

Pricing of hydrocarbon feedstock — II

Fair policy needed

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WHY should the Ministry of Petroleum and Natural Gas seek to draw a line between the two categories of hydrocarbon use i. e. feed and non-feed? A technical interpretation may be that the supplies as feed constitute a source of hydrogen whereas the non-feed use in the boilers and the steam generation plant is essentially meant for heating purposes for raising the temperature of various segments of the plant to a level at which the reactions can take place.

However, the fact remains that both are part of an integrated process and merely because some demarcation can be made in terms of the functions performed, it should not detract from the very philosophy behind charging a concessional price on the entire quantity.

It should also be recognised that part of the steam generated in the boilers is utilised as a feedstock (source of hydrogen) in the primary reformer of the ammonia plant. It is as much a source of hydro-carbon as direct supplies of hydro-carbon feedstocks in the reformer. To that extent, even the function of steam generated from feeding of the fuel into the boilers is more or less indistinguishable from the direct feeding of the hydrocarbon into the process plant.

It would appear that the sole intention of the oil companies is to take advantage of their monopolistic position to raise the prices of hydro-carbon feedstocks to the fertiliser industry. This is amply vindicated by their frequent resort to the 'take it or leave it' approach. The contemplated deregulation of the prices of petroleum products has also to be evaluated in this background.

Contrary to the general perception, deregulation will not result in competition. This is because despite the Government opening up hydrocarbons to the private sector, it will be a long time before the latter can establish its presence in a meaningful way. Supply and distribution arrangements present another major bottleneck, and will militate against effective competition.

The existing pipelines and connected infrastructure are owned by the Government, compa-

nies and even when additional supplies become available from refineries in the private sector, it is unlikely that the former will let the latter use this for reaching supplies to the consumers. Besides, there will be unavoidable problems of capacity limitations. For similar reasons, competition from imports is unlikely, notwithstanding recent decanalisation of major petroleum products, including naphtha.

In the unfolding circumstances and in the event of the Government hastily announcing deregulation, there is a strong possibility of the present trend of increase in prices getting accelerated at the cost of the fertiliser industry which represents demand by the weaker sections of the society.

Any resistance by the industry will not be of much consequence as the demand for these feedstocks in other sectors, e. g. petrochemicals, plastic, etc. is rising rapidly and they can even afford to pay higher prices. Already, after decontrol, the DAP industry has been badly affected. A further increase in feedstock prices will make the situation even worse. Urea units will survive as long as the protective cover of subsidy is available; the day it is removed, the high feedstock prices will spell their decline.

There is also the risk of curtailment or even denial of supplies as with liberalisation even the existing mechanisms for coordination of supplies would cease to exist, and oil companies will be under obligation to maintain supplies to any particular industry. It will be a scenario in which not only there will be no question of additional fertiliser capacity, there is also the likelihood of even existing units being decimated.

This will jeopardise our food security goal and hurt the poor. The Government must endeavour to prevent such a happening not only in the interests of the poor, but also to protect the national economy as any crisis on the food front causes an all-pervading effect.

It is necessary that the present system of administered pricing and centrally coordinated

allocation of supplies of hydrocarbon feedstock should continue. If, however, decontrol and deregulation has to be pursued for whatever reasons, this process should wait until the creation of necessary conditions that would ensure effective competition and subsequent reasonable prices to users. Specifically, the Government should allow for a reasonable time frame during which efforts should be made to augment the capacity, production and distribution infrastructure with increasing participation by the private sector.

Even within the existing dispensation, the Government should implement the recommendations of the JPC by restoring the prices of feedstock other than gas to the levels prevailing prior to September 1992. Besides, the supplies of natural gas liquid at the concessional rate should be restored and any precipitate action in respect of other feedstocks avoided.

Presently, there is total lack of accountability and transparency in the process and manner of fixing the prices of the petroleum products, giving rise to arbitrary and unilateral decisions. The Government should institute a credible and transparent system under which the allowance of various elements of cost and price computation is based on clearly laid down, objective criteria. This could be something on the lines of the Retention Pricing Scheme for fertilisers which is fairly comprehensive, provides for stringent norms for cost computations and has proved to be extremely useful.

Supply and pricing of hydrocarbon feedstocks is a national issue particularly keeping in view its serious ramifications on all aspects of the economy. A decision on this should not be the exclusive preserve of any single Ministry. Any change of policy should be evolved in a consensual manner and after careful evaluation of the impact on major industries particularly fertilisers which are vital to the national economy.

(Concluded)

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