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Gas supply to fertiliser units

Unkindest cut to the farm sector

The Government must find an urgent solution to the problem arising out of the excess commitments made by GAIL vis-a-vis gas availability. As a first step, a priority list of users has to be drawn up. Under no circumstances should the demands of power generation or oil refineries be preferred over the claims of fertiliser plants which hold the key to increasing food production, says Dr. Uttam Gupta.

BASED on the action plan considered by the Gas Linkage Committee (GLC) for 1994-95, the Gas Authority of India Limited (GAIL), recently decided to reduce the supply of natural gas to all the units along the pipeline by 15 per cent on a prorata basis with effect from July 1, 1995 (originally proposed from April 1, 1994). Even as the repeated protests from the Department of Fertilisers and Power which is represented on the GLC, fell on deaf ears, the immediate provocation for effecting the cut was the excess of supply commitments made by GAIL vis-a-vis the availability through the pipeline.

The HBJ pipeline was designed to transport 18 million standard cubic metres (MCMD) of gas per day. As against this, the Government has committed supply of 24.1 MCMD along the pipeline and another 1.35 MCMD as fall back allocation to IPCL — Baroda and GSFC — Baroda. The actual quantity of gas being transported is just about 15 MCMD. Of this, fertiliser plants are getting about 40 per cent and power about 50 per cent and the balance 10 per cent going to other user industries.

The commitments in excess of the designed capacity sounds baffling. GAIL may have plans for augmentation of the pipeline capacity to supply more (ultimately 33 MCMD) gas but, as of now that is only on paper and even if the work starts immediately, it would be a long time before user industries could think of getting additional gas. The fact that GAIL has resorted to cut supplies to the existing units, only proves that there is not much of hope in the near future on this score.

The critical question is why gas supply commitments in excess of the availability have been made? The position with regard to the latter is known with a fair amount of certainty. After all, we are not talking of exploration of the new reserves of gas which may or may not be established commercially and would affect only the future supplies. Given the existing rate of production and infrastructure for collecting and transporting gas to the shore and from there through the pipeline, there can be absolutely no ambiguity about the quantity of gas available from the pipeline.

A possible explanation that GAIL might have up its sleeves was the reported delay in the setting up and commissioning of the two fertiliser plants along the HBJ pipeline i.e. Tata Chemical's plant at Babrala and that of Bindal Agro at Shahajahanpur (both in UP), each requiring about 1.5 MCMD which is barely sufficient to cover their requirements of feed and fuel in the process plant (including the off-site facilities, the requirement would be higher at 1.82 MCMD).

It needs to be clarified that requirements from these two add up to only 3 MCMD which, on its own, does not fully take care of the mismatch. Second, even for these projects, the critical point is that there was only a "delay" and no indication, whatsoever, that the projects had been abandoned.

In fact, following apprehensions voiced on this score, the DoF got a thorough investigation done in regard to the progress of these projects which was found to be satisfactory and accordingly, GAIL was intimated. Why should then, the latter have hurried up to accept demand from other sectors ignoring the factual position. The Babrala plant is now expected to be commissioned in October 1994 whereas the Shahajahanpur plant will also start producing next year i. e. 1995.

The three gas-based plants along the HBJ pipeline IFFCO-Aonla, Indo Gulf-Jagdishpur and NFL-Vijaipur, all commissioned about six years ago i. e. in 1988 have all along been getting their full supplies of gas as per the contract for long-term supply with GAIL. Only a few months ago their supplies were reduced from 1.82 MCMD as envisaged in the contract to 1.5 MCMD which translates to a cut of about 17 per cent.

A further cut of 15 per cent on this would reduce the supply to a miserably low level of 1.25 MCMD which encroaches seriously even on the requirements of feed and would result in loss of production of about 1.4 lakh tonnes per annum urea. And, for four such fertiliser plants along the HBJ pipeline including Chambal Fertilisers at Gadepan which is fully operational in 1994-95, the loss would be about 5.6 lakh tonnes per annum.

Already, because of the increasing short supply of domestic production of urea in relation to the demand, the import of urea reached a record high of 2.75 million tonnes in 1993-94 which is likely to be maintained during 1994-95. The consequential loss of production due to the cut in the gas supplies will add another about 5.6 lakh tonnes valued at about Rs. 270 crores per annum which is clearly unwarranted and avoidable.

Besides the loss to the national exchequer in terms of avoidable increase in foreign exchange outgo, there would be significant financial loss to the individual companies affected by the cut in gas supplies. All fertiliser projects are highly capital-intensive and consequently, have a significant element of the capital-related charges. For every tonne of output foregone, this would be a dead loss. On an average, the financial loss in respect of one unit alone will be about Rs. 30 crores to Rs. 50 crores.

The resultant erosion in the profitability levels of companies with an excellent track record merely because the basic feedstock is not made available to them in the desired quantities as originally contracted, would clearly give wrong signals to all those who have invested money. This would, in fact, be tantamount to breach of faith for something that the project managements are certainly not responsible.

The fact that we need money particularly from foreign investors to finance development of the core and infrastructural industry in the country is incontrovertible. Besides, the various liberalisation measures including tax incentives and full repatriation benefits allowed to the FIIs and body corporates, the Government's policy has been to assure regular and consistent supply of the basic feedstock/fuel on a long-term basis to the projects in which their financial involvement is deemed necessary.

In the power sector for instance, regular supply of coal under long-term agreements for the projects has been envisaged. Subsequent denial of the agreed quantities of supplies after the project gets into commercial production, merely on the basis that the supplying authority had made excess commitments to the new comers, will clearly undermine foreign investors' confidence apart from leaving a blot on our image.

Only in January 1994, the Indo-Gulf fertilisers had made a Euro-equity issue of $100 millions representing to most of the leading foreign investors the world over that its plant would continue to operate smoothly on the basis of the long-term gas supply agreement with the Government. Now, with the latter backing out to supply the committed quantities of gas, not only would the company's position become embarrassing, the chances of further Euro-issues by the Indian companies succeeding would receive a setback.

The Government must find an urgent solution to the problem arising due to the excess commitments made by GAIL vis-a-vis the availability. As a first step, the users of gas have to be ranked in the order of priority.

The economic rationale was that gas has both chemical and energy value which is best utilised in production of fertilisers whereas in power generation or even oil refineries, the chemical value simply gets wasted. Power had entered the list at a time when a lot of surplus gas was available after meeting the fertiliser requirements.

Power plants at Anta, Auriya and Dadri all based on gas were set up along the HBJ pipeline not because power was consciously preferred in terms of Government's priorities on gas utilisation, but was mainly to accommodate the surplus. Now that the gas supply limit has come up, it should first be denied to power projects (this may exclude existing gas-based power plants for obvious reasons).

In addition, efforts are necessary for optimising operations in coal-based power plants, intensifying research on coal gassification technology and minimising transmission and distribution losses.

There is even a talk of further encouraging the use of gas in the refineries. The Government is reportedly exploring the possibility of supplying gas to the Mathura Refinery of IOC. Under no circumstances, should this be at the expense of fertiliser plants which are indispensable for increasing foodgrains production.

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