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Cabinet Approves Nutrient Based Subsidy Rates

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The Cabinet **Committee on Economic Affairs (CCEA)** has approved the proposal of the **Department of Fertilizers** for fixation of NBS rates for **Phosphatic and Potassic (P&K) Fertilizers** for the year 2019-20.

Cabinet Committee on Economic Affairs

- **Chaired by the Prime Minister**, CCEA lays down the priorities for **public sector investment** and considers specific proposals for investment of not less than specific levels (**Rs. 3 Billion at present**) as revised from time to time.
- It has a **mandate to review economic trends on a continuous basis**, as also the problems and prospects, with a view to evolving a consistent and integrated economic policy framework for the country.
- It also **directs and coordinates all policies and activities in the economic field** including **foreign investment** that require policy decisions at the highest level.
- The approved rates for NBS will be Rs 18.90 per kg for **N (Nitrogen)**, Rs 15.21 per kg for **P (Phosphorus)**, Rs 11.12 per kg for **K (Potash)** and Rs 3.56 per kg for **S (Sulphur)**.
- The expected expenditure for release of subsidy on P&K Fertilizers during 2019-20 will be Rs. 22875.50 crore.

Background

- Government provides **fertilizers, Urea and 21 grades of P&K fertilizers** to farmers at subsidized prices through fertilizer manufacturers/importers.
- In accordance to its **farmer friendly approach**, the Govt is committed to ensure the availability of P&K fertilizers to farmers on affordable price.
- The subsidy on P&K fertilizers is being governed by **NBS Scheme** from 2010.

The Nutrient Based Subsidy (NBS) Scheme

- It is being **implemented from April 2010** by the Department of Fertilizers, Ministry of Chemicals & Fertilizers.
- Under NBS, a **fixed amount of subsidy decided on an annual basis**, is provided on each grade of subsidized Phosphatic & Potassic (P&K) fertilizers depending on its nutrient content.

NBS Analysis

- The NBS scheme, was **sought to deregulate subsidy on non-urea fertilizers** and expected to **reduce the subsidy burden** substantially.
- While the NBS certainly did not lead to any decline in subsidy on fertilizer, it did lead to **worsening of soil nutrient quality, along with shortages and price increases** in all three types of major nutrients, namely Nitrogenous, Phosphoric and Potassic.
- An undesirable outcome has been the **change in fertilizer mix**. As against the recommended Nitrogen (N): Phosphorous (P): Potassium (K) ratio of 4:2:1, the NPK ratio in 2013-14 was 8.2:3.2:1.
- The **environmental damage** caused by the inappropriate use of fertilizers is certainly a matter of serious concern in many states.
- Considering that fertilizer subsidy is the **second-biggest subsidy** after food subsidy, the inaction on the part of the government is not only worrying for the **fiscal health** of the economy but also detrimental to the **soil health** of the country.
- Since fertilizer prices follow the trend in international petroleum prices, the only way to reduce the subsidy bill is to **reduce the dependence on imports and increase domestic production**.
- While **rationalizing fertilizer subsidy** across nutrients may be the short-term and immediate solution to the problem, the need of the hour is to have a policy framework that incentivizes domestic production of fertilizers.
- The bigger challenge is to **change the pattern of fertilizer use**. This not only involves **revamping and re-energizing the extension services** but also changing the NBS suitably to remove the price distortion caused by it.

Source: PIB