



# Fertiliser Subsidy

## Why in News

The Centre is **working on a plan to restrict the number of fertiliser bags** that individual farmers can buy during any cropping season.

## Key Points

### ▪ Fertiliser Subsidy:

- Farmers **buy fertilisers at Maximum Retail Prices (MRP) below their normal supply-and-demand-based market rates** or what it costs to produce/import them.
  - For example, the MRP of neem-coated urea is fixed by the government at Rs. 5,922.22 per tonne, whereas its average cost-plus price payable to domestic manufacturers and importers comes to around Rs. 17,000 and Rs. 23,000 per tonne, respectively.
- The **difference**, which varies according to plant-wise production cost and import price, is **footed by the Centre as subsidy**, which goes to the companies.
- The **MRPs of non-urea fertilisers are decontrolled or fixed by the companies**. However, the **Centre pays a flat per-tonne subsidy on these nutrients** to ensure reasonable prices.
  - The per-tonne subsidy ranges from Rs. 10,231 to Rs. 24,000 for different types of fertilisers.
- **Decontrolled fertilisers retail way above urea**, as they **attract lower subsidy**.
  - In **April 2020**, the **Cabinet Committee on Economic Affairs (CCEA)** **cut the subsidy for non-urea fertilisers**, which was about 3% lower than the previous year.

### ▪ Subsidy Mechanism:

- From **March 2018**, a new **direct benefit transfer (DBT) system was introduced**, wherein subsidy payment to the companies would **happen only after actual sales to farmers by retailers**.
- Each retailer has a **point-of-sale (PoS) machine** linked to the Department of Fertilisers' **e-Urvarak DBT portal**. Anybody buying subsidised fertilisers is required to furnish their **Aadhaar** or **Kisan Credit Card (KCC)** number.
- **Only upon the sale getting registered on the e-Urvarak platform can a company claim subsidy**, with these being processed on a weekly basis and payments remitted electronically to its bank account.

### ▪ Loophole:

- Currently, the Centre follows a **“no denial” policy where anybody, non-farmers included, can purchase any quantity of fertilisers** through the PoS machines.
- It **allows for bulk buying by unintended beneficiaries**, who are not genuine or deserving farmers.

- There is a **limit of 100 bags that an individual can purchase at one time but it does not stop anyone from buying any number of times.**
- **Reason Behind the Restriction Plan:**
  - The main motive is **to curb diversion**, which is natural **with any under-priced product.**
    - For example, urea whose basic MRP (excluding taxes and neem-coating cost) has been raised by hardly 11% since April 2010.
  - Being super-subsidised, urea is always **prone to diversion for non-agricultural use.**
    - For example, it is used as a binder by plywood/particle board makers, cheap protein source by animal feed manufacturers or adulterant by milk vendors, apart from being smuggled to Nepal and Bangladesh.
- **Proposed Measures:**
  - Discussions are going on to **cap the total number of subsidised fertiliser bags that any person can buy during an entire Kharif or Rabi cropping season.**
    - It is expected that it would **end even retail-level diversion** and purchases by large buyers masquerading as farmers.
  - A **reasonable cap** for a total of 100 bags only once **would easily cover the seasonal requirement** of a 20-acre farmer. Those **wanting more can well afford to pay the unsubsidised rates** for the extra bags.
- **Other Associated Costs to the Farmers:**
  - Apart from fertilisers, there are **other things for which farmers need to pay** like **Goods and Service Tax** (GST) and other taxes on inputs.
    - It ranges from **12%** on tractors, agricultural implements, pumps and drip/sprinkler irrigation systems to **18%** on crop protection chemicals.
    - Fertiliser itself is taxed at **5%**.
    - **Excise and value-added tax** on diesel.
  - And since there's **no GST on farm produce, farmers cannot claim any input tax credit on their sales**, unlike other businessmen.

## Way Forward

- The time has come to seriously consider paying farmers a flat per-acre cash subsidy that they can use to purchase any fertiliser. The amount could vary, depending on the number of crops grown and whether the land is irrigated or not.
- This is, perhaps, the only sustainable solution to prevent diversion and also encourage the judicious application of fertilisers, with the right nutrient (macro and micro) combination based on proper soil testing and crop-specific requirements.

**Source: IE**