

## INDIA

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| <b>Reform of subsidy for chemical fertilizer</b> |
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In India, large areas of farmland have become barren due to excessive use of a single fertilizer, urea. A recent reform of the fertilizer pricing policy seeks to remedy this problem. The existing subsidy regime was skewed in favour of urea and consequently led to urea overuse by farmers to the detriment of other essential nutrients. Moreover, it was very expensive as the subsidy was offered at a uniform rate irrespective of varying costs of production.

In February 2009, the Indian Cabinet decided to relax controls on the prices of fertilizers, with the exception of urea, whose price was increased by 10 percent. By partially liberalising the prices of potassic (K) and phosphate (P) fertilizers, while still maintaining control through a more flexible subsidy regime, the government seeks to keep the relative prices of these nutrients low compared to urea, and to induce farmers to use more P, K and micro-nutrient based fertilizers.

Under the new Nutrient Based Subsidy Scheme (NBS), subsidies for the period 2010-11 will now be fixed on the basis of the concentration of each nutrient, N (nitrogen), P (phosphate), K (potash) and S (sulphur). The amount of the subsidy is to be worked out with regard to international prices and the need to avoid domestic price shocks to the agriculture sector and to food consumers. In addition, the new policy allows fertilizer manufacturers to mix nutrients needed for different kinds of soil and to sell them as separate products.

The government expects the new scheme to encourage fertilizer firms to offer more competitive prices based on the costs of production. In fiscal terms, the government hopes to dramatically reduce expenditure on fertilizer subsidies.

The financial impact on farmers will be minimised as the fertiliser industry will be incited to design more efficient products choosing the right combination of nutrients. It is expected that the increased efficiency of fertiliser at farm level should compensate for the reduced subsidy and the higher cost of fertiliser to farmers – that is, farmers should be able to use less fertiliser because by being more targeted to local conditions, fertiliser use will be more effective. In addition, the Department of Finance is considering giving the Nutrient Based Subsidy only to targeted segments of the population, that is, small and marginal farmers. However, in the current transition phase of subsidy reform, all farmers will receive the new type of subsidy.

### **Impact on biodiversity:**

The new policy is intended to protect biodiversity and agricultural biodiversity in particular, by encouraging more appropriate and balanced fertilizer use and thereby maintaining soil biodiversity (bacteria, earthworm, micro-arthropods). In light of the continuing need to maintain and increase agricultural productivity, the aim is not to reduce fertiliser consumption as such – as the government has argued that fertilizer consumption in India, despite historically high subsidy levels, remains comparatively low (at 113 kg per hectare compared to, for instance, 289 kg per hectare in China).

*Source:* Ghosh, A. (2009).

