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CCEA Approves National Investment Policy for Urea (NIPU)-2026 to Enhance India's Fertilizer Security

Published On: 30-07-2026

Recent Developments:

- The **Cabinet Committee on Economic Affairs (CCEA)** approved the **National Investment Policy for Urea (NIPU)-2026** to promote investment in the urea manufacturing sector, enhance domestic production capacity and reduce dependence on imported urea.
- The policy has been introduced amid concerns regarding fertilizer supply stability due to **geopolitical tensions, global supply chain disruptions, rising fertilizer demand and excessive urea consumption**.
- NIPU-2026 aims to create an investment-friendly framework for establishing new **gas-based urea manufacturing plants** and strengthening India's long-term fertilizer security.

Background and Need for NIPU-2026:

India's Dependence on Imported Urea:

- **Urea** is the most widely consumed nitrogen-based fertilizer in India and plays a crucial role in maintaining agricultural productivity and food security.
- Although India has expanded domestic fertilizer production, domestic output remains insufficient to meet the increasing demand, resulting in continued dependence on imports.
- Global fertilizer market volatility, international price fluctuations and geopolitical uncertainties have highlighted the need for greater self-reliance in fertilizer production.
- Excessive dependence on imported urea creates challenges related to:
 - Foreign exchange expenditure,
 - Supply chain vulnerability,
 - Price instability.

Objectives of NIPU-2026:

- The policy aims to encourage fresh investment in **gas-based urea manufacturing units** to increase indigenous production.
- It seeks to reduce import dependence, strengthen fertilizer availability and support the objective of **Atmanirbhar Bharat** in the fertilizer sector.
- The policy intends to provide a stable regulatory framework for participation of both **public sector and private sector entities**.

Key Features of National Investment Policy for Urea-2026:

Major Reforms Introduced Under NIPU-2026:

- **Separation of Fixed and Variable Costs:**
 - The policy separates fixed costs and variable costs to improve transparency in production cost calculation and fertilizer pricing.

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- **Return on Equity (RoE) Framework:**
- NIPU-2026 introduces a structured **Return on Equity (RoE)** mechanism with a minimum floor of **12%** and maximum ceiling of **16%** to provide investment certainty.
- **Foreign Exchange Risk Management:**
- The policy allows conversion of fixed costs into **Indian Rupees after four years** based on prevailing exchange rates to reduce foreign exchange-related risks.
- **Investment Promotion Framework:**
- The policy provides an investor-friendly environment to attract new projects from public sector undertakings and private companies.

Evolution of India's Urea Investment Policy:

Earlier Policy Initiatives:

- The **National Investment Policy, 2012** was introduced to encourage fresh investment in the urea sector and promote expansion of domestic manufacturing capacity.
- The policy was amended in **2014** to provide additional incentives for new fertilizer projects.
- The **2015 amendment** focused on improving efficiency and increasing production from existing gas-based urea plants.

Major Outcomes of Earlier Policies:

- Six new urea plants were established under earlier policy measures.
- Four plants were developed through **Joint Venture Companies (JVCs)** of nominated **Public Sector Undertakings (PSUs)**.
- Two plants were established by private sector companies.
- India currently has **33 operational urea manufacturing units** with an installed/reassessed capacity of **269.42 Lakh Metric Tonnes (LMT)**.
- Production from existing gas-based plants increased by approximately **20–25 LMT annually** after reforms introduced in 2015.
- Domestic urea production increased from **225 LMT in 2014–15** to **314.07 LMT in 2023–24**, indicating significant growth in domestic capacity.

India's Current Urea Production and Availability Scenario:

Domestic Production Capacity:

- India has strengthened its fertilizer manufacturing ecosystem through revival of closed plants and establishment of new production facilities.
- Domestic production capacity expansion has reduced import dependence; however, imports remain necessary due to increasing agricultural demand.
- Production fluctuations continue because of:
 - Natural gas availability,
 - Operational efficiency of plants,
 - Raw material constraints,
 - International market conditions.

Fertilizer Availability During Kharif Season:

- The estimated urea requirement during **2025–26** was around **370.84 LMT**.
- Total available quantity was around **432.44 LMT**, exceeding projected demand.
- Fertilizer sales under the **Direct Benefit Transfer (DBT)** system reached approximately **381.59 LMT**.

- The government has maintained that adequate availability has been ensured to prevent shortages during the agricultural season.

Fertilizer Subsidy Burden and DBT Reforms:

Growing Fertilizer Subsidy Challenge:

- Fertilizer subsidy remains one of the largest components of agricultural support due to controlled fertilizer prices.
- The estimated fertilizer subsidy burden for **2025–26** includes:
- **Total Fertilizer Subsidy:** ₹2,17,281.10 crore.
- **Urea Subsidy:** ₹1,42,175.74 crore.
- **Phosphatic and Potassic (P&K) Fertilizer Subsidy:** Approximately ₹75,000 crore.
- The increasing subsidy burden reflects continued dependence on subsidised chemical fertilizers, particularly urea.
- High fertilizer subsidies create challenges related to:
- Fiscal management,
- Efficient fertilizer consumption,
- Sustainable agricultural practices.

Direct Benefit Transfer (DBT) in Fertilizers:

- Under the fertilizer **DBT system**, subsidy payment is linked with actual fertilizer sales recorded through authorised retail outlets.
- Fertilizer transactions are monitored through **Point of Sale (PoS)** devices.
- Farmer authentication is carried out through:
- **Aadhaar,**
- **Kisan Credit Card (KCC),**
- **Voter Identity Card,**
- Other approved identity documents.
- The DBT mechanism improves subsidy targeting, transparency and monitoring of fertilizer distribution.

Balanced Fertilizer Use and Environmental Concerns:

Problems Due to Excessive Urea Consumption:

- Excessive application of urea has resulted in:
- Soil nutrient imbalance,
- Declining soil fertility,
- Reduced nutrient use efficiency,
- Environmental degradation.
- India's fertilizer consumption pattern remains highly tilted towards nitrogenous fertilizers, creating imbalance among nutrients such as **Nitrogen, Phosphorus and Potassium (NPK)**.

Government Measures for Sustainable Fertilizer Management:

- The government promotes **Integrated Nutrient Management (INM)** to encourage balanced use of:
- Chemical fertilizers,
- Organic manure,
- Bio-fertilizers.
- **Soil Health Management** programmes promote scientific nutrient application and long-term soil fertility improvement.

- The government has promoted **Nano Urea** as an alternative technology; however, wider adoption remains limited due to concerns regarding scientific validation and field-level effectiveness.

Challenges and Way Forward:

Major Challenges:

- Continued dependence on imported urea despite expansion of domestic production capacity.
- Increasing fertilizer subsidy burden affecting government finances.
- Excessive urea consumption causing soil degradation and environmental challenges.
- Limited adoption of sustainable alternatives such as organic fertilizers, bio-fertilizers and Nano Urea.
- Exposure of fertilizer supply chains to international geopolitical disruptions.

Policy Recommendations:

- Accelerate investment in efficient **gas-based fertilizer plants** under NIPU-2026.
- Promote balanced nutrient application through **Integrated Nutrient Management (INM)** and soil health initiatives.
- Strengthen domestic production capacity to reduce dependence on global fertilizer markets.
- Encourage scientific research, field-level evaluation and farmer awareness regarding alternative fertilizers.
- Improve subsidy efficiency while gradually shifting towards sustainable fertilizer practices.
- Promote cleaner fertilizer technologies such as **Green Ammonia-based fertilizers** to reduce environmental impact.

Value Addition for UPSC:

Prelims Facts:

- **NIPU-2026** stands for **National Investment Policy for Urea-2026**.
- The policy is approved by the **Cabinet Committee on Economic Affairs (CCEA)**.
- The concerned ministry is the **Ministry of Chemicals and Fertilizers**.
- The major focus of NIPU-2026 is promotion of **gas-based urea manufacturing plants**.
- India has **33 operational urea manufacturing units** with **269.42 LMT installed/reassessed capacity**.
- The **RoE framework** under NIPU-2026 provides a return range of **12% to 16%**.

Mains Answer Enrichment (GS Paper III):

- **Fertilizer Security:** Domestic production capacity is essential to reduce vulnerability to global supply shocks.
- **Agricultural Sustainability:** Higher production must be accompanied by balanced nutrient management and soil conservation.
- **Subsidy Reform:** Rationalisation of fertilizer subsidies is necessary for fiscal sustainability and efficient resource use.
- **Way Forward Statement:** “India’s fertilizer security requires a balanced approach combining domestic production expansion, efficient subsidy management and sustainable nutrient practices.”