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EDITORIAL ANALYSIS

West Asia Tensions Expose India's Fertiliser Vulnerabilities

BUSINESS STANDARD

22 May 2026 · ECONOMY · ENVIRONMENT · IR · GS3 · GS2

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Business Standard 22 May 2026 GS3 GS2

BS Business Standard | 5 tags

INTERVIEW ANGLE

"Is the political cost of removing urea's price cap finally outweighed by the fiscal and strategic cost of a Hormuz-dependent fertiliser regime?"

EDITORIAL SUMMARY:

Business Standard argues that with around 70% of India's residual urea imports and 75-80% of ammonia transiting the Strait of Hormuz region, the West Asia crisis has driven the FY27 fertiliser subsidy bill toward ₹2.41 trillion (a ₹70,000 crore jump) and exposed how a fuel-first urea regime distorts the N:P:K ratio to around 10.9:4.9:1 against the recommended 4:2:1. The structural fix is to bring urea under the Nutrient-Based Subsidy umbrella, transition to direct per-acre farmer payments linked to soil-health cards, and accelerate domestic green-ammonia capacity to cut import dependence.

INDIA'S FERTILISER DEMAND AND SUPPLY ARCHITECTURE

India is one of the world's largest fertiliser consumers, with structural import dependence in two of the three principal nutrient categories.

INDICATOR	VALUE
Annual fertiliser consumption (FY25, record)	~70.7 million tonnes
Annual urea consumption (FY25)	~388 lakh tonnes (~38.8 mt)
Domestic urea self-sufficiency	~80% (gas-based production)
Urea import share	~20% (around 7-10 million tonnes a year)
DAP import dependence	Almost 100%
MOP import dependence	Almost 100%

The principal urea/ammonia import sources are **Oman, Russia, Saudi Arabia, the UAE and Iran** — a basket dominated by West Asia and Hormuz-adjacent geography.

THE HORMUZ DEPENDENCY — THE STRATEGIC CHOKE

The vulnerability is concentrated in a single chokepoint.

INDICATOR	SHARE VIA HORMUZ REGION
Residual urea imports	~70%
Ammonia (urea precursor)	~75-80%

The **Iran-Israel 12-Day War of June 2025** reactivated the latent risk that the Strait of Hormuz, roughly 21 miles wide at its narrowest, could be partially or fully closed. The Strait carries a fifth of global oil trade and a quarter of global LNG trade; for India's fertiliser sector, it carries the bulk of the urea and ammonia supply chain.

What Happened in Summer 2025

- Freight rates and insurance premia for Persian Gulf shipping spiked sharply
- Indian importers paid **15-25% above pre-conflict prices** through the season
- Spot ammonia prices rose in tandem with energy prices
- Domestic urea inventories were drawn down faster than normal restocking cycles

The pass-through into the fiscal accounts is now arriving in FY26 and FY27.

THE DUAL SUBSIDY REGIME — THE STRUCTURAL DISTORTION

India's fertiliser pricing operates under two parallel architectures.

FERTILISER CATEGORY	PRICING REGIME	SUBSIDY PATH
Urea	Statutory MRP cap	Subsidy to manufacturer via FICC
DAP, MOP, complex NPK	Market-determined MRP	Nutrient-Based Subsidy (NBS) regime since 2010

Urea — Statutorily Capped Since 2018

- **MRP** capped at around **₹242 per 45-kg bag** (with regional variation) since the 2018 revision
- Subsidy paid directly to manufacturers through the **Fertiliser Industry Coordination Committee (FICC)**
- Effective subsidy: around **₹50/kg** against a market price of around ₹65/kg

Non-Urea — NBS Since 2010

- Subsidy fixed per nutrient (N, P, K)
- Retail price determined by market conditions
- Farmer sees the full price differential between urea and non-urea fertilisers

The behavioural consequence is straightforward: farmers substitute toward the heavily subsidised urea and away from the costlier phosphate and potash fertilisers, regardless of agronomic need.

THE N:P:K IMBALANCE — SOIL PAYS THE PRICE

The agronomic recommendation is well-established.

RATIO	VALUE
Agronomically recommended N:P:K	4:2:1
Actual N:P:K (recent kharif estimate)	~10.9:4.9:1
Status	Worst since 2013

Soil and Water Consequences

- **Nitrogen toxicity** in soils from urea overuse

- **Micronutrient depletion** (zinc, boron, sulphur, iron) where phosphate and potash are under-applied
- **Yield plateauing** despite rising input volumes
- **Groundwater nitrate contamination** from runoff, particularly in irrigated regions

The N:P:K distortion is not a textbook concern; it is a real-time productivity and environmental cost being incurred year after year.

THE FISCAL PRESSURE

The subsidy bill has expanded sharply on the back of West Asia disruption.

INDICATOR	VALUE
FY26 fertiliser subsidy (revised)	~₹1.71 trillion
FY27 fertiliser subsidy (projected)	~₹2.41 trillion
Jump in FY27	~₹70,000 crore
Urea share of FY27 subsidy	~₹1.4-1.5 trillion

The structural problem is that the price cap on urea converts every external shock — currency depreciation, fuel-cost escalation, freight spikes, ammonia-price increases — directly into a fiscal expansion, with no demand-side response from farmers because the retail price is fixed.

THE GREEN-AMMONIA OPPORTUNITY

The long-term hedge is the **green-ammonia transition** under India's broader green-hydrogen architecture.

The Architecture

INDICATOR	VALUE
National Green Hydrogen Mission	Launched 2023
Green hydrogen production target	5 million tonnes by 2030
Investment outlay (mission)	Significant — multi-tens of thousands of crore through 2030

What Green Ammonia Is

- **NH3** (ammonia) produced from **green hydrogen** (electrolysis of water powered by renewables) plus nitrogen from air
- The classical **Haber-Bosch process** can then convert green ammonia into urea — making the urea chain fully renewable-powered
- Eliminates the natural-gas dependence and the import dependence on West Asia simultaneously

Indian Players Building Capacity

- **Reliance** — green-hydrogen and green-ammonia at the Jamnagar complex
- **Adani** — Mundra and other Gujarat sites
- **NTPC Green Energy** — utility-scale projects
- **IOCL and GAIL** — refinery- and pipeline-integrated projects

Major project announcements span Gujarat and Tamil Nadu, with 200+ MoUs signed across green-hydrogen / green-ammonia value chains since the Mission's launch.

The Cost Gap

AMMONIA PATHWAY	INDICATIVE COST (PER TONNE)
Conventional (natural-gas-based)	~$300-400
Green (renewable-powered)	~$500-700

Parity is expected by **2030** under carbon-pricing scenarios that internalise the emissions cost of conventional ammonia. India's domestic green-ammonia capacity, if built out by 2030, can materially reduce the Hormuz exposure of the fertiliser sector.

STRUCTURAL REFORMS — WHAT THE EDITORIAL RECOMMENDS

The reform agenda has three pillars.

1. Bring Urea Under the Nutrient-Based Subsidy Regime

A single fertiliser subsidy architecture across all nutrients would end the urea-vs-non-urea distortion and restore agronomic neutrality to the subsidy signal.

2. Direct Benefit Transfer Per Acre

- Subsidy transferred directly to farmers, not manufacturers

- Anchored on landholding records and **Soil Health Cards** (around **26 crore cards** distributed under the scheme launched in 2015)
- Farmer chooses the fertiliser mix appropriate to soil-test data, not the price signal of an arbitrary statutory cap
- Calibrated transition support for small and marginal farmers during the price-cap phase-out

3. Accelerate Domestic Green-Ammonia Capacity

- Implement the National Green Hydrogen Mission targets
- Fast-track environmental and land clearances for green-ammonia projects
- Use viability gap funding to bridge the cost gap to parity
- Integrate green-ammonia uptake into the existing urea-producer ecosystem (Reliance, Adani, NTPC, IOCL, GAIL projects)

WAY FORWARD

Business Standard's full agenda:

1. **NBS umbrella for urea** — single subsidy regime
2. **DBT per acre** anchored on Soil Health Cards and landholding records
3. **Phase out the urea price cap** with calibrated transition support
4. **Accelerate green ammonia** through the National Green Hydrogen Mission and the 200+ MoUs already signed
5. **Diversify imports** — Brazil, Algeria, Trinidad and Tobago for urea/ammonia; Russia, Belarus and Canada for potash
6. **Build a Strategic Fertiliser Reserve** modelled on the Strategic Petroleum Reserve, with publicly disclosed coverage targets
7. **Scale PM PRANAM (2023)** — Promotion of Alternate Nutrients for Agriculture Management Yojana — to reward states reducing chemical-fertiliser use
8. **Promote bio-fertilisers and organic farming** as complementary demand-side reductions

UPSC MAINS ANALYSIS

GS Paper 3 — Economy, Agriculture and Energy

- Fertiliser subsidy architecture — urea price cap, NBS regime since 2010
- N:P:K distortion (~10.9:4.9:1 vs recommended 4:2:1); soil-health implications

- Green ammonia and the National Green Hydrogen Mission 2023
- Hormuz exposure; West Asia crisis pass-through into fiscal accounts
- PM PRANAM 2023; bio-fertilisers; organic farming

GS Paper 2 — Governance and Government Schemes

- Direct Benefit Transfer (DBT) reform; Soil Health Card scheme (since 2015)
- Strategic Fertiliser Reserve concept; analogue to Strategic Petroleum Reserve
- Import diversification — Brazil, Algeria, Trinidad and Tobago, Russia, Belarus, Canada
- Fertiliser Industry Coordination Committee (FICC) governance

Keywords: Urea, DAP, MOP, NPK, FICC, Nutrient-Based Subsidy 2010, Urea MRP cap 2018, N:P:K ratio ~10.9:4.9:1, National Green Hydrogen Mission 2023, green ammonia, Haber-Bosch, Strait of Hormuz, Iran-Israel 12-Day War June 2025, FY27 fertiliser subsidy ₹2.41 trillion, Soil Health Card 2015, PM PRANAM 2023, Strategic Fertiliser Reserve.

> *The fertiliser story is a microcosm of India's broader energy-and-food security architecture. A statutorily-capped urea price was a politically attractive design when external shocks were rare and the fiscal cost was modest; both assumptions are now broken. The Hormuz exposure of urea and ammonia means that every West Asia crisis arrives as a fertiliser-subsidy expansion. The N:P:K distortion means that the soil is paying for the price cap one season at a time. The structural reform — NBS umbrella for urea, DBT per acre anchored on the Soil Health Card, domestic green-ammonia capacity, and a Strategic Fertiliser Reserve — is not novel in its components; what is novel is that the cost of postponement is now visible in the FY27 budget. The political cost of reform is real. The fiscal and strategic cost of continued postponement is finally larger.*

Sources: Business Standard , Ministry of Chemicals & Fertilisers

KEY ARGUMENTS AT A GLANCE

With around 70% of India's residual urea imports and 75-80% of ammonia coming via the Strait of Hormuz region, the West Asia crisis has driven the FY27 fertiliser subsidy bill toward ₹2.41 trillion (a ₹70,000 crore jump) and exposed how a fuel-first urea regime distorts the N:P:K ratio to 10.9:4.9:1 against the recommended 4:2:1; the structural fix is to bring urea under the Nutrient-Based Subsidy umbrella, transition to direct per-acre farmer payments

linked to soil-health cards, and accelerate domestic green-ammonia capacity to cut import dependence.

✓ SUPPORTING

- India consumes around 70 million tonnes of fertilisers annually, of which urea is around 388 lakh tonnes (FY25); domestic gas-based urea production now meets roughly 80% of demand, leaving around 20% (around 7-10 million tonnes) to imports concentrated in Oman, Russia, Saudi Arabia, the UAE and Iran — with the West Asia and Hormuz-adjacent share dominant. DAP and MOP are almost entirely imported.
- The Iran-Israel 12-Day War of June 2025 reactivated the Hormuz risk; Indian importers paid 15-25% above pre-conflict prices through the summer of 2025, freight and insurance premia spiked, and the fiscal pass-through is now arriving — FY26 fertiliser subsidy revised at around ₹1.71 trillion, FY27 projected at around ₹2.41 trillion (a ₹70,000 crore jump), with urea alone accounting for around ₹1.4-1.5 trillion.
- The dual subsidy regime is the structural distortion — urea's MRP has been statutorily capped at around ₹242 per 45-kg bag since 2018 (with regional variation) and subsidy paid directly to manufacturers via the Fertiliser Industry Coordination Committee (FICC), while non-urea fertilisers (DAP, MOP, complex NPK) operate under the Nutrient-Based Subsidy regime since 2010 with market-determined retail prices; the result is heavy urea subsidisation, much costlier non-urea alternatives, farmer overuse of urea, and the N:P:K ratio drifting to around 10.9:4.9:1 in recent kharif data — the worst since 2013, against the agronomically recommended 4:2:1.
- The green-ammonia transition is the long-term answer — the National Green Hydrogen Mission 2023 targets 5 million tonnes of green-hydrogen production by 2030, and major Indian players (Reliance, Adani, NTPC Green, IOCL, GAIL) have announced green-ammonia projects in Gujarat and Tamil Nadu; current cost gap is around $500-700 per tonne for green ammonia versus $300-400 for conventional, with parity expected by 2030 under carbon-pricing scenarios; green ammonia plus the Haber-Bosch process can deliver fully renewable-powered urea.

⚠ COUNTER

Bringing urea under the Nutrient-Based Subsidy regime and shifting to direct per-acre payments would face significant political resistance from farmer groups and state governments accustomed to a statutorily-priced urea bag; targeting accuracy via soil-health cards remains uneven; and green-ammonia cost parity is still some years away. A

bad-faith reform could leave small and marginal farmers exposed to volatility before the DBT and soil-health card architecture is robust enough to compensate.

→ **WAY FORWARD**

Bring urea under the Nutrient-Based Subsidy regime in a single fertiliser subsidy architecture; transition to Direct Benefit Transfer of fertiliser subsidy per acre to farmers, anchored on landholding records and the Soil Health Card (which has issued around 26 crore cards since 2015); phase out the urea price cap with calibrated transition support to small and marginal farmers; accelerate domestic green ammonia capacity through the National Green Hydrogen Mission and the 200-plus MoUs already signed by major players; diversify imports to Brazil, Algeria, Trinidad and Tobago (urea/ammonia) and Russia, Belarus and Canada (potash); build a Strategic Fertiliser Reserve modelled on the Strategic Petroleum Reserve; expand bio-fertilisers, organic farming and the PM PRANAM scheme (Promotion of Alternate Nutrients for Agriculture Management Yojana 2023) to reduce chemical-fertiliser dependence at the demand side.

🧠 **PRACTICE TODAY'S QUIZ**

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✍ MAINS ANSWER FRAMEWORK

QUESTION

"India's fertiliser regime combines a Hormuz-dependent import basket with a fuel-first urea pricing structure that distorts soil nutrient balance and inflates the subsidy bill." Critically evaluate, and suggest structural reforms including green-ammonia transition and direct benefit transfer. (250 words)

INTRODUCTION

Business Standard argues that around 70% of India's residual urea imports and 75-80% of ammonia transit the Hormuz region, that the West Asia crisis has driven the FY27 fertiliser subsidy bill toward ₹2.41 trillion (a ₹70,000 crore jump), and that the fuel-first urea pricing regime has distorted the N:P:K ratio to around 10.9:4.9:1 — making structural reform unavoidable.

BODY

India consumes around 70 million tonnes of fertilisers annually, of which urea is around 388 lakh tonnes (FY25); domestic gas-based production now meets roughly 80% of urea demand, leaving around 20% (around 7-10 million tonnes) to imports concentrated in Oman, Russia, Saudi Arabia, the UAE and Iran. DAP and MOP are almost entirely imported.

The Iran-Israel 12-Day War of June 2025 reactivated the Hormuz risk; Indian importers paid 15-25% above pre-conflict prices through summer 2025; freight and insurance premia spiked. FY26 fertiliser subsidy was revised at around ₹1.71 trillion and FY27 is projected at around ₹2.41 trillion — a ₹70,000 crore jump driven largely by West Asia — with urea alone at around ₹1.4-1.5 trillion.

The structural distortion lies in the dual subsidy regime. Urea's MRP has been statutorily capped at around ₹242 per 45-kg bag since 2018 and subsidy is paid directly to manufacturers via the Fertiliser Industry Coordination Committee, while non-urea fertilisers (DAP, MOP, complex NPK) operate under the Nutrient-Based Subsidy regime since 2010 with market-determined retail prices.

The result is heavily subsidised urea (effective subsidy around ₹50/kg versus market price around ₹65/kg), expensive non-urea alternatives, farmer overuse of urea, and the N:P:K ratio drifting to around 10.9:4.9:1 in recent kharif data — the worst since 2013, against the agronomically recommended 4:2:1. The consequences are soil-nitrogen toxicity, micronutrient depletion, yield plateaus and groundwater-nitrate contamination.

The green-ammonia transition is the long-term hedge — the National Green Hydrogen Mission 2023 targets 5 million tonnes of green hydrogen by 2030, and Reliance, Adani, NTPC Green, IOCL and GAIL have announced green-ammonia projects in Gujarat and Tamil Nadu; the cost gap of around $500-700 per tonne (green) versus $300-400 (conventional) is expected to close by 2030 under carbon-pricing scenarios, with the Haber-Bosch route delivering fully renewable-powered urea.

CONCLUSION

The structural reform agenda is clear — bring urea under the Nutrient-Based Subsidy umbrella, transition to Direct Benefit Transfer per acre anchored on the Soil Health Card (around 26 crore cards distributed since 2015), accelerate domestic green-ammonia capacity, diversify imports beyond West Asia toward Brazil, Algeria, Trinidad, Russia, Belarus and Canada, build a Strategic Fertiliser Reserve, and scale PM PRANAM (2023), bio-fertilisers and organic farming on the demand side. The political cost of urea reform is real; the fiscal and strategic cost of postponing it is now larger.

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