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## 'High cost of feedstock hampers us'

**WHAT** with price hikes announced in the Budget and the Group of Ministers clearing the group retention pricing scheme this week, things are changing fast for the fertiliser industry. **Dr Uttam Gupta**, Additional Director (Economics) of the Fertiliser Association of India, presents his views on these and related issues in this interview with **Mohammad Adil**.

**How does the industry view the recent hike in urea prices?**

The Expenditure Reforms Commission (ERC) had recommended an increase of 7 per cent per annum in the selling price of urea beginning from April 2001 to 2006, to gradually bring up prices to the level of the import parity price (IMPP) and to facilitate a smooth transition towards decontrol. Given this, the 5 per cent increase in prices announced in the Budget is a step in the right direction.

**How has the retrospective revision of consumption norms affected the industry?**

This retrospective revision was termed by the finance minister as 'plugging inefficiencies in production'. But these revisions are on the basis of 'actual' consumption during 1999-2000, which was lower than the existing norm. It amounts to mopping up the gains of improvements in efficiency. This has seriously affected bottom lines and cash flows and pushed two fertiliser companies to the verge of closure.

**How will the replacement of the current RPS by group retention pricing affect the industry?**

For a 'heterogeneous' industry like fertiliser, adop-



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tion of a 'uniform' pricing formula will inevitably lead to serious distortions involving unintended gains for some units and unjustified losses for others. The ERC had classified urea units in to five groups based on feedstock and vintage. However, even within each of these groups, differences persist. For instance, in the naphtha category, clubbing newly commissioned plants with old vintage plants will put the latter at a serious handicap. In a bid to reduce the distortions, the government is apparently contemplating adoption of nine groups instead of five. This represents a step towards recognising the 'heterogeneous' character of the industry. However, there are significant variations within each of these groups due to the delivered cost of energy at the plant site. Herein, there are two major factors. First, the process configuration in the plant. This is within the control of the unit, but the necessary changes will require substantial investment. The second factor relates to the cost of feedstock which varies widely and over which the units have virtually no control. The prime reason for these vari-

ations are varying local taxes and freight cost. The adoption of the 'uniform' pricing formula will not be viable unless these issues are effectively addressed.

**What would be the impact of the proposed hike in gas prices?**

The government is contemplating removing the ceiling on the gas price and establishing linkage at 100 per cent of the IMPP of fuel oils. This will result in almost a 100 per cent increase in the basic price. The delivered cost of gas to a plant along the HBJ pipeline will be about \$5.0 per million Btu. This will increase the cost of producing urea by about Rs 2,400 per tonne. Given the low selling price, this will increase the subsidy bill by about Rs 3000 crore per annum.

**Are we then internationally competitive in the production of fertilisers?**

The efficiency of the fertiliser industry in India — both in energy consumption and capacity utilisation — is comparable to the best in the world. The investment cost is lower in India than similar projects set up abroad. The conversion cost is also lower in India. However, plants in India are seriously handicapped by the substantially higher cost of feedstock. Thus, against a price of upto \$1.0 per million Btu in the Middle East, in India, the price of gas to plants at the landfall point is \$1.9 per million Btu; and to plants along the HBJ \$2.5 per million Btu; the cost of naphtha is about \$6.0 per million Btu. This more than offsets the advantage in other cost segments thereby affecting our competitiveness on an overall basis.