Editorial

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LNG: No panacea for fertiliser woes

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

When commercially exploitable reserves of gas were discovered off the coast of Bombay High and in the South Bassein region, a High Powered Committee (1976) under Mr Lov Raj Kumar, the then Chairman, Bureau of Industrial Costs and Prices (BICP), recommended that the use of gas in the manufacture of fertilisers should be assigned top priority. The rationale for this was that, apart from the critical role of fertilisers in increasing production of foodgrains, such use generates maximum value for the economy.

Based on these priorities, 10 ammonia/urea plants, each of 1,350/2,200 tonnes per day capacity (six of these along HBJ pipeline) were set up in the 1980s/early 1990s. However, the euphoria over the surplus gas led the Committee of Secretaries to recommend its use in power generation as well. Accordingly, a number of power projects based on gas were commissioned from the mid-1980s onwards.

In the early 1990s, the Government realised that its initial estimate of gas reserves was highly inflated. Therefore, it decided to put an embargo on the 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 indiscriminate allocation for power. In the Background Paper on Long-Term Fertiliser Policy released in July 2000, the Government stated that from 2010 onwards, no gas will be available to run even the existing gas- based plants. This points to a horrendous scenario as, currently, about 12 million tonnes of the total 20 million-tonne urea production capacity is based on domestic gas. This will be completely wiped out in the event of the non-availability of gas.

> The Government's proposal to cut off LNG supply to the gas-based plants from 2010 onwards could create a horrendous scenario as about 12 million tonnes of the present total 20 million-tonne urea production capacity is based on domestic gas. The manufacturers have been advised to use imported LNG instead but the latter is not a cost-effective option. Domestic gas should continue to be made available in required quantities to ensure optimum capacity utilisation, even if it means cutting off supply to less important sectors.

In the emerging scenario, the fertiliser sector has been advised to use imported LNG. Thus, the High Powered Dr Hanumantha Rao Committee (1998) recommended the switch-over of all existing naphtha and fuel oil-based plants to LNG. Echoing this, under the proposed urea concession scheme, the Expenditure Reforms Commission (ERC) benchmarked concession for all plants other than gas to the cost of imported LNG from 2005 onwards.

LNG is essentially natural gas found abroad, which is converted into liquid form, and then transported in specialised tankers. On arrival at import terminal, it 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 a liquefaction facility in the exporting country, construction/acquisition of LNG vessels, re-gasification plant and other infrastructure at the import terminal, laying of pipelines, 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 the requirements of the 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 $4-4.5 per million Btu at landfall point has been indicated. Adding about $1.5 per million Btu towards transport charges, its cost to a plant in the northern/central regions of the country would be about $6.0 per million Btu.

These prices are substantially higher than the present cost of domestic gas, which is about $1.7 per million Btu at landfall point and about $2.5 per million Btu along the HBJ.

The price of imported LNG, especially to plants in northern/central areas — at $6.0 per million Btu — being only marginally lower than current cost of naphtha at about $7.0 per million Btu, even naphtha-based plants will not stand to gain much.

On the other hand, the current cost of fuel oil — at about $5.0 per million Btu — being lower, units in this group will have no incentive whatsoever to switchover to LNG. In view of above, contrary to the commonly-held view, imported LNG does not provide a cost-effective option to the fertiliser industry.

Against this backdrop, it is unlikely, that the fertiliser units would be able to ensure guaranteed off-take 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. Some of them may not even get off the ground!

It would be a serious mistake to link the fortunes of the fertiliser industry solely with imported LNG. 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, such as sponge iron, etc., should be cut. 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. The views expressed are personal.)