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## Feedstock prices and the fertiliser industry

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basis, during 1998-99, despite decline in international prices of these products, ex-refinery prices were not proportionately reduced. Thus, price of naphtha continued to remain high in range of Rs 7000-7700 per tonne.

During the current year, following rise in international prices, prices of these feedstock have skyrocketed. For instance, ex-refinery price of naphtha has shot up from Rs 7670 per tonne as on 1 April 1999 to Rs 9700 per tonne at port location wef 1 August. At inland location, it is still higher, viz., ex-Mathura about Rs 10,300 per tonne.

In case of natural gas, wef 1 October 97, its basic price to consumers was linked to IMPP of a basket of internationally traded fuel oils at 55 per cent. As incase of liquid hydrocarbons, principle of IMPP was not followed in spirit. Despite reduction in IMPP of fuel oils for quarter ending 31

December 97, in January 98, price was increased from Rs 2150 per thousand cubic metre (tcm) to Rs 2411 per tcm.

During 1998-99, the price continued to rule high in range of Rs 2150-2270 per tcm despite reduction in IMPP of fuels. To some extent, this was con-

tributed by increase in linkage to 65 per cent. During current year, fuelled by increase in IMPP of fuels on the one hand and hike in linkage to 75 per cent on the other, wef 1 July 99, gas price has been further raised to Rs 2499 per tcm.

In case of indigenous crude, IMPP was put in place wef 1 April 98. During 1998-99, when, it kept low, price allowed to domestic producers viz., ONGC/ OIL was not reduced; they continued to get Rs 1991 per tonne. During current year, following increase in former, wef 1 June, latter was promptly increased to Rs 2217 per tonne.

In all these price increases, the

government's hand is clearly visible. This is so irrespective of whether the product is under control viz., crude, gas or decontrolled viz., naphtha, fuel oil and LSHS. Ironically, while, actually fixing rates, it has thrown the principles laid down by none other than itself, to the winds. Thus, IMPP was used as benchmark whenever, it suited oil/gas PSUs and ignored when, it did not.

The pricing for transport of gas along HBJ pipeline has also not remained free from biases. When, initially fixed at Rs 850 per tcm, it was almost double the reasonable cost of Rs 440 per tcm. Wef 1 October 1997, this was further increased (unjustifiably) to Rs 1150 per tcm.

A massive increase of about Rs 5500 per tonne in price of naphtha in less than two years has raised cost of making urea by about Rs 3600 per tonne. Even as latter's selling price was increased by a meagre Rs 340 per tonne (February 1999), uncovered gap of Rs 3260 per tonne pushes up fertiliser subsidy bill.

Instead of sitting pretty in the glory of high profit of oil/gas PSUs, the government should take a holistic view and make a sincere attempt to rein skyrocketing prices of crude, gas and petroleum products.

The process of restructuring pricing of hydrocarbons started about two years ago when, with effect from (wef) 2 September 1997, the prevailing dual pricing regime — concessional price on supplies to fertiliser plants and a higher price to other industries — was replaced by a system of uniform price based on import parity price (IMPP) of respective products. While, fixing ex-refinery prices, however, IMPP was not implemented in true spirit. Instead of taking FOB price, which is the realisation to suppliers from abroad and would also be realised by Indian companies if, they were to export, C&F cost plus port handling was taken as the basis. In case of fuel oil, even customs duty was added.

As a result, ex-refinery price of naphtha on supplies to fertiliser industry increased sharply from Rs 4840 per tonne to Rs 7624 per tonne. But, for the distortion in applying IMPP and if, FOB price was taken as the basis, this would have been significantly lower at about Rs 5800 per tonne.

Wef 1 April 98, the government decontrolled prices of naphtha, fuel oil, LSHS and allowed oil companies to fix these based on market forces. Even as they were not expected to deviate from IMPP