Editorial

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Urea availability

Delusions of global surplus

The possibility of unprecedented loss of domestic production of urea in both India and China could drastically alter the global demand-supply scenario into one of substantial deficit. Although this might trigger the setting up of additional capacities elsewhere, say, in West Asia, it would be insufficient to offset the losses in India and China, particularly in the medium term, warns Uttam Gupta.

THE significant reduction in urea imports by India from a high of about 2.4 million tonnes in 1997-98 to 0.56 million tonnes in 1998-99 and about 0.5 million tonnes (likely) in 1999-2000, on the one hand, and the prevailing low international price of urea, on the other, have resulted in official complacency. The planners and policy-makers do not seem serious about maintaining the momentum of growth in domestic production capacity.

The Government continues to dilly-dally on the need for a new long-term, stable and conducive policy, thereby discouraging private investment even in the public/cooperative sector. Recently, the Public Investment Board (PIB) rejected four new ammonia/urea projects — RCF-Thal III, Kribhco-Hazira-III, IFFCO-Nellore and FCI-Gorakhpur (proposed to be implemented by Kribhco using the existing infrastructure) — on grounds which are thought to be theoretical and irrelevant.

According to the PIB, in a decontroled situation, these projects would be economically unviable. The Government neither plans to move towards urea decontrol in the near future, nor is there a proposal to link the pricing of domestic production to the import parity price. In regard to the former, when the government is hesitant to push through even a small increase in the selling price, how can it allow a steep increase, which will be inevitable in a decontrol situation?

The powers-that-be appear to be interested only in putting the brakes on the development of the domestic industry, purportedly on the basis that adequate supplies in the world market would meet the rising demand. This mindset could endanger the situation of self-sufficiency in fertilisers. The demand-supply scenario in the medium term — that is, in the next five years or so — both in India as well as at the global level must be carefully assessed before jumping to any conclu-

First, the likely scenario in India. Assuming there will not be any fundamental change in the policy environment — that is, continuation of the Retention Pricing Scheme (RPS) and only a gradual increase in the selling price of urea (or no increase at all, which will depend on the political climate), one could expect its consumption to grow at about 3.5 per cent per annum, this being the growth achieved in the 1990s. Thus, starting with a base of 20.5 million tonnes in 1998-99, this would go up to 24.3 million tonnes by 2003-04.

On the production front, except Chambal Fertilisers, Gadepan (expansion), expected to be commissioned by December end, no other project is under implementation. Urea production will therefore, increase from 20.2 million tonnes in 1999-2000 (includes three months production from Chambal Expansion) to 20.8 million tonnes in 2003-04. Thus, by 2003-04, there will be a deficit of about 3.5 million tonnes (24.3-20.8 m.t.).

At the global level, according to a recent International Fertiliser Industry Association (IFA) paper of June 1999, the surplus urea in the world market (expressed in terms of N) will decline from 3.597 million tonnes in 1999 to 2.114 million tonnes in 2003 — a fall of 1.483 million tonnes. As a percentage of production capability, it will drop from 7 in 1999 to 4 in 2003.

The above is the net result of a significant increase in deficit in Asia (including India) and 'Socialist' Asia (including China), partly offset by the increase in surplus in West Asia. The deficit in Asia is projected to increase from 1.089 million tonnes in 1999 to 1.870 million tonnes by 2003. In 'Socialist' Asia, the deficit is projected to rise from 1.719 million tonnes in 1999 to 3.446 million tonnes in 2003. Thus, for the whole of Asia, the deficit would increase by about 2.5 million tonnes.

In West Asia, the surplus is expected to increase from 2.530 million tonnes in 1999 to 3.469 million tonnes in 2003. For other regions, supply-demand balances will be more or less maintained. For instance, in the former Soviet Union countries, the surplus in 2003 would be 3.256 million tonnes, slightly lower than the 1999 level at 3.309 million tonnes.

At the global level, thus, after offsetting the increase in deficit in Asia — that is, 2.5 million tonnes by increase in the surplus of about 1 million tonnes in West Asia, the overall surplus would have shrunk by 1.5 million tonnes. It is also significant that in a total urea supply capability of 115 million tonnes, the surplus is just about 4 per cent. Consequently, even a slight variation in the actuals in regard to demand/supply *vis-a-vis* the projected levels could result in a major imbalance.

The situation in China requires a careful watch, especially in view of its overriding impact on the global situation. Its domestic production of N is projected to increase from 22.2 million tonnes in 1999 to 22.5 million tonnes in 2003. With demand growing much faster, imports are projected to increase (i) in the form of urea from 0.5 million tonnes N in 1999 to 1.8 million tonnes N in 2003, and (ii) in other form from 1.4 million tonnes N in 1999 to 1.9 million tonnes in 2003.

The production from ammonium-bicarbonate (ABC) plants is projected to decline from 7.5 million tonnes N in 1999 to 5.5 million tonnes in 2003. ABC is sold at a discount to urea. Consequently, producers lose heavily despite various concessions in regard to tax and power tariff. The projected reduced availability from this segment has to be viewed in the context of continued unviability of these plants leading to eventual closure of a number of them.

The production from small/medium size urea plants is projected to rise from 6.4 million tonnes N in 1999 to 7.2 million tonnes in 2003. These plants are based on obsolete coal- based technology, entailing high production costs. Unlike ABC plants, they are not entitled to tax and power tariff concessions. Saddled with large debts, the plants face serious financial problems. The production of large urea plants is projected to increase from 6 million tonnes (including 3.4 million tonnes via gas and 2.6 million tonnes through naphtha and fuel oil) in 1999 to 7.2 million tonnes in 2003. This is primarily due to four plants currently under construction, two of which are proposed to be on liquid hydrocarbons — naphtha/fuel oil.

A closer look would reveal serious doubts about the projected supplies in China. Consider the large projects reported to be under construction. The IFA paper says the Association is not even sure that work is progressing normally on these four projects. This is particularly the case with projects to be built in the remote province of Zinjiang. The capacity of these four projects adds up to 0.9 million tonnes N which may not come up.

The addition of 0.8 million tonne N by medium scale plants seems to be over-ambitious given the serious impact of the economic crisis and the un-economic operations. It has also been reported that apart from SSP and other low-analysis fertilisers, ABC makers are losing money on its production. Somehow, the enterprises are kept going with revenues from other sources and the compulsion to protect employment.

In view of the above and, in particular, the dim prospects of achieving a total of 1.7 million tonnes N capacity (0.9 million tonnes from four new large projects and 0.8 millions in small/medium sector), the projected global surplus of 2.114 million tonnes would fall to a mere 0.4 million tonnes.

China joining the WTO — sooner rather than later — can impact seriously on a number of high-cost plants which will be exposed to competition from cheaper imports leading to their eventual closure. If that happens, there could be a substantial global deficit.

India, following the ruling of the WTO Dispute Settlement Panel (DSP), may have to remove QRs much earlier than 2003, the deadline in the normal course; according to indications, this could be in 2001.

When the D-day comes, the Government will have to decanalise urea import. The majority of the plants being high-cost, because of the high-cost of hydrocarbons, they would become unviable in the face of low-cost imports and would have to be eventually closed. This is on the basis that controls on urea and the RPS will follow the only logical course, as otherwise the opening up of imports will have no meaning.

Even were the Government to provide uniform concessional support to domestic production at a higher rate than on imported urea — that is, on similar lines as for decontrolled di-ammonium phosphate — many plants with costs higher than the weighted average for the industry would be rendered unviable, leading to substantial loss of output.

Thus, in a nutshell, the possibility of unprecedented loss of domestic production in both India and China consequent to their opening up as per commitments under the World Trade Agreement, could drastically alter the global demand-supply scenario into one of substantial deficit. While this might trigger the setting-up of additional capacities elsewhere, like in West Asia, it would be insufficient to offset the losses in India and China, particularly in the medium term.

Other points to be kept in mind while assessing the global scenario include: (i) the urgent need to increase fertiliser consumption and, in turn, foodgrains production in Russia and other former Soviet Union countries (they cannot be expected to remain in a situation of heavy dependence on foodgrains import for too long); (ii) the fact of a substantial chunk of capacity in exporting countries based on plants which are more than 15 years old and the possibility of a portion of this being closed; and, (iii) the need for pushing up consumption in African countries from the current miserably low levels.

All these developments will have the inevitable effect of worsening the global demand-supply scenario. The planners and policy-makers in India should see the writing on the wall.

Five years from now, the global demand-supply scenario for urea will be tight. It could be one of unprecedented deficit if freeing of imports under the WTO leads to the closure of several high-cost plants in India and China.

Prudence demands that a minimum of five projects each of 0.726 million tonnes per annum is urea capacity, sanctioned without further delay, and work started to ensure that they are in place by 2003.

At the same time, all possible efforts should be made to ensure that efficiently-operating units remain viable and maintain production at the optimum level.

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