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EDITORIAL ANALYSIS

India's Fertilizer Subsidy: Generous to Middlemen, Fragile for Farmers

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EDITORIAL SUMMARY

Agricultural economist Ashok Gulati (ICRIER) has renewed his call for structural reform of India's fertilizer subsidy regime — arguing that ₹1.95–2 lakh crore spent annually achieves neither farmer welfare nor food security. The 2026 West Asia conflict, which caused global urea prices to spike 65% in 40 days, exposed how a subsidy system designed to insulate farmers from price volatility has instead made India's agricultural system structurally dependent on Gulf energy supply chains.

THE PARADOX AT THE HEART OF INDIA'S FERTILIZER POLICY

India spends more on fertilizer subsidies than on its health budget. In 2024–25, the figure was approximately ₹1.95 lakh crore — a number that has nearly doubled since 2019–20, driven by global price spikes (Russia-Ukraine 2022, West Asia 2026) and rising domestic consumption.

The system is, on paper, farmer-friendly: urea retails at ~₹5,360 per 45 kg bag, while the actual cost (production or import + distribution) runs at ₹17,000–20,000 per bag. The government pays the difference directly to manufacturers and importers. For phosphatic and potassic (P&K) fertilizers, a fixed Nutrient-Based Subsidy per kilogram of nutrient is provided, with market-determined retail prices.

The problem is not that the subsidy exists — India's small-scale farmers genuinely need price protection. The problem is **how** the subsidy is structured and **what behaviour it incentivises**.

WHAT THE CURRENT SYSTEM GETS WRONG

First, it subsidises waste. At 35–40% Nutrient Use Efficiency (NUE), urea applied in Indian fields loses 60–65% of its nitrogen before reaching a crop. This nitrogen volatilises as ammonia (contributing to air pollution and acid rain), leaches into groundwater (contaminating drinking sources with nitrates), and runs off into rivers and lakes (causing eutrophication and algal blooms). At ₹17,000–20,000 per bag actual cost, India is spending approximately ₹1 lakh crore annually subsidising pollution.

Second, it creates perverse cropping incentives. Because urea is priced at ~30% of its market cost, farmers over-apply it — and apply it to crops that respond maximally to nitrogen: paddy and wheat. This deepens India's mono-crop dependency precisely when food security demands crop diversification toward pulses and oilseeds (where India has large import bills: ~$15 billion annually on edible oils alone). The subsidy, in other words, actively works against reducing India's import dependence in the sectors where it matters most.

Third, it is vulnerable to geopolitical shocks. India imports ~70% of its fertilizer needs — with potash 100% imported (India has zero domestic potash reserves), DAP 60–65% imported, and even urea requiring supplementary imports in high-demand years. The 2026 West Asia conflict pushed global urea prices up 65% in 40 days. India's buffer stocks cushioned the immediate impact, but the structural vulnerability remains: every rupee of fertilizer subsidy is ultimately calibrated to global commodity prices set by geopolitics India cannot control.

THE ASHOK GULATI REFORM BLUEPRINT

Gulati's proposal has two components, each drawing on demonstrated precedent.

Direct Benefit Transfer (DBT) for fertilizers. Rather than subsidising manufacturers or importers, the government would transfer the subsidy directly to farmers' bank accounts — linked to land records and Aadhaar. Farmers would buy fertilizer at market price and receive the subsidy as a cash transfer. This model has proven itself: PAHAL (LPG subsidy DBT), India's largest cash transfer programme at the time of launch, transferred ~₹97,000 crore and eliminated an estimated ₹40,000–50,000 crore in annual leakages through bogus connections and industrial diversion. Fertilizer DBT would similarly eliminate industrial diversion of cheap urea — estimated at 5–10% of total supply — and ensure the subsidy reaches actual cultivators.

Crop-neutral quantitative rationing. Currently, the subsidy is per-bag (unlimited quantity, any crop). Gulati proposes a per-acre cap — regardless of crop — which would incentivise farmers to grow less nitrogen-intensive crops without penalising them financially. A farmer growing pulses on an acre would receive the same subsidy as a paddy farmer, but would apply far less urea (pulses fix nitrogen; paddy does not). Over time, this reshapes the cropping pattern toward India's food security gaps.

THE POLITICAL ECONOMY OF REFORM

Fertilizer price reform is among the most politically difficult agricultural policies in India. Three structural factors explain the resistance.

The farmer identity trap. In Indian politics, "farmer welfare" has become synonymous with low input prices. Any reform that raises fertilizer retail prices — even if offset by a cash transfer — can be framed as an attack on farmers. The PAHAL precedent offers a counter-narrative (LPG DBT was broadly accepted), but fertilizer is more complex: multiple fertilizer types, multiple crops, multiple states with different land record digitisation levels.

The database gap. DBT for fertilizers requires reliable digital land records linked to Aadhaar — covering all cultivated land, including tenanted and sharecropped land where the actual cultivator is often not the registered owner. India's land records digitisation (Digital India Land Records Modernisation Programme) is complete in many states but incomplete in others. Excluding tenant farmers from DBT would replicate the social exclusion that has plagued many welfare programmes.

The MSP linkage. Farmers argue — with some economic logic — that if fertilizer prices rise (even nominally, even temporarily during DBT transition), the Minimum Support Price for their crop must rise correspondingly. This creates a fiscal spiral that policymakers fear: fertilizer DBT savings are offset by MSP enhancement demands.

WHAT REFORM WOULD REQUIRE

A successful fertilizer reform cannot be reduced to a single policy instrument. It requires simultaneous movement on:

- Land record digitisation to enable inclusive DBT (including tenant cultivators)
- Nano Urea scale-up (IFFCO's liquid urea, 500 ml = 1 bag, NUE ~85–90%) — which would reduce total subsidy outlay even without DBT
- Strategic fertilizer reserve building — India's buffer stocks of 3–4 months cover routine price spikes but not sustained supply disruptions
- Biogas and organic fertilizer infrastructure (GOBARdhan) — reducing structural dependence on chemical nitrogen
- PM PRANAM — the existing scheme that incentivises states to reduce fertilizer consumption, sharing subsidy savings — must be expanded

The deepest lesson of the 2026 West Asia shock is not that fertilizer prices are volatile — they always have been. It is that India's farm input system was designed as if supply chains would always hold, as if Gulf transit routes would always be open, as if China would always supply potash and phosphate. None of these assumptions have ever been guaranteed. Building resilience requires spending the same fiscal resources smarter, not more — and that is, at its core, the argument for reform.

UPSC RELEVANCE

PAPER	ANGLE
GS3 — Economy/Agriculture	Fertilizer subsidy structure; DBT; NUE; Nano Urea; PM PRANAM; food security
GS3 — Environment	Nutrient pollution; groundwater contamination; eutrophication; soil degradation
GS2 — Governance	PAHAL precedent; land records digitisation; DBT architecture; targeting challenges
Mains Keywords	DBT for fertilizers, Nutrient Use Efficiency, Nano Urea, PM PRANAM, GOBARdhan, Ashok Gulati, fertilizer import dependence, IFFCO

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