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Pangs of gas pricing

Guest Column

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ACCORDING to the Gas Authority of India Ltd (GAIL) circular dated June 6, 2001, has fixed the basic price of gas for July, 2001 at Rs 2,850 per thousand cubic meter. This is the level that prevailed in October, 1999 when, it was last revised. This sounds rather unusual as after a gap of almost 20 months, one would logically expect a revision! But, wait a minute. In the circular, it has also been stated that the existing structure of gas pricing and the price level will continue on a 'provisional' basis.

This way, the Government has given a clear indication of increase from the 'day one'. Thus, irrespective of when, the revised price is notified, it will be enforced 'retrospectively' from July, 2001. While, stating that revision in price has been under Governments' consideration, the circular makes a loaded reference to the last fiscal. This points towards the possibility of higher price being made applicable even in respect of supplies made during the 15 months prior to July, 2001. The basic price of gas was linked to import parity price (IMPP) of a basket of internationally traded fuel oils. Starting with 55 per cent, the linkage was proposed at 65 per cent in 1998-99, 75 per cent in 1999-2000 and 85 per cent in 2000-01. The price was required to be adjusted every quarter to reflect movement in IMPP of fuel oils. It was however, subject to a ceiling of Rs 2,850 per thousand cubic meter. There was substantial increase in IMPP of fuel oils during second half of 1997-98. While, it decreased significantly in the following year, during last two years there was steep increase. This coupled with establishment of parity at higher levels would have led to zooming gas price.

But, thanks to imposition of ceiling, it has been restricted to Rs 2,850 per thousand cubic meter. Realising that the ceiling has come in the way of reaping handsome gains, the Government is now contemplating to remove it. It also intends to establish linkage with IMPP of fuel oils at 100 per cent. And, since decision on these two major issues is somehow getting delayed, it has come out with an 'ingeniously' worded circular to ensure that potential revenues during the 'interregnum' are not lost. Reportedly, the Government is aiming at an increase in basic price by a whopping 100 per cent or about Rs 3,000 per thousand cubic meter.

Consequent to this, production cost of urea units will go up by about Rs 2,400 crore per annum. In the face of control on selling price at a low level, this will lead to corresponding increase in subsidy. After removal of control, this burden will fall on farmers/industry. The phosphate units using ammonia made from domestic gas will also incur higher production cost. They are not even certain whether, this would be covered by higher concession support.

This is because the Government fixes concession on a 'uniform' basis using cost of imported ammonia (besides imported phos acid) as the benchmark. As it is, the current price of gas in India is substantially higher than in major exporting countries. After the contemplated increase to a high of about $4.5 per million Btu, it would be virtually impossible for Indian industry to face the onslaught of cheap imports under the QR free regime. Besides, the move to charge higher price with retrospective effect will lead to a virtual nightmare for various stakeholders. Thus, there would be arrears of about Rs 3,000 crore during April 1, 2000 to June 30, 2001. These will further increase Rs 200 crore per month until such time the higher price is notified. Raising required funds to pay for consequential increase in subsidy is going to be a daunting task.

In the emerging scenario of unprecedented shortfall in availability of funds vis-à-vis requirements, payments to the units are bound to get delayed. This in turn, will lead to serious liquidity problems and consequential adverse effect on production. Moreover, since the Government does not reimburse interest cost on delayed payments, this will also erode the bottomlines of companies. Considering that gas is mainly used in a 'strategic' industry like fertilisers (apart from power), its pricing has to be handled very carefully. The price has to be kept at a 'reasonable' level. This is necessary to contain subsidy outgo within prudent limits. Keeping these basics in mind, whatever, new price level that Government may decide, should be applied only 'prospectively'.

(The author is a chief economist with Fertiliser Association of India and views expressed are personal)