

Why is Oman dithering now?

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JUST a day before the Cabinet Committee for Economic Affairs approved the Oman-India joint venture, the Government was reported to have received a message from Oman Government that it was no longer interested in continuing with the project. Though the Omanese cited delays (the MoU for the joint venture was signed in 1994), this is irrelevant now as the Government has given its approval. To get to the real reason, one has to look at the terms of the agreement.

Under the buyback agreement, it was proposed that the Indian partners — RCF/KRIBHCO — would buy urea from the project at the prevailing international price. It also envisaged that whenever the international price was lower than the benchmark (level at which reasonable production cost is fully covered), the value of the shortfall would be made up by

way of a soft loan from the Indian partners.

Historically, the international urea price has generally ruled above the benchmark of \$110 per tonne. Against this backdrop, if a similar trend is maintained during the tenure of the project, the joint venture would stand to gain significantly. In fact, even when prices are lower than the benchmark, the soft loan provision to cover the differential would make sure that there is no loss to the joint venture.

Clearly, these terms would have ensured a win-win scenario for the Omanese and a corresponding loss to India, in all situations. This would have defeated the very purpose of sourcing urea through a joint venture from a country having abundant and low-priced gas. Remember, as per another agreement for the supply of gas, the cost charged to the project is only \$0.77 per million Btu, against

the high price of \$3.0 per million Btu in India.

Some doubts were expressed about the viability of the joint venture under the above terms. In fact, last year, the French Export Credit Agency, COFACE, even de-linked itself from the project. Other financiers wanted various changes, including a reduction in the project cost and a lowering of the debt-equity ratio, besides guarantees from the Government.

The Indian partners, too, raised some doubts. They were based on the prevailing low international price of urea — \$65-70 per tonne FOB. This being lower than the benchmark, COFACE and others concluded that the project would be unviable. However, the 1999 price is not relevant at all. The relevant price is the one that would prevail when the project is commissioned, that is, in 2002 (on the basis of work commencing in 1999). The low

international price is a result of the Chinese embargo on imports and India reducing its imports drastically in the last two years. But that is a temporary situation. Already, even without China and India staging a comeback, the FOB price has moved up to \$110 per tonne (fuelled mainly by demand from countries in Latin America and South-East Asia).

China is likely to come back some time towards end 2000/early 2001 following its agreement with the US/European countries to provide for tariff quota imports at 4 per cent. The imports by India are also expected to increase after the QRs on urea are removed from April 2001. Thus, there is a strong possibility of the price firming up; it could rule well above the benchmark price from 2002 onwards.

Under the new terms proposed by India, instead of the prevailing international price, buyback will be at a

pre-determined price based on production cost, including 10 per cent return.

While ensuring an assured market and reasonable return to investors (50 per cent of equity is held by each side), this will also benefit India, as the gains of low gas price will accrue to it. In short, the terms are fair to both sides. It will also justify India's setting up the project in Oman.

The above will, however, be tantamount to the Omanese agreeing to forego the fantastic profits that would have accrued under buyback at prevailing international price.

This, indeed, is the main reason why they are dithering now. For the same reason, we need to be on guard, and refrain from agreeing to conditions that might jeopardise the national interest.

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