Fertiliser Subsidy

Why in news?

The Centre is planning to restrict the number of fertiliser bags that individual farmers can buy during any cropping season.

What is fertiliser subsidy?

- Farmers buy fertilisers at Maximum Retail Price (MRP) below their normal supply-and-demand-based market rates or what it costs to produce or import them.
- The difference, which varies according to plant-wise production cost and import price, is footed by the Centre as subsidy.
- 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 they are priced at "reasonable levels".
- Thus, decontrolled fertilisers retail way above urea, while they also attract lower subsidy.

How is the subsidy paid and who gets it?

- The subsidy goes to fertiliser companies, although its ultimate beneficiary is the farmer who pays MRPs less than the market rates.
- Companies, until now, were paid after their bagged material had been dispatched and received at a district's railhead point or approved godown.
- From March 2018, direct benefit transfer (DBT) system was introduced.
- In this, subsidy payment to the companies would happen only after actual sales to farmers by retailers.
- Each retailer now has a point-of-sale (PoS) machine linked to the **e-Urvarak DBT portal** of the Department of Fertilisers.

What is the purpose of this portal?

- Anybody buying subsidised fertilisers should furnish his/her Aadhaar unique identity or Kisan Credit Card number.
- The quantities of the individual fertilisers purchased, the buyer's name and biometric authentication have to be captured on the PoS device.
- Only upon the sale getting registered on the e-Urvarak platform can a company claim subsidy.

- These are processed on a **weekly basis** and payments are remitted electronically to its bank account.

What was the new payment system's purpose?

- The main motive is to **curb diversion**.
- This is natural with any under-priced product.
- Being super-subsidised, urea is prone to diversion for non-agricultural use apart from being smuggled to Nepal and Bangladesh.
- The scope for leakage was more in the earlier system, right from the point of dispatch till the retailer end.
- With DBT, pilferage happens only at the retailer level, as there is no subsidy payment till sales are made through POS machines.

What is the next step being proposed?

- At present, the Centre is following a **no denial policy**.
- Anybody, non-farmers included, can purchase any quantity of fertilisers through the PoS machines.
- That obviously 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.
- One plan under discussion is to cap the total number of subsidised bags that any person can buy during an entire kharif or rabi cropping season.
- This, it is expected, would end retail-level diversion and purchases by large buyers masquerading as farmers.

What is the fertiliser requirement of a typical farmer?

- It depends on the crop.
- A farmer growing irrigated wheat or paddy may use about three 45-kg bags of urea, one 50-kg bag of DAP and 25 kg of MOP per acre.
- A total of 100 bags would easily cover the seasonal requirement of a 20-acre farmer.
- This could possibly be a reasonable cap to impose.
- Those wanting more can well afford to pay the unsubsidised rates for the extra bags.

How much subsidy does a farmer really get per acre?

- **Fertilisers** - For three bags urea, one bag DAP and half-a-bag MOP per acre, the farmer would spend a total of Rs 2,437 at existing MRPs.
- The corresponding subsidy value will add up to Rs 2,418.3 per acre.

- But then, farmers are also taxed on other inputs.
- **Other inputs** - Take diesel, where the incidence of excise and value added tax is Rs 42.19 on a litre retailing at Rs 70.46 in Delhi.
- On 30 litres of average per-acre consumption for paddy or wheat, that will be nearly Rs 1,266.
- So, for every Re 1 spent on fertiliser subsidy, more than half is recovered as diesel tax.
- **GST** - In addition, farmers pay goods and service tax (GST) on inputs, ranging from 12% to 18%.
- Fertiliser itself is taxed at 5%.
- Since there is no GST on farm produce, they cannot claim any input tax credit on their sales, unlike other businessmen.

What is next?

- 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 the only sustainable solution to prevent diversion.
- This also encourages judicious application of fertilisers, with the right nutrient combination based on proper soil testing and crop-specific requirements.

Source: The Indian Express