

Urea availability

Shortages may turn alarming

EVEN as the MMTC is being made the scapegoat for crisis in regard to the serious shortfall in the availability of urea, it is an incontrovertible fact that the supply management system in the country has already started cracking and may soon crumble unless immediate steps are taken.

The current year began with an inventory of about 10.5 lakh tonnes of urea as on April 1. Production between April 1 and September 30, 1994, according to the Department of Fertilisers (DoF) was about 67 lakh tonnes. Together with an import of 8.8 lakh tonnes during this period, the total availability of urea was 86.3 lakh tonnes as against an estimated demand of about 78 lakh tonnes. Consequently, the rabi 1994-95 season started with a woefully low inventory of only 8.3 lakh tonnes as on October 1, 1994.

Demand for rabi 1994-95 has been finalised by the Ministry of Agriculture at 93 lakh tonnes. Besides, 1995-96 should begin with a stock of at least 25 lakh tonnes, i. e. 15 per cent of the demand conventionally considered safe to prevent a stock-out situation. That would mean that 110 lakh tonnes of urea need to be arranged through domestic production and imports during October 1994 to March 1995.

Even assuming that production hits the target of 74 lakh tonnes, imports will have to be 36 lakh tonnes during the six-month period. However, it is most unlikely that the production target will be met. A major stumbling block is the contemplated maintenance and repair work of the gas infrastructure by ONGC/GAIL during January-February 1995 for 30 to 40 days. It will curtail gas supplies to all gas-based fertiliser plants by 50 per cent.

In turn, this could cause a steep decline in capacity utilisation and it may not even be economically viable to run them at such a low capacity as under the Retention Pricing Scheme (RPS) all fixed expenses including capital-related charges are allowed at normative capacity utilisation of 90 per cent and there could be serious under-recovering resulting in a corresponding financial loss. Technically, it may not be possible to operate these plants as below a certain critical utilisation level (80 per cent), the carbon-di-oxide compressor refuses to function.

About 50 per cent of the total urea production (1993-94) is based on gas as the prime feedstock. Complete closure of these plants

Indigenous availability of urea falls far short of expectations and poses a grave threat to farm productivity. The position is no less comfortable with imports, with the international market for urea becoming extremely tight and the prices shooting up. The answer lies in optimising domestic production by making adequate and timely supply of gas by GAIL to gas-based fertiliser plants to enable them work at capacity levels, says Uttam Gupta.

alone for even a month as proposed, will mean a production loss of about six lakh tonnes. Urea imports then will have to be 42 lakh tonnes. Never before in the history of Indian fertiliser industry have such huge-quantities been arranged in such a short span of time.

The Government's worry is further heightened by the fact that the international market for urea has become extremely tight. The global surplus has diminished progressively in recent years with production tapering off and consumption rising. China, a major player in the world urea market, traditionally accounting for 35-40 per cent of total world imports, is once again back. SINOCEM, the Government's agency, will henceforth be importing almost 90 per cent of China's total fertiliser imports.

The prices have also moved up from as low as \$130 per tonne C&F a few months ago to a high of \$180 per tonne now. The Government would not mind paying the bill and is even contemplating to increase the subsidy allocation on imported urea by as much as 100 per cent. But, that has become a secondary issue. The main concern is sheer non-availability of the material.

At the prevailing price of \$180 per tonne and adding handling and distribution charges of about Rs.1200 per tonne, the farmgate cost of imported urea will be about Rs.6,900 per tonne entailing a subsidy of more than 100 per cent of the current selling price of Rs.3,320 per tonne. In contrast, the subsidy being given on indigenous production on an average is only 50 per cent.

There was a time when for four years in succession i. e. 1987-88 to 1990-91, there

was practically no import of urea except for some small quantities coming under bilateral trade agreements. Thereafter, urea imports against free foreign exchange started rising. It was 390,000 tonnes in 1991-92, 1.86 million tonnes in 1992-93 and a record 2.8 million tonnes in 1993-94.

Imports rose as the installed capacity increased by only about 300,000 tonnes from 8.2 million tonnes in 1991 to 8.5 million tonnes in 1991 to 8.5 million tonnes in 1993-94. Even as consumption continued to increase, urea production was only about 13.1 million tonnes as against a consumption of 15.8 million tonnes in 1993-94.

Apart from the marginal addition to the installed capacity, domestic production has also been hampered by cut in supplies of gas to majority of the gas-based plants. Fertiliser plants have suffered because of the unilateral and arbitrary decision of the Ministry of Petroleum and Natural Gas not to give them even the contractually committed quantities of gas. In early July 1994, the supply to plants along the HBJ pipeline was reduced to 1.37 million cubic metres per day which does not even fully meet the basic feedstock requirements. The plants located onshore, KRIBHCO and RCF-Thal, have been similarly affected.

For running the captive power and steam generation facilities, the plants have been told to use other fuels i. e. naphtha, fuel oil or LSHS. Interestingly the supplies of even these alternate fuels are controlled by the Ministry of Petroleum and Natural Gas. And, in terms of overall priorities, the supply to the fertilisers industry is on a fallback basis. In simple terms, this means that fertiliser plants may or may

not get these fuels in the desired quantities.

KRIBHCO has a contract with IOC for supply of fuel for running its boiler which was denied gas by the ONGC. This contract will be expiring at the end of this year. For the next year beginning January 1, it is not sure whether IOC will supply the fuel or not.

The blatant neglect of the fertiliser industry has been evident ever since the second half of 1980s. The fact that the subsidy increased due to external factors is well-documented and clearly brought out even in the JPC report.

Armed with the Varadarajan Committee report, the policy makers tightened depreciation and capacity utilisation norms for fixing retention prices, squeezed other consumption norms and fiddled with various parameters of pricing to save on subsidy. The net result was subsidy continued to increase; further investment in fertilisers suffered badly as no entrepreneur dared put funds.

No new fertiliser project has been taken up for implementation and the Chambal, Babrala and Shahjahanpur projects were conceived in the first half of 80s. They got delayed for one reason or the other mainly due to policy uncertainties. The urea shortage that we are facing now is the inevitable result of the discriminatory attitude of the Government towards the fertiliser industry in the past.

It is doubtful whether the present crisis management will yield results or not. The Government has directed two public sector undertakings to scout for the material in the world market in addition to MMTC. Even assuming that they have the necessary wherewithal, it is unlikely that they could beat the situation at a time when supply is limited. Optimising domestic production is the only answer. An appropriate strategy would require (a) deferring the proposed repairs by ONGC/GAIL to April/May 1994; b) restoration of gas supplies to normal levels; c) making adequate allocations of gas for Babrala and Shahjahanpur plants as also for future additions to capacity; and d) a categorical statement by the Government that the retention price and subsidy policy will continue for another three to four years.

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