

## Gas from Oman — II

# The cart before the horse

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Fertiliser units are presently surviving the high cost of gas because of the subsidy scheme under which this gets compensated in the face of the control on the selling price of urea at a low level. Because of increasing fiscal compulsions, the subsidy scheme may not continue for long, and as and when urea is decontrolled the farmers, who are the consumers of this fertiliser, would not be able to afford their urea requirements.

At \$2.5 per mBtu, the Oman gas would be costing about Rs. 3,000 per thousand cubic metres at the landfall point, which is about 70 per cent more than the corresponding price of our own gas. At the prevailing cost of transportation being charged to HBJ plants, the cost to the users would not be less than about Rs. 4,500 per thousand cubic metres. But, the HBJ pipeline cannot carry this gas (50 million cubic metres) even after the expansion presently under way is completed. In any case, the latter is meant for transporting additional gas that would become available from additional processing facilities at Hazira. Fresh infrastructure for receiving gas from Oman, compression and other facilities at the terminal, and laying of a pipeline for internal transportation will have to be created and a suitable mark-up on the landfall price to recover these costs would be much more than that for moving domestic gas. The actual price may eventually be more than Rs. 5,000 per thousand cubic metres.

Another factor we must remember is that in the event of the crude oil price rising to \$30 per barrel or beyond, which is not ruled out if one goes by past experience, the Omanese are demanding a price of \$4 per mBtu. And, even if they agree to \$3.5 per mBtu, that would take the cost to user-industries to a high of about Rs. 6,500 per thousand cubic metres or beyond. Can the user-industries - mainly fertiliser and power - afford to pay for gas at such exorbitantly high levels?

Of the 45-million-cubic-metre gas (mcmd) presently being consumed (1993-94), a predominant share, that is, about 75 per cent is in fertiliser and power, that is, about 40 per cent and 35 per cent respectively. An overwhelm-

ing share of the incremental use in future will also be in these sectors. Consequently, any decision about the price for gas must necessarily consider the economic viability of these two sectors at the negotiated prices. Users of both power and fertilisers do not have an unlimited capacity to pay. And, with the Government committed to eliminating subsidy on both, this fundamental consideration becomes even more important.

The Petroleum Ministry is seeking to import gas with the aim of easing the feedstock supply situation to the user-industries. But, by endeavouring to make arrangements for its supply at prohibitive prices which would make them unviable and ultimately unusable, the exercise is bound to become self-defeating. If we do not have the desired growth or if the existing industries become unviable because of high feedstock prices, where is the need for more gas and, by the same logic, where is the need for importing it?

Apart from callously ignoring the viability of the user industries, the Government seems to be going ahead with the contemplated contract for a whopping 50 mcmd (more than the present consumption) supply without even ascertaining a) whether the downstream industries would be ready to receive gas; b) whether the necessary infrastructure would be ready to receive, process, transport and deliver gas at points of demand; c) who will execute and carry out these jobs, for example, ONGC/GAIL, or would it be a joint effort between the public and private sectors, and from where the funds will come. There seems to be no planning, no co-ordination of these aspects.

Against this backdrop, entering into a commitment for the supply of gas from Oman on an unprecedented scale is clearly a case of putting the cart before the horse. Far from achieving anything worthwhile, this approach will ultimately land us in a situation of having to make heavy compensatory payments, and that

too in foreign exchange to the ONGC for not meeting the requirement of minimum offtake or inordinate delay in getting ready to receive the gas by 1997-98, in terms of the contract.

Planning for gas supplies needs to be freed from the present 'frog jumping' approach. There is something fundamentally wrong with the projected demand of gas at 250 mcmd by the end of the Eighth Plan. Because of this, our planners seem to have been put in high-fly gear. The demand has to be related to the projects which would be commissioned by the deadline and be physically ready to actually receive the gas. But, in this case, we seem to have included all and sundry, including projects which are still only on paper. There is an urgent need to generate a more realistic demand figure and, accordingly, plan on that basis.

Second, let us concentrate on the early completion of ongoing projects, that is, eliminating the flaring of gas, augmenting the processing facilities at the Hazira terminal, and augmenting the HBJ pipeline aimed at increasing its throughput to 30 mcmd from the existing 18 mcmd. Because of the delay in completing these projects, the ONGC and GAIL are not able to supply even contractually committed quantities to user-industries.

Third, exploration and production of our own gas reserves needs to be intensified for meeting future requirements of gas. The unprecedented delays in the various rounds of bidding undertaken so far could have been avoided.

Fourth, there may even be merit in tying up arrangements for the supply of gas from our neighbours, say Bangladesh, which has surplus gas reserves, and which will save enormously on transportation cost thereby facilitating availability at much lower prices compared to what we will have to pay for gas supplied from Oman.

(Concluded)

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