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STRENGTHENING INDIA'S FERTILISER POLICY FOR SUSTAINABLE AGRICULTURE

S SANKARASUBRAHMANIAN

AS the world's second-largest fertiliser consumer and with agriculture employing about 45% of the workforce, fertiliser self-reliance remains a strategic national priority.

Government policy has focused on ensuring affordability and availability via subsidies, alongside raising manufacturing capacity. As the Budget 2026-27 around corner, fertiliser sector merits focused policy attention to bolster soil health, ensure agricultural sustainability, and advance Atma Nirbhar Bharat objectives.

Ensuring subsidy adequacy

In developed economies like the US, EU and Japan, agriculture policy has shifted from production-linked subsidies toward income support, risk management, crop insurance and and climate resilience. Subsidies in India are designed to ensure food security, support farmer incomes, and maintain affordability of inputs. Fertiliser subsidy remains one of the key elements, shielding farmers from price volatility and ensuring access to nutrients at affordable prices.

Under India's fertiliser subsidy framework, Urea is governed by a cost-plus regime, phosphatic and potassic (P&K) fertilisers fall under nutrient-based subsidy (NBS) mechanism. Of nearly ₹2 lakh crore spent annually on fertiliser subsidies, 70% is absorbed by urea, with the remainder supporting phosphatic fertilisers. There is a fair case for revisiting the subsidy framework by gradually bringing urea under NBS, while protecting farmers via direct subsidy support.

The surge in key input prices like sulphur and ammonia has strained phosphatic industry viability as NBS rates have not kept pace with global trends, mainly for N and K nutrients. The Budget should provide price-aligned subsidy under

NBS to ensure steady nutrient supplies ahead of cropping season. To promote balanced nutrition, there is a need to encourage innovations like nano and slow-release fertilisers, along with organic and bio-fertilisers. Inclusion of such solutions under schemes like PM-PRANAM, which incentivise states to adopt integrated nutrient management, farmer training and awareness, can play a vital role.

Achieving Atma Nirbharta

Driven by policy reforms like NIP-2012 and NUP-2015, 8 million tonne of new urea capacity have been added over the past decade, reducing import dependence while improving energy efficiency. In contrast, capacity additions in phosphatic segment have remained limited, with 30% of domestic demand still met via imports. A major constraint in expanding capacity is accumulation of phospho-gypsum from phosphoric acid production (an intermediate for fertiliser manufacturing), while imports of mineral and chemical gypsum continue due to preferential GST treatment for products derived from it.

Tax and GST reforms

There is a need to rationalise taxes. Customs duties and GST provisions affecting fertiliser sector, and the Budget 2026-27 provides an important opportunity to address these concerns. On the Customs front, exemption or reduction of basic Customs duty on key raw materials like ammonia, phosphoric acid, sulphuric acid, rock phosphate and sulphur would help enhance competitiveness of domestic manufacturing. Rationalisation of duty structures, exemption of key inputs from Agriculture Infrastructure and Development Cess, relief on duties on micronutrients, and procedural clarifications are needed to avoid cash flow pressures and interest burdens.

The decision to cut GST rates from 18% to 5% on ammonia, sulphuric acid and nitric acid - bringing them on a par with fertilisers and reduction of GST on micronutrients from 12% to 5% are positive steps. However, issues of inverted duty structure continue to result in accumulation of unutilised input tax credit.

— S Sankarasubramanian is chairman of FAI and MD and CEO of Coromandel International