One Nation One Fertilizer

Why in news?

The Centre's move to usher in a 'One Nation One Fertilizer' regime, wherein all fertilizer manufacturers will be required to sell their products under a single 'Bharat' brand, appears not well thought.

What are the key features of "One Nation One Fertilizer"?

- Introduction of Pradhan Mantri Bharatiya Jan Urea Pari yojana and all urea to be sold under brand name of **"Bharat Urea"**
- Single Fertilizer design bag across the country for all the brand.
- All the urea bags will have bar-code which will be read through bar code reading machine, which will be linked with POS machines.
- Fertilizer company will be eligible for subsidy only when the fertilizers bag is sold through bar code reading machines via PoS Machine under DBT.

What is the concept behind such a proposal?

> *Under the Nutrient Based Subsidy (NBS) scheme, a fixed amount of subsidy decided on an annual basis is provided on each grade of subsidized Phosphatic and Potassic (P&K) fertilizers, except for Urea, based on the nutrient content present in them.*

- **Current subsidy pattern**- The selling price of urea is statutorily capped at 10-20% of production costs.
- Under the New Investment Policy 2012, urea units can be set up with the government providing subsidy support to manufacturers based on production costs plus a 12% assured return on equity.
- This is meant to enable producers to sell urea at artificially low prices.
- An additional freight element was added to this subsidy to help manufacturers transport their products to the end-user.
- **Subsidy cut**- The rationale behind the proposal of requiring all urea manufacturers to sell their products under a single brand of Bharat Urea is to cut the subsidy bill that's now close to Rs. 1.5 lakh crore.
- **No need for freight subsidy**- The new policy argues that as urea is a commodity with negligible differentiation between players, there's no real need for producers to transport their fertilizers cross-country.
- This will save on freight subsidies of about Rs. 3,000 crore a year.
- **Easy monitoring**- The proposal will aid in monitoring the Real time movement/availability/sales of fertilizers in a state.
- **Prevent diversion**- One of the objectives of "One Nation One Fertilizer" is to stop the diversion of urea for industrial purpose.

Why is this proposal criticized?

- The government's proposal neglected the deleterious impact of completely commoditising a manufactured product on players' motivation to remain in business.
- With selling prices capped and every aspect of operations from product pricing to cost structure to geographical distribution and sales micromanaged by the government, urea manufacturing is already a highly unattractive business to be in.
- The policy may actively discourage private players from committing to new projects in the coming years.
- With almost every aspect of fertilizer manufacturing controlled by the government, the sector already has very few private players.
- Many private players such as the Tatas, and Indo Gulf Fertilizers have exited the business in recent years.

What is the way forward?

- The Centre can deliver the subsidy directly to farmers, decontrol urea, and leave the pricing to market forces.
- The Centre must look to transition urea to a Direct Benefit Transfers (DBT) regime that reimburses small farmers for their actual fertilizer use.

References

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