

## 2 Fertilizer Subsidy Regime

### 2.1 Evolution of Fertilizer Subsidy Regime

The fertilizer subsidy/ concession regime has a long and chequered history, dating back to 1957, as summarized below:

*Table 2.1 Chronology of Key Events relating to Fertilizer Subsidy and Control*

Period	Event
1957	Fixing of Maximum Retail Prices (MRP) of urea through Fertilizer Control Order, 1957
1973	Fertilizer (Movement) Control Order issued for Government control of fertilizer distribution and its inter-state movement
November 1977	Retention Price Scheme (RPS) for nitrogenous fertilizers introduced
February 1979	RPS for complex fertilizers introduced
May 1982	Single Super Phosphate (SSP) brought under RPS
August 1992	Phosphatic (P) and Potassic (K) fertilizers decontrolled, based on the recommendations of JPC
October 1992	Concession on decontrolled P and K fertilizers introduced
April 2003	Replacement of RPS by stage wise New Pricing Scheme (Stage I)
April 2004	NPS Stage II - 1.4.2004 to 30.9.2006
October 2006	NPS Stage III - 1.10.2006 onwards
April 2010	Nutrient Based Subsidy (NBS) for decontrolled fertilizers in replacement of existing concession scheme <sup>4</sup>

### 2.2 Subsidy on Urea

#### 2.2.1 Erstwhile Retention Price Scheme (RPS)

Until March 2003, the Retention Price Scheme (RPS) governed the payment of subsidy to urea manufacturers on the following broad lines:

<sup>4</sup> Not covered under this Performance Audit

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- A retention price (cost of production of each individual unit as assessed by the Government plus 12 per cent post-tax return on net worth) was determined for each individual unit, depending upon the technology, feedstock used, the level of capacity utilization, energy consumption, distance from the source of feedstock/raw materials, etc.
- The difference between the unit-wise retention price and the statutorily notified sale price was paid as subsidy.

### 2.2.2 New Pricing Scheme

The New Pricing Scheme (NPS) was formulated with effect from April 2003 to replace the Retention Price Scheme and was expected to boost production, encourage internationally competitive norms and parameters for the urea industry, reduce urea subsidy and promote greater transparency and efficiency. The NPS marked a shift from a unit-wise approach for calculation of subsidy to a group-based concession approach, based on vintage and feedstock. Under the NPS, urea manufacturing units were classified into 6 groups, based on vintage and the feedstock used:

- Pre-1992 gas based units
- Post-1992 gas based units
- Pre-1992 naphtha based units
- Post-1992 naphtha based units
- FO/LSHS<sup>5</sup> based units
- Mixed energy based units

For each of the groups, the retention prices were to be based on normative cost of production plus 12 per cent post-tax return on net worth.

NPS envisaged three stages, whose salient features were as follows:

NPS Stage	Main Features
<b>NPS-I (April 2003 to March 2004)</b>	<ul style="list-style-type: none"><li>• Classification of units into six groups based on vintage and feedstock.</li><li>• Weighted average retention price and dealer margin of the unit as applicable on 1.4.2002 was to be computed for each group. Units with deviation of 20 per cent and above with reference to the group average were treated as outliers in their respective groups.</li><li>• Units, which had lower retention price than the weighted</li></ul>

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<sup>5</sup> Fuel Oil/ Low Sulphur Heavy Stock

NPS Stage	Main Features
	<p>group average, were to get the concession as per their individual retention price. The remaining units (excluding outliers) were to get concession based on weighted group average retention price.</p> <ul style="list-style-type: none"> <li>Units having exceptionally high or low retention price, i.e deviation of 20 per cent and above with reference to group average were treated as outlier units and they were given a special dispensation in the form of 50 per cent of the difference between their own retention price and the group average concession rate. This was extended up to 31 March 2006.</li> </ul>
<p><b>NPS-II (April 2004 to September 2006)</b></p>	<ul style="list-style-type: none"> <li>The six groups would remain as in Stage –I and units having lower concession rate than group average would continue to get the individual concession rate. The concession rates would be adjusted for reduction in Capital Related Charges (CRC). Group energy norms would be enforced on efficiency considerations. Group energy norms and the scale of reduction on account of CRC would be finalised by the Department of Fertilizers.</li> </ul>
<p><b>NPS-III (October 2006 to March 2010<sup>6</sup>)</b></p>	<ul style="list-style-type: none"> <li>The classification of units into six groups would continue. Capacity utilization levels of 93 per cent for pre-92 Naphtha and FO/LSHS based plants and 98 per cent for pre-92 gas, post-92 Naphtha and mixed energy based plants would be considered for calculating the base concession rates for urea units.</li> <li>No permission would be required for production beyond 100 per cent of re-assessed capacity. Production between 100 per cent and 110 per cent would be incentivized on a net gain sharing ratio of 65:35 between the Government and the unit respectively, with the proviso that the total amount paid to the units, after including variable cost would be capped at the unit’s own concession.</li> <li>Government would not subsidize the additional production, if not required for agricultural consumption.</li> <li>The monitoring of the movement and distribution of urea throughout the country would be done by an on-line computer based monitoring system. The time limit of the existing payment system i.e. 45 days would be adhered to.</li> </ul>

<sup>6</sup> Subsequently extended till further orders

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NPS Stage	Main Features
	Subsidy would be paid only after the urea reached the district. Certification by State Governments would not be required for release of subsidy to urea units.

As regards imported urea, since the consumer prices of both indigenous and imported urea are fixed uniformly, subsidy is paid on imported urea in order to bridge the difference between the cost of imports and the statutorily fixed consumer price.

The movement and distribution of urea has been partially decontrolled (25 per cent of production during Kharif 2003 and 50 per cent of production during Rabi 2003-04), whereby urea manufacturing units are permitted to sell decontrolled urea at the statutorily notified sale prices anywhere in the country. In practice, although the distribution of urea has been decontrolled to the extent of 50 per cent, the requirement of detailed supply plans means that, in effect, all distribution for agricultural consumption is controlled.

Control over distribution and movement is managed by the Department of Fertilizers (DoF). Supply from plants and ports (for imports) is arranged through allocations given to companies and states, and monthly movement orders are issued to each company, with monitoring through the internet-based Fertilizer Monitoring System (FMS).

### 2.3 Concession Scheme for De-controlled Fertilizers

The Concession Scheme for phosphatic and potassic fertilizers, currently administered by the DoF, was introduced on an ad hoc basis in October 1992. Fertilizers under the concession scheme are sold at indicative Maximum Retail Price (MRPs) fixed by the Department of Fertilizers.

The difference between the total delivered cost of the fertilizers at the farm gate and the MRP payable by the farmers is given by the Government of India, as concession/subsidy to the farmers and disbursed to the fertilizer manufacturers/importers.

For decontrolled fertilizers, movement is as per the agreed supply plan (based on requirement assessed by the States on weekly and fortnightly basis). Monitoring is done through the internet-based Fertilizer Monitoring System (FMS).

Till March 2010, the concession scheme covered different phosphatic and potassic fertilizers - Di-Ammonium Phosphate (DAP), Nitrogen Phosphate and Potash (NPK), Muriate of Potash (MOP), Mono-Ammonium Phosphate (MAP) and Single Super Phosphate (SSP) sold at indicative Maximum Retail Prices (MRPs)<sup>7</sup>. Indigenous and imported Triple Super Phosphate (TSP) (0-46-0) and indigenous Ammonium Sulphate (20.6-0-0-23) were also included under the concession scheme with effect from April 2008 and July 2008 respectively.

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<sup>7</sup> Till April 2008, SSP prices were notified by the State Governments; from May 2008, GoI notifies a uniform All India-MRP. Other SSP (not sold at MRPs) is not eligible for subsidy.

Initially, the Department of Fertilizers was extending the Concession Scheme on year to year basis with the approval of CCEA. From 1999-2000 onwards, the scheme was formulated on the basis of the recommendation of the Tariff Commission. With the implementation of the Tariff Commission report on complex fertilizers from 1.4.2002 and on DAP and MOP with effect from 1.4.2003, the CCEA, in January 2004, approved the concession scheme on the new methodology till 31.3.2006, which was further extended till 31.3.2007. During the extension of the concession scheme for the year 2007-08, the DoF, among other changes in the implementation, also sought approval for change in basis for notifying rates of concession from quarterly to monthly.

While extending the concession scheme from 1.4.2008 (2008-09), the following changes were brought into the scheme:

- The Maximum Retail Price (MRP) of all fertilizers under the Concession Scheme were revised
- Concession for indigenous DAP was brought at par with the concession for imported DAP

For decontrolled fertilizers, i.e., DAP, NPK, MOP etc., supply in accordance with the supply plan is necessary in order to claim concession.

The gap between the market/ international prices and the MRPs notified by the Government is so high that in effect, even decontrolled fertilizers sold at subsidised rates are controlled.

### **2.4 Nutrient Based Subsidy (NBS) Regime**

The Government introduced the Nutrient Based Subsidy (NBS) policy for decontrolled phosphatic and potassic fertilizers with effect from 1 April 2010 in replacement of the concession scheme. Under the scheme, DAP (18-46-0), MOP, MAP (11-52-0), Triple Super Phosphate (TSP), 12 grades of complex fertilizers, Ammonium Sulphate (AS), (Caprolactum grade by GSFC and FACT) and SSP are covered. Any variant of the fertilizer with secondary and micronutrients (except sulphur) as per the FCO is also eligible for NBS.

The main difference between the NBS and the erstwhile Concession Scheme is that earlier concession rates were fixed separately for each fertilizer, while under NBS, the concession rates are fixed for primary nutrients (with additional subsidy rates for secondary and micronutrients viz Boron and Zinc) quantities of N, P, K and S, thus bringing about uniformity in concession rate determination across different fertilizer composition.

The per kg NBS for nutrient N, P, K and S for 2010-11, with effect from 1 April 2010 are Rs. 23.227, Rs. 26.276, Rs. 24.487 and Rs. 1.784 respectively.

Further, with effect from 1 April 2010, 20 per cent of the decontrolled fertilizers produced/imported in India are now under movement control under ECA, 1955.

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### 2.5 Freight Subsidy

A separate uniform freight subsidy policy on all subsidized fertilizers covered under the NPS-III for indigenous and imported urea and the concession scheme on phosphatic and potassic fertilizers has been implemented with effect from 1 April 2008. Under the uniform freight policy, inland freight for transportation of fertilizers is reimbursed to the fertilizer companies from plant/ port up to the block level. For this, rates are calculated based on actual railway freight, and in the case of road transport, rates are based on the average lead distances of all the blocks in the district and the state level truck rates from rake point to the block.

### 2.6 Subsidy Payments and MRPs

Details of the subsidy paid on fertilizer between 2003-04 and 2009-10 are given below:

*Table 2.2 – Subsidy paid on Fertilizer during 2003-10*

Product	Subsidy (Rs. in Crore)						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Urea	8509	10737	11887	15924	23056*	31,048*	22184
Decontrolled Fertilizers (range)	3326	5142	6596	10298	16934*	65,555*	39452
<b>Total</b>	<b>11835</b>	<b>15879</b>	<b>18483</b>	<b>26222</b>	<b>39990</b>	<b>96,603</b>	<b>61636</b>

\*Includes payment of subsidy through issue of fertilizer bonds. These bonds are issued to the fertilizer units for outstanding subsidy claims, typically with maturity periods of 15 years or more, thus, enabling GoI to defer cash payments correspondingly.

As can be seen above, payments on account of fertilizer subsidy increased more than eight-fold from 2003-04 to 2008-09, before coming down a little in 2009-10. Decontrolled fertilizers were the primary factor on this account, with an increase of almost 20 times from 2003-04 to 2008-09.

A comparison of the MRP and average subsidy for urea and other decontrolled fertilizers reveals the following position:

*Table 2.3 - MRP and Average subsidy (Rs. /MT) for Urea*

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Urea MRP	4830	4830	4830	4830	4830	4830	4830
Avg. subsidy per MT	4305	5196	5331	6543	8880	11651	8317

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**Table 2.4 Major recipients of subsidy on Urea**

(Rs. Crore)

Sl. No.	Manufacturing Units <sup>8</sup>	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Total
1.	IFFCO* (Coop)	1616.66	2115.67	1822.18	2631.6	3377.97	4276.61	15840.69
2.	NFL*(PSU)	1961.37	1758.84	1557.83	1849.71	3013.48	3498.79	13640.02
3.	RCF (PSU)	669.42	671.09	852.01	1193	1618.37	2217.27	7221.16
4.	CFCL (Pvt)	848.09	1207.68	1157.71	761.83	1387.65	1403.62	6766.58
5.	MFL (PSU)	409.76	496.74	676.39	1008.89	899.39	1045.66	4536.83
6.	NFCL (Pvt)	354.32	482.30	623.83	825.42	1002.65	1231.92	4520.44
7.	ZIL (Pvt)	381.41	484.61	623.09	786.03	748.69	1066.19	4090.02
8.	MCFL (Pvt)	226.21	384.63	461.32	640.67	758.17	988.59	3459.59
9.	GNFC (PSU)	224.85	265.46	293.98	325.71	775.73	664.13	2549.86
<b>Subsidy released to Importers (Urea)</b>								
1.	MMTC (STE)	0	294.42	506.57	1365.10	3314.09	3282.62	8762.80
2.	IPL (STE)	0	250.14	339.76	1449.03	2400.16	4255.11	8694.20
3.	STC (STE)	0	0	0	0	0	1609.94	1609.94

\*All units of NFL

\*All units of IFFCO

**Table 2.5- MRP and Average subsidy (Rs/ MT) for decontrolled fertilizers**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>MRP per MT</b>	3400 to 9350*				3400 to 10350		3400-10350
<b>Avg. subsidy per MT (Rs)</b>	2242	3044	3691	5234	8735	27842	14895

\*till 17-06-2008

<sup>8</sup> Indian Farmers Fertiliser Cooperation Ltd. (IFFCO), National Fertiliser Limited (NFL), Rashtriya Chemicals & Fertilizers Limited (RCF), Chambal Fertilizers and Chemicals Ltd. (CFCL), Madras Fertilizers Ltd. (MFL), Nagarjuna fertilizers & Chemicals Ltd (NFCL), Zuari Industries Ltd. (ZIL), Mangalore Chemicals and Fertilizers Ltd. (MFCL), Gujarat Narmada Valley Fertilizers Co. Ltd. (GNFC), Minerals and Mines Trading Corporation Ltd. (MMTC), M/s Indian Potash Ltd. (IPL), State Trading Corporations Ltd. (STC)

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**Table 2.6-Major recipients of subsidy on De-controlled fertilizers**

(In Crores)

Sl.No.	Manufacturing Units <sup>9</sup>	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Total
1.	IFFCO (Coop)	657.21	971.71	1096.33	1287.01	2785.79	10007.45	16805.50
2.	CFL (Pvt)	157.63	301.52	369.06	626.72	876.53	7176.89	9508.35
3.	GSFC (PSU)	197.39	263.47	299.90	696.66	1176.35	3347.48	5981.25
4.	PPL (Pvt)	206.05	310.32	494.69	794.05	1165.48	2961.93	5932.52
5.	TCL (Pvt)	0	233.96	270.23	460.71	726.17	2311.85	4002.92
6.	ZIL (Pvt)	139.7	243.99	304.83	481.35	741.27	1840.07	3751.21
7.	FACT (PSU)	122.41	211.66	281.05	404.80	359.06	1215.92	2594.90
8.	<b>Total</b>	<b>1480.39</b>	<b>2536.63</b>	<b>3116.09</b>	<b>4751.3</b>	<b>7830.65</b>	<b>28861.59</b>	<b>48576.65</b>
<b>Importer</b>								
1.	IPL (STE)	374.26	685.36	979.80	1607.45	4667.46	12643.96	20958.29

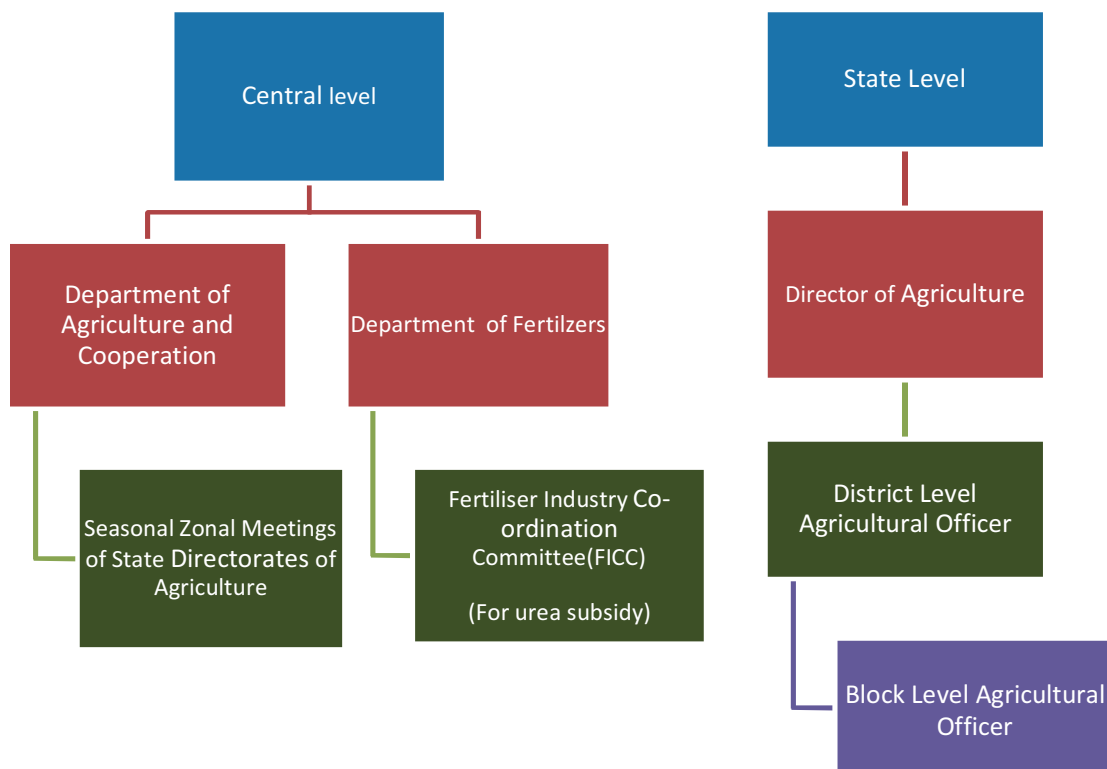
## 2.7 Organisational set up

The nodal ministry in the Government of India (GoI) for fertilizer subsidy is the Department of Fertilizer under the Ministry of Chemicals and Fertilizers. The role of various authorities at the Central and State level in fertilizer subsidy/concessions is depicted below:

<sup>9</sup> Indian Farmers Fertiliser Cooperation Ltd. (IFFCO), Coromondal fertilizers Ltd. (CFL), Gujarat State Fertilizers & Chemicals Ltd (GSFC), Paradeep Phosphates Ltd. (PPL), Tata Chemicals Ltd., (TCL), Fertilizers and Chemicals Travancore Ltd (FACT) , Indian Potash Ltd. (IPL)



Figure 2.1 –Organisational set up



## 2.8 Fertilizer Monitoring System (FMS)

An IT system, the Fertilizer Monitoring System (FMS), was launched by the DOF in January 2007 to monitor the movement of different fertilizers at various stages in their value chain. It monitors the production, despatches, receipt and sales of DAP, MOP, TSP, MAP, NPK and urea (indigenous and imported) fertilizers. FMS also facilitates processing of subsidy/concession payments (on the basis of receipt) of DAP, MOP, TSP, MAP, and NPK fertilizers with a view to reducing the processing time.