\$ 6.1 per mmBtu whereas for supplies from difficult deep water and ultra-deep-water (D/UD) fields, it was US\$ 9.92 per mmBtu. From October 2022, these prices increased to US\$8.57 per mmBtu and US\$12.6 per mmBtu respectively.

Since last year, there has been a substantial drop in the prices of all fertilizers and RMs. Currently, the prices are urea US\$333 per ton; DAP: US\$540/ton; phosphoric acid: US\$ 990 per ton; ammonia: US\$ 248 per ton and MOP: US\$ 422 per ton. The price of imported LNG is down to around US\$12-13 per mmBtu. As for the price of domestic gas, on supplies from old and regulated fields, currently, it is US\$6-50 per mmBtu. For supplies from D/UD, it remains high at US\$12.1 per mmBtu; but their share in domestic gas is only 30 per cent.

In short, during the current year, prices of all fertilizers and RMs are substantially lower than during 2022-23 and these are maintaining their downward trajectory. For instance, the cost of DAP is expected to fall further to around US\$ 300-350 per ton. With no change in the price paid

by farmers (read: MRP), the lower cost should lead to a corresponding reduction in subsidy outgo.

Accordingly, on May 19, 2023, the Union Cabinet approved a significant cut in the per kilogram subsidy rate for nitrogen (N), phosphorus (P), and potash (K) for the Kharif 2023 season (April-September) under NBS for P&K fertilizers. The subsidy outgo during this period will be Rs 38,000 crore down from Rs 61,000 crore spent during the last Kharif 2022 season. Given the continuing reduction in prices, there may be a further sizeable reduction in subsidies under NBS during the second half of the current FY. Meanwhile, the government has also reduced the subsidy rates for January - March 2023 'retrospectively' to reflect the reduction in global prices for those three months. This will be adjusted against payments to manufacturers/importers during the current FY.

Significant savings in subsidy should be possible by promoting the use of nano-fertilizers. These are fertilizers in the form of nanoparticles and are applied in liquid form. Their efficiency is many times more than conventional fertilizers. For instance, a 500-ml bottle of nano-DAP is equivalent to a 50-kg bag of conventional DAP. The former is available to farmers for Rs 600 without any subsidy support, against the latter being available at more than double this price or Rs 1,350 and that too with substantial subsidy support.

During 2023-24, the Indian Farmers Fertilizer Cooperative (IFFCO) which has developed the technology, plans to produce 50 million bottles of nano-DAP. This will replace 2.5 million tons of conventional DAP resulting in significant savings. Following the commissioning of three plants in the public sector (April 2023), domestic production of urea is expected to increase by 2-3 million tons. This will result in an equivalent reduction in import and turn, subsidy payments. All the above factors point towards containing subsidy outgo within the BE of Rs 175,000 crore. Then, why does the fertilizer minister say 'more will be needed'?

He argues that at the beginning of the current FY, manufacturers were holding inventories - stuff that was purchased during 2022-23 at high prices - which should be eligible for subsidy at higher rates. This is a flawed argument. This is because when prices rise and the government gives higher subsidies (for instance, in the second half of 2021-22), it didn't mop up the benefit accruing to manufacturers on the inventory that was earlier bought at a lower price. Likewise, there isn't merit in another argument for a 'less than required cut in subsidy rate' just because they suffered some loss during the second half of 2022-23. To conclude, MoF shouldn't agree to the fertilizer ministry's demand for more funds towards subsidy payments. The latter should make efforts to keep the actual lower than BE.



SIGNIFICANT SAVINGS IN SUBSIDY SHOULD BE POSSIBLE BY PROMOTING THE USE OF NANO FERTILISERS. THESE ARE FERTILISERS IN THE FORM OF NANOPARTICLES AND ARE APPLIED IN LIQUID FORM

(The writer is a policy analyst)



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दिल्ली में 107 देशों का अंतरराष्ट्रीय सहकारी संगठन की आमसभा

नई दिल्ली, (पंजाब केसरी) : केन्द्रीय सहकारिता मंत्रालय और इफको के प्रयासों के परिणामस्वरूप भारतीय सहकारिता जगत के लिए ऐतिहासिक अवसर का आगमन हो रहा है। आईसीए के 128 साल के इतिहास में पहली बार अंतरराष्ट्रीय सहकारी गठबंधन के निदेशक मंडल ने सर्वसम्मति से जून 2024 में नई दिल्ली, भारत में आईसीए वैश्विक बोर्ड, महासभा और एक अंतरराष्ट्रीय सम्मेलन आयोजित करने का निर्णय लिया है। आईसीए अपने सदस्यों के रूप में दुनिया भर के 107 देशों के 310 से अधिक सहकारी संगठनों का प्रतिनिधित्व करता है। बुसेल्स में चल रही आईसीए के निदेशक मंडल की बैठक के दौरान इफको के प्रबंध निदेशक डॉ. उदय शंकर अवस्थी ने भारत में प्रतिष्ठित बैठक की मेजबानी का प्रस्ताव रखा और आईसीए के निदेशक मंडल ने सर्वसम्मति से इस प्रस्ताव का अनुमोदन किया था। वैश्विक सहकारी आंदोलन पर इफको की छाप पीएम मोदी के "सहकार से समृद्धि" के ध्येय और अमित शाह, प्रथम सहकारिता मंत्री, भारत सरकार के कुशल नेतृत्व की प्रेरणा का परिणाम है। इफको का अंतरराष्ट्रीय स्तर पर अपनी पहचान बनाना देश के सामाजिक-आर्थिक विकास के लिए एक और बड़ा कदम है। इफको के प्रबंध निदेशक डॉ. उदय शंकर अवस्थी ने कहा, "भारत में आईसीए महासभा और अंतरराष्ट्रीय सम्मेलन आयोजित करना इफको और भारत में सहकारी व्यवसायों के लिए गर्व का क्षण है।"
