

## First urea, now DAP:

Higher use of subsidized fertilizers has led to distortion in the fertilizer subsidy system.

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- ❖ Data from the Department of Fertilisers shows a 3.7 per cent increase in the sale of urea during April-October 2022 over the corresponding seven months of the previous year. Even higher, at 16.9 per cent, has been the growth in DAP sales.

FOR A long time, India's fertiliser sector has been riddled with distortions from excessive use of urea. But now, there's a second fertiliser — di-ammonium phosphate or DAP — that is seeing a similar phenomenon of over-application due to underpricing.

### Due to increase in sale of Urea and DAP

High government subsidies are behind the low pricing, and high sales, of these two fertilisers. And the resulting nutrient imbalance owing to their use — disproportionate to other, more expensive fertilisers— could have implications for soil health, ultimately affecting crop yields. The use of nitrogen (N), phosphorous (P) and potassium (K) in the country has over the last few years sharply deviated from the ideal NPK use ratio of 4:2:1. Data from the Department of Fertilisers shows a 3.7 per cent increase in the sale of urea during April-October 2022 over the corresponding seven months of the previous year. Even higher, at 16.9 per cent, has been the growth in DAP sales.

On the other hand, sales of all other fertilisers have tanked. These include muriate of potash (MOP), single super phosphate (SSP) and complex fertilisers containing nitrogen (N), phosphorus (P), potassium (K) and sulphur (S) in different proportions. The sale of MOP has plunged 47.9 per cent, and of NPKS complexes and SSP by 19.9 per cent and 9 per cent, respectively.

### SALE OF FERTILISERS IN LAKH TONNES

	APR-OCT 2021	APR-OCT 2022	% GROWTH
Urea	186.273	193.112	3.67
DAP	55.612	65.032	16.94
MOP*	16.877	8.792	-47.91
NPKS	71.875	57.553	-19.93
SSP	34.815	31.678	-9.01

\*For direct application

The high subsidy on urea and DAP makes them much cheaper for farmers relative to other fertilisers. The maximum retail price (MRP) of urea is currently fixed at Rs 5,628 per tonne. Companies are obliged to sell at this administered price, with their higher cost of production or imports being reimbursed as subsidy by the Centre.

### Control On To Sale Of Fertilizers

The other fertilisers are technically “decontrolled” since April 2010, with the Centre only paying a fixed per-tonne subsidy to ensure “reasonable levels” of prices. But the government has, in recent times, and especially with the global price surge post the Russia-Ukraine war, practically brought back even these fertilisers under the control regime.

This reflects in their pricing. Companies do not sell DAP at more than Rs 27,000 per tonne, and the MRPs are similarly set at Rs 34,000 per tonne for MOP, Rs 29,000-31,000 per tonne for NPKS complexes and Rs 11,000-11,500 per tonne for SSP. In the event of charging more, companies run the risk of their subsidy payments being denied, withheld or delayed.

The informally fixed prices, however, have created their own distortions. Urea and DAP are high-analysis fertilisers, containing more than 30 per cent of any single nutrient. Urea has 46 per cent N, while DAP has 46 per cent and also 18 per cent N. While urea is retailing at a fourth of the price of packed common salt, DAP has also become far cheaper than popular NPKS complexes such as 10:26:26:0, 12:32:16:0 and 20:20:0:13 that contain less P or even N. SSP, which has just 16 per cent P and 11 per cent, normally sells at one-third the MRP of DAP. That gap has now reduced to under half.

Table 1: Centre's major subsidies in Rs crore

	Food	Fertiliser	Petroleum	TOTAL
2014-15	117671.16	71075.62	60268.82	<b>249015.60</b>
2015-16	139419.00	72415.17	29999.00	<b>241833.17</b>
2016-17	110172.96	66312.94	27538.71	<b>204024.61</b>
2017-18	100281.69	87000.07	24460.48	<b>211742.24</b>
2018-19	101326.99	70604.80	24836.95	<b>196768.74</b>
2019-20	108688.35	81124.32	38528.78	<b>228341.45</b>
2020-21	541330.14	127921.74	36754.65	<b>706006.53</b>
2021-22*	288968.54	153658.11	3421.07	<b>446047.72</b>
2022-23**	206831.09	105222.32	5812.50	<b>317865.91</b>
Apr-Oct 2021	155166.39	53477.06	1272.31	<b>209915.76</b>
Apr-Oct 2022	135079.75	102721.44	1107.84	<b>238909.03</b>

\*Provisional; \*\*Budget Estimate.



### Why in the news

- On Friday (December 9), the Narendra Modi government sought Parliament's approval for a new expenditure of Rs 214,580.88 crore for major subsidies, apart from a budget of Rs 317,865.91 crore for 2022-23 (April-March).
- The additional subsidy expenditure, for which the finance ministry presented its first tranche of supplementary demands for grants, includes Rs 109,288.95 crore on fertilisers, Rs 80,348.25 crore on food and Rs 24,943.68 crore on petroleum.
- If passed by both houses, the bill will take the total subsidy to Rs 532,446.79 crore, which includes food (Rs 287,179.34 crore), fertilizers (Rs 214,511.27 crore), and petroleum (Rs 30,756.18 crore). The expenditure on subsidy at Rs 532,446.79 crore in 2022-23 will be the second highest after Rs 706,006.53 crore in 2020-21.

## Why are other fertilizers not popular among farmers?

It's even worse with MOP, which contains 60 per cent K. So high is its present MRP that farmers have no incentive today to apply. Nor is it viable for companies to use MOP as a source of K in complexes. "The subsidy on DAP is Rs 48,433 per tonne, as against Rs 14,188 for MOP, Rs 33,353 for 10:26:26:0 and Rs 7,513 for SSP. Why will farmers opt for any fertiliser other than DAP and, of course, urea?" asked an industry representative.

K.S. Raju, Chairman, Fertiliser Association of India, said: "The ideal NPK use ratio for the country is 4:2:1, whereas it was 6.5:2.8:1 in 2020-21 and 7.7:3.1:1 in 2021-22. In the recent 2022 kharif season, the ratio got further distorted to 12.8:5.1:1."

### Expected Question

**Que. WTO divides supports given to the agricultural sector into three groups, Which of the following pair(s) is/are not correctly matched?**

- (1) Public Distribution System: Green Box Subsidy
- (2) Production limiting Subsidy: Amber Box Subsidy
- (3) Minimum Support Price: Blue Box Subsidy

Codes:

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 3 only

**Answer : B**

### Mains Expected Question & Format

**Que.: Explain the reasonable burden of subsidy on the exchequer. Outline the points which have increased the sale of Urea and DAP (Di-Ammonium Phosphate) as compared to other fertilizers.**

**Answer Format :**

- ❖ Explain how to put a reasonable burden of subsidy on the government exchequer.
- ❖ Mention the points which have increased the sale of Urea and DAP as compared to other fertilizers.
- ❖ Give a balanced conclusion.

**Note:** - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.