

NEXT IAS

**DAILY EDITORIAL
ANALYSIS**

TOPIC

**FERTILISER SUBSIDY IN INDIA: NEED
OF PRICING REFORM, TARGETED
FARMER SUPPORT**

www.nextias.com

FERTILISER SUBSIDY IN INDIA: NEED OF PRICING REFORM, TARGETED FARMER SUPPORT

Context

- Recent trends in India's fertiliser subsidy, particularly of urea, has led to **nutrient imbalance, fiscal stress, and environmental degradation**, calling for urgent reforms in subsidy design and delivery, rather than optimal agricultural outcomes.

Need of Fertiliser Subsidy in India

- Ensuring Food Security:** Fertilisers are essential for **increasing crop productivity**, and subsidy ensures **affordable access**, leading to higher yields.
 - It played a key role in the **Green Revolution and self-sufficiency in food grains**.
- Supporting Small and Marginal Farmers:** Over **85% of farmers in India are small and marginal**. Subsidy reduces **input cost burden**, making farming viable.
 - It acts as a **form of income support**, especially where credit access is limited.
- Stabilising Farm Income:** Protects farmers from **volatility in global fertiliser prices**, and input cost shocks. It ensures **predictable cost of cultivation**.
- Promoting Agricultural Growth:** It encourages **use of modern inputs** that lead to higher productivity, and contributes to **overall agricultural GDP growth**.
- Addressing Market Failures:** Fertiliser markets are prone to price volatility, and supply constraints.
 - Government subsidy ensures **availability and affordability across regions**.
- Poverty Reduction & Rural Welfare:** Lower input costs led to higher net returns for farmers.
 - It supports **livelihoods and the rural economy**.
- Strategic Importance for National Stability:** Food security is linked to **economic stability, social and political stability**; and fertiliser subsidy indirectly supports **national food systems**.

Core Issues in Fertiliser Subsidy in India

- Fiscal Burden and Unsustainability:** Fertiliser subsidy is one of the **largest components of government expenditure**. Rising global fertiliser prices increase subsidy outgo, and leads to **crowding out of productive investments** (irrigation, R&D).
- Price Distortion (Urea Bias):** Urea is **heavily subsidised and price-controlled**, unlike P & K fertilisers under NBS.
 - It creates **artificially low prices for nitrogen**, distorting farmer choices.
- Imbalanced Use of Fertilisers (NPK Problem):** Ideal N:P:K ratio is **4:2:1**. India shows **excess nitrogen use** due to cheap urea, resulting in soil degradation, declining productivity, and micronutrient deficiency.
- Leakages, Diversion and Corruption:** Subsidised fertilisers diverted to non-agricultural sectors (industry), black markets and cross-border smuggling due to **price gap between domestic and global markets**.
- Inefficient Targeting and Equity Issues:** Subsidy is **input-based, not income-based**. Large farmers capture **disproportionate benefits** due to higher usage. Small and marginal farmers benefit relatively less.
- Environmental Degradation:** Excess nitrogen leads to soil health deterioration, water pollution (eutrophication), and greenhouse gas emissions (NO).

Related Reforms & Efforts

- Nutrient-Based Subsidy (NBS) Scheme (2010):** It was introduced for **Phosphatic (P) and Potassic (K)** fertilisers, and linked to **nutrient content (N, P, K, S)** rather than product.
 - It aims to promote **balanced fertiliser use**, and encourage **competition and efficiency**.
- Direct Benefit Transfer (DBT) in Fertilisers:** Subsidy is paid to **fertiliser companies after sale to farmers**.
 - It is enabled through **Point-of-Sale (PoS) machines**, and Aadhaar authentication.
 - It aims to reduce **leakages and diversion**, and ensure **real-time tracking of sales**.

- **Neem-Coated Urea (NCU):** Mandatory coating of urea with neem oil. It benefits:
 - ♦ Reduces **diversion to industrial use**
 - ♦ Improves **nitrogen-use efficiency**
 - ♦ Slows nutrient release for better crop uptake
- **Soil Health Card Scheme (2015):** It provides farmers with **soil nutrient status**, and crop-specific fertiliser recommendations. It aims to promote **balanced and scientific fertilizer use**.
- **New Urea Policy (2015):** It focuses on **maximising domestic production**, reducing import dependence, and promoting energy efficiency in plants.
- **Promotion of Nano Urea & Alternative Fertilisers:** Introduction of **Nano Urea (liquid fertiliser)** by IFFCO. It aims to reduce **conventional urea consumption**, and improve **efficiency and sustainability**.
- **Digital Agriculture Initiatives (AgriStack):** It aims to create a **digital database of farmers**. It helps in better **targeting of subsidies**, and monitoring fertiliser usage.
- **Freight Subsidy & Price Control Mechanisms:** Government bears **transport cost** to ensure uniform fertiliser prices across India. It maintains affordability for farmers in remote areas.

What More is Needed: Pricing Reform & Targeted Farmer Support

- **Pricing Reforms Needed**
 - ♦ **Bring Urea under Nutrient-Based Subsidy (NBS):** Align nitrogen pricing with P & K fertilisers; and remove **artificial price distortion**.
 - ♦ **Gradual Decontrol of Urea Prices:** Avoid sudden shocks; adopt **phased price increase**; and maintain political feasibility.
 - ♦ **Align Domestic Prices with Global Prices:** Reduce **arbitrage opportunities** like **leakage & smuggling**; and need to improve efficiency of fertiliser markets.
 - ♦ **Rationalise Subsidy on DAP and Complex Fertilisers:** Avoid **over-subsidisation of specific nutrients**; and promote balanced nutrient use.
- **Targeted Farmer Support (Income-Based Approach)**
 - ♦ **Shift from Input Subsidy To Direct Income Support:** Replace fertiliser subsidy with **per-acre transfers, and per-farmer income support (e.g., PM-KISAN-type expansion)**
 - ♦ **Link Subsidy to Landholding / Cropped Area:** Better targeting than universal price subsidy; and reduces benefits to **large farmers disproportionately**.
 - ♦ **Integrate Soil Health Data with Subsidy:** Provide incentives for balanced fertiliser use; and crop-specific nutrient application.
 - ♦ **Conditional Support for Sustainable Practices:** Incentivise organic inputs / nano fertilisers, and precision farming; link payments to **outcomes (soil health, efficiency)**.
 - ♦ **Strengthen Digital Targeting (AgriStack + DBT 2.0):** Use land records and crop data to ensure **accurate beneficiary identification**.

Conclusion

- India's fertiliser subsidy problem is fundamentally a **pricing and policy design issue rather than a temporary fiscal shock**.
- While subsidies have supported food security, their current structure has led to **imbalanced nutrient use, inefficiency, and rising fiscal costs**.
- Sustainable reform requires a shift from **input-based subsidies to income and outcome-based support**, ensuring both agricultural productivity and fiscal prudence.

Source: BS

Daily Mains Practice Question

[Q] Examine the need for pricing reforms in fertilisers and discuss how targeted farmer support can ensure both fiscal sustainability and agricultural productivity.