Urea Subsidy

July 13, 2020

Till 2003, the subsidy to urea was under the provisions of the Retention Price Scheme (RPS). Under RPS, the difference between retention price (cost of production + 12% post tax returns)

This motivated the companies to inflate the costs. There was no motivation for the companies to reduce the cost and become efficient.

New Urea policy:

Government implemented the pooling of gas for the urea from 2005 onwards. Under this policy the domestic gas is pooled with imported LNG gas to provide uniform natural gas to all the urea manufacturing plants for the production of urea.
All the gas gas-based urea plants have been placed in three categories based on group specific energy norms(how much gas is required to a particular quantity of urea). Urea plants falling in the same category will be getting the same amount of subsidy per KG as fixed by the government (based on normative cost of each plant), no matter what their actual cost of production is. This will force plants to become more efficient as their actual cost of production. This will force plants to become more efficient as the subsidy will be the same for each plant within a group and a plant being more efficient or having lesser cost of production will be more profitable.

DBT in Fertilizer:

Under DBT system in fertilizer subsidies, the farmers/beneficiaries will continue to receive Urea at statutory subsidised prices and P&K fertilizers at subsidized prices in the market.
The fertilizer companies which used to receive subsidy on

receipt of fertilizers at the district, will now get subsidy after the fertilizers are sold to farmers/beneficiaries by the retailers through Point of Sale (PoS) machines through biometric authentication.