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LNG is no panacea for fertiliser woes

FOR almost two decades, natural gas has occupied the centre stage on the Indian energy scene in view of its being the most preferred feed-stock/fuel in various industries. This is mainly due to lower investment required for setting up plants based on gas vis-a-vis other sources of hydrocarbons such as naphtha, fuel oil, LSHS, coal, etc., on the one hand and lower energy consumption on the other. Gas being a clean fuel and therefore, environment friendly, further adds to its charms.

When, commercially exploitable reserves of gas were discovered off the coast of Bombay High and in South Bassein region, a High Powered Committee (1976) under Mr Lov Raj Kumar then, chairman, BICP, recommended that the use of gas in the manufacture of fertilisers should be assigned top priority.

Accordingly, 10 ammonia/urea plants each of 1350/2200 tons per day capacity (six of these along HBJ pipeline) were set up during the 80s/early 90s. However, the euphoria over surplus gas led the Committee of Secretaries to recommend its use in generation of power as well. Consequently, a number of power projects based on gas were commissioned from mid-80s onwards.

In the early 90s, the government realised that its initial estimate of gas reserves was highly inflated. Therefore, it decided to put an embargo on supply of gas for setting up new fertiliser plants apart from denying supplies to existing plants for use in captive power plant and steam generation facilities. But, the impending shortage could not deter the powers that be from resorting to its indiscriminate allocation for power.

In the Background Paper on Long-Term Fertiliser Policy released in July, 2000, the government has stated that

from 2010 onwards, no gas will be available to run even existing gas based plants. This points towards a horrendous scenario as currently, about 12 million tons out of a total of 20 million ton urea production capacity is based on domestic gas which will be completely wiped out in the event of its non-availability.

In the emerging scenario, the fertiliser industry has been advised to use imported LNG. Thus, the High Powered Dr Hanumantha Rao Committee (1998) recommended switch-over of all existing naphtha

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and fuel oil based plants to LNG.

LNG is essentially natural gas found abroad, which is converted into liquid form and then transported in specialised tankers. On arrival at import terminal, this is re-gasified and then, moved to consumption points through a network of pipelines. LNG projects have to be implemented as an integrated chain involving liquefaction facility in exporting country, construction/acquisition of LNG vessels, re-gasification plant and other infrastructure at import terminal, laying of pipeline and so on.

Several consortia have announced plans for setting of LNG projects. Petronet LNG, a consortium of IOC, ONGC, GAIL and HPC has indicated that it would start supplying LNG from its import terminal at Dahej (Gujarat) from 2003 followed by supplies from another at Kochi (Kerala) in 2004. This sounds good. But, whether or not imported LNG can meet requirements of fertiliser industry on a long-term and sustainable basis and in a cost effective manner,

will depend primarily on its pricing.

Reportedly, a price of about US \$4-4.5 per million Btu at landfall point has been indicated. Adding about US \$1.5 per million Btu towards transport charges, its cost to a plant in north/central part would be about US \$6.0 per million Btu. These prices are substantially higher than current cost of domestic gas, i.e., about US\$ 1.7 per million Btu at landfall point and about US\$ 2.5 per million Btu along HBJ.

The price of imported LNG especially to plants in north/central parts, i.e., US \$6.0 per million Btu being only marginally lower than current cost of naphtha at about US \$7.0 per million Btu, even naphtha based plants will not stand to gain much. On the other hand, current cost of fuel oil at about US \$5.0 per million Btu being lower, units in this group will have no incentive whatsoever, to switch over to LNG.

Hence, contrary to the commonly held view, imported LNG does not provide a cost effective option to the fertiliser industry in India. Against this backdrop, it is unlikely, that the fertiliser units would be able to ensure guaranteed offtake of LNG on a long-term and sustained basis. Needless to say, this has caused a lot of uncertainty about the viability of LNG projects.

It would be a serious mistake to link the fortunes of the fertiliser industry solely to imported LNG. The domestic gas should continue to be made available in required quantities to ensure optimum utilisation of existing capacity. To facilitate this, supplies to power and less important sectors like sponge iron, etc., should be cut off. Their requirements for fuel (primarily for heating) can be met from coal which is available in abundance.

(The author is chief economist, Fertiliser Association of India. These are personal views)