

COMMENT

Uttam Gupta **disputes** the projection that there would be no incremental demand for natural gas by 2005

AN expert group appointed by the Government to assess the realistic demand for natural gas by 2005 has mooted nil incremental demand from the fertiliser sector. Ironically, the arguments advanced in support of this projection are not that: 1) there will be no growth in demand for fertiliser, and 2) growth of domestic industry is not necessary for meeting the increasing demand. On both these counts, the facts speak otherwise.

According to the Eighth Plan Working Group on Fertilisers, the demand for nitrogen by 1999-2000 has been assessed at 12.75 million tonnes. As against this, the likely production based on existing capacity and after taking into account the incremental contribution from various projects currently under implementation, will be about 9.2 million tonnes. This leaves a nitrogen deficit of about 3.5 million tonnes.

Of this, about one million tonne 'N' is likely to become available from the increase in supply of complex phosphatic fertilisers including DAP, needed to bridge the projected deficit in phosphate supply *vis-a-vis* the demand by 1999-2000. A further 0.7 million tonnes can be plugged through import of urea of about 1.5 million tonnes, which is a fairly safe cushion and is very much in line with the strategy adopted in the Sixth and the Seventh Plan documents. Dependence beyond that level could result in serious problems of availability and exploitation in the international market.

That leaves an uncovered deficit of about 1.8 million tonnes nitrogen which must necessarily be met by augmenting domestic production capabilities to the extent of four million tonnes equivalent urea. On the basis that 750 cubic metres of gas is needed to produce one tonne urea, this would require additional gas availability of about three billion cubic metres per annum.

About four million tonnes of urea capacity in the country is based on naphtha as the feedstock. This is an expensive feedstock not only in view of the higher price, but also, low conversion efficiency compared to natural gas. Presently, the units based on naphtha are viable because under the retention pricing and subsidy scheme (RPS), the excess of their reasonable cost of production and distribution over the controlled selling price is reimbursed as subsidy. However, in the eventual decontrol regime, these plants will become unviable.

Obviously, the country cannot afford to lose this capacity. To prevent this and maintain the viability of these plants in a decontrolled environment, it is imperative that they are switched over to gas. This would mean an additional demand for about three billion cubic metres per annum.

Unless about six billion cubic metres of gas per annum over and above the existing supplies and the supplies already committed



Fert industry needs more gas

for plants under implementation are assured, there is a serious risk of the country plunging into a crisis of urea supply which, in turn, can play havoc with agriculture and specifically, lead to a steep decline in foodgrains production.

Reportedly, the expert group has justified its recommendation on the basis that it would be economical to set up fertiliser plants fully dedicated to meet India's demand based on offshore gas. This would mean that the plants located within the country use imported gas; alternatively, new units are set up abroad in areas close to sources of gas supply, e.g. West Asia under joint venture arrangements.

In regard to the first alternative, the only source for importing gas one can look for is

that Oman-India gas pipeline for which an MoU was signed in 1994. The earliest that the pipeline can be expected is by 1999-2000. A more realistic projection would be a couple of years beyond that. The key question is: can we wait that long?

That apart, the cost of gas from this source will be prohibitive. On the basis of an indicated price of about US \$ 2.5 per million Btu (British thermal unit) at landfall point and adding internal transportation charges, the cost to the units would be about Rs 5,500-6,000 per thousand cubic metres as against the corresponding price of domestic gas in the range of Rs 2,000-3,000 per thousand cubic metres depending on location. Production at such prices is bound to be uneconomical.

Consider the second alternative. On this front also, apart from the joint venture in Oman which has made some progress, no other project, as per current reckoning, has a chance of seeing the light of the day. The contemplated joint venture in Iran is still in a limbo because Iranians wish to price gas much higher than the level at which the project could be viable. The moves in respect of possible JV in Qatar are still in an embryonic stage.

We should also not be oblivious of the infrastructure at the port and for internal transportation. The maximum import of urea ever handled at the Indian ports in the past was only about four million tonnes. These were incidentally the years when the pressure of handling from other sectors was not much. Over the years, while import volumes have increased substantially, the increase in port handling capacity has not been commensurate. Moreover, the future plans for expansion of port capacity pale into insignificance *vis-a-vis* projected growth in import volumes.

Likewise, internal transportation infrastructure is totally inadequate. During the current year, we have seen how the wagon availability came up as a big stumbling block. Because of this, the imported material remained stuck up on ports for several months. In fact, several vessels carrying DAP had to be diverted to neighbouring countries.

Unfortunately, in deciding who should get how much gas, the core considerations have been forgotten and the time-tested policies/priorities thrown to the winds. Various high-powered committees in the late 70s (Lov Raj Kumar Committee in 1976 and the Satish Chandran Working Group in 1979) recommended use of natural gas in fertiliser manufacture on the basis that such use fetches the maximum economic value from the national angle. This was subsequently endorsed by the Committee of Secretaries in 1984. The industry grew on this basis and even the supply and distribution infrastructure of gas (including laying of HBJ pipeline) was tuned to the growing requirements of fertilisers.

Even in recent years, the Eighth Plan Working Group recommended growth of fertiliser capacity on use of gas as the basic feedstock. This was subsequently reiterated by the Joint Parliamentary Committee on Fertiliser Pricing (JPC) in 1992. Why should, then, the priorities be changed drastically to the point of giving no gas at all for future growth of the industry? Such a decision will inevitably hamper the supply of essential plant nutrients that are needed to grow the required quantities of foodgrains, by the turn of the century and beyond.

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