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Under attack despite being world class

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At a recent seminar held in New Delhi, the National Productivity Council (NPC) released statistics on energy efficiencies of key industries viz., steel, cement, pulp/paper and fertilizers in India vis-a-vis the developed countries - the United States, UK, Japan, Italy, Germany and Sweden.

Energy consumption expressed in million kilo calories per tonne of product are: steel Italy 4.03, Japan 4.18, 5.02, UK 6.08, USA 6.06 and W. Germany 5.21 as against 9.5 in India; cement Italy 0.89, Japan 1.2, Sweden 1.4, UK 1.3, USA 0.95 and Germany 0.82 as against 2.0 in India; pulp/paper Sweden 7.56, UK 7.62 and USA 9.70 as against 11.13 in India.

In fertilisers, energy consumption in million k.cal per tonne of ammonia _ this is the generic intermediate product used in production of all fertilisers _ is Italy 9.92, UK 12.23 and USA 11.32 as against 11.25 in India. Thus, even as in steel, cement, paper/pulp, our efficiency is the lowest when compared to developed countries, in fertilisers, the efficiency of Indian industry is better than USA and UK.

In India, 50 per cent of 'N' production capacity is on gas. About 43 per cent is on naphtha, fuel oil/LSHS and coal which are inferior feedstock entailing higher intrinsic energy use. Consequently, the industry average is affected unlike in Italy wherein, entire capacity is on gas.

For gas based plants in India, the average energy consumption is 9.18 million k.cal. per tonne ammonia which is lower than that of Italy i.e., 9.92 million k.cal. In fact, excluding Namrup, a sick unit of HFC, the former is still lower at 8.86 million k.cal. Thus, in terms of energy use efficiency, fertiliser industry in India is on top of the world.

The capacity utilisation _ production/installed capacity _ is another key indicator of efficiency. During 1997-98, the average capacity utilisation in 'N' was 101 per cent. Excluding sick plants, this was 109 per cent. Thus, even in this respect, performance of the Indian fertiliser industry is comparable to the best in the world.

The industry has struggled hard _ for more than two decades now _ drawing upon latest technological developments, continuously improving maintenance and management practices, using computerised systems for monitoring and control of process parameters and, above all, unflinching dedication and commitment of work force to reach to current levels of performance.

And, yet, the industry is often criticised for its high cost of production. Higher in relation to what? The bench mark often cited is cost of imported urea. Such comparison is highly tricky. The FOB price of urea depends primarily on global demand-supply balance and fluctuates violently. The trends in 90s show that a swing of up to 2.0 million tonnes in trade volumes can move the price in a wide range of US $92.0 tonne to about US $232.0 per tonne.

For comparison, some friends tend to pick up only numbers on lower side despite such scenarios being rare as in 1997/98. This is, not only, illogical, but also, reflects a biased mind-set that sees all good things in import and only bad points in indigenous industry. A logical course would be to compare reasonably log period.

The farmgate cost of imported urea was 1991-92 Rs 5758 per tonne, 1992-93 Rs 5732 per tonne, 1993-94 Rs 4843 per tonne, 1994-95 Rs 6738 per tonne, 1995-96 Rs 8740 per tonne and 1996-97 Rs 8610 per tonne. In contrast, cost of indigenous urea was 1991-92 Rs 4554 per tonne, 1992-93 Rs 5008 per tonne, 1993-94 Rs 5445 per tonne, 1994-95 Rs 5686 per tonne, 1995-96 Rs 5851 per tonne and 1995097 Rs 6093 per tonne.

Thus, except during 1993-94, when cost of import was lower, in all other years, it was higher. The weighted average cost of supply over the entire six year period works but to Rs 7288 per tonne for imported urea as against Rs 5476 per tonne for indigenous urea. The former was thus, higher than latter by Rs 1812 per tonne.

All these years, import of urea has been about 2.0 million tonnes per annum (actuals vary from year to year). In case, indigenous production had not come up at the pace it did leading, in turn to still higher imports, cost of imports would have exceeded cost of indigenous urea by much higher margins.

The critics may still say that we are high cost in relation to cost of production in exporting countries. In actual practice, latter is irrelevant. This is because all imports are at international prices which are unrelated to production cost. Even supplies from joint ventures abroad ,e.g., Oman, under buyback agreement are at world market prices.

The cost of gas in middle east is less than US $1.0 per million Btu., e.g. US $0.77 per million Btu to JV in Oman. Against this, gas cost to plants in India along HBJ is about US $2.4 per million Btu. due to shortfall in gas supply, they have to use naphtha about 25 per cent. The cost of latter being about US $4.4 per million Btu. effective cost of feedstock is about US $2.9 per million Btu. This is the US $2.13 per million Btu more than to Oman plant.

Thus, even assuming same efficiency say, 24.0 million Btu for producing a tonne of urea, energy cost of plant in India along HBJ will be higher than from JV in Oman by US $51.0 per tonne. This is pretty obvious. Despite high efficiency, Indian Industry is high cost. But, what about the general perception?

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Critics look at high cost in isolation and jump to the conclusion that our industry must be inefficient. They do not even care to look at the facts. When asked as to what should be done to reduce cost, all that they have to say is, units should improve efficiency.

For a moment, let us get on with it i.e. we need to reach a target energy cost of US $18.5 (24 x 0.77) which Oman project can do. The cost of feedstock to the HBJ plant in India being US $2.9 per million Btu, it can reach that level only if, it consumes 6.37 million Btu of energy for producing a tonne of urea. We are asking for the impossible.

The real issue is high pricing of feedstock in India. This was ducked by the high powered fertilizer pricing policy review committee (HPC) despite this being a major term of reference. The pricing of hydrocarbons was examined by the JPC in 1992. In fact, it recommended freezing the prices of naphtha, fuel oil/LSHS at existing level and reduction in gas price by 35 per cent.

Ignoring JPC, the government has been merrily raising prices. For instance, ex-refinery price of naphtha was increased from Rs 2726 per tonne to Rs 3723 per tonne in September 1992, Rs 4840 per tonne in July 1996, Rs 7624 per tonne in September 1997. It declined to Rs 6820 per tonne by October 1998. With effect from. 18th November, 1998 it has been increased to Rs 7475 per tonne.

With effect from. 2nd September, 1997, feedstock prices were linked to import parity (IMPP). With effect from. 1.4.1998, these were decontrolled view of this, it may be argued that Government is no longer in the picture. This is misleading as given continued monopoly of oil PSUs over supplies, it still controls prices.

The Government also controls selling price of urea which was kept frozen at Rs 2350 per tonne throughout the 80s and increased in 90s at snails pace to current level of Rs 3660 per tonne. In relation to this artificially suppressed level, reasonable cost of supply _ currently about Rs 7500 per tonne _ is bound to be higher. This too, does not go well with critics who are quick to blame industry for consequential high subsidy.

Persistent criticism - not based on facts - has vitiated the atmosphere. It has led to adverse change in various parameters of pricing under RPS and continuing uncertainties of the policy. In turn, this has affected health and growth of the industry. This should cease if we are to prevent further damage which will eventually tell on country's food security and health of Indian agriculture.

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