

# Industrialise at home

It is intriguing that government-owned fertiliser companies are looking to the Gulf, says Uttam Gupta

**A**N important element of India's current globalisation spree is the contemplated move of the Indian fertiliser industry to set up ammonia-urea plants in the Middle-East. One of the projects in the limelight is the proposed joint venture of RCF and Kribhco with Oman Oil Co. for setting up a 1.5 million tonnes per annum urea plant in Oman. Then, there are the Iffco-Kribhco joint venture on Iran's Qesham Island, Iffco-RIL project in Qatar and Indo-Gulf Fertiliser's plans in Brunei. The Tatas have also announced plans to set up four plants in the Middle-East aggregating to a total urea capacity of about 3 million tonnes per annum.

Why this sudden enthusiasm for establishing industries abroad? That too, in complete reversal of the strategy followed during the past four decades. Does it mean that the domestic economic circumstances have changed so fundamentally that the Indian industry no longer likes the home country?

Could we not have a better way of arranging the necessary supplies of fertilisers for meeting increasing demand? These questions need to be addressed before our planners and policy makers allow or even encourage the Indian companies to go abroad.

A singular factor that seems to have triggered off the initiatives is the decision not to allocate gas to new fertiliser projects and deny to existing newly-commissioned projects a significant part of their requirements. In sharp contrast, this basic feedstock is available in the Gulf region in plenty and cheaper. But, the caveat here is that this urea is not meant for consumption in the Gulf; instead it will have to be bought back for use in India and that too predominantly at locations far away from Indian ports, in Uttar Pradesh, Punjab and Haryana.

The ocean freight and insurance charges involved in moving the material from the plant site in the Gulf to Indian ports are generally about \$25 per tonne. Add to this expenses to be incurred in India towards handling charges and distribution cost and that would almost offset the advantage due to lower price of gas in the Gulf.

Quite clearly, for the Indian farmer the urea coming all the way from

the Gulf will not have any competitive edge over the indigenously produced urea from a similarly placed new unit, say Chambal Fertilisers & Chemicals. In fact, vis-a-vis new plants already in commercial production for some years, which were set up at a much lower investment cost and have already recovered a substantial part of the interest and depreciation cost, the imported urea would be at a still greater disadvantage.

Even with regard to the gas price, although assured availability at the agreed low price for a reasonably long period is expected to be a part of

per mbtu. The arrangement with Ukraine, which continues to get gas at about \$1.5 per mbtu has not been disturbed due to strategic considerations. However, in its case also, it is a matter of time before the increase in price is given effect.

For countries in the Gulf region, such a situation may not immediately arise; however, in the long run, one should be on the guard against such a possibility. Potential investors from India wanting to board the bandwagon to the Gulf should consider this aspect as well.

The foreign exchange implication is

farmer's angle, the cost will fluctuate in tandem with the value of rupee vis-a-vis the dollar. Presently, even at the rate of Rs 31.50 to a dollar, imported urea despite the low gas price in the exporting countries comes at a high cost. In the event of the rupee depreciating, this would simply go beyond reach.

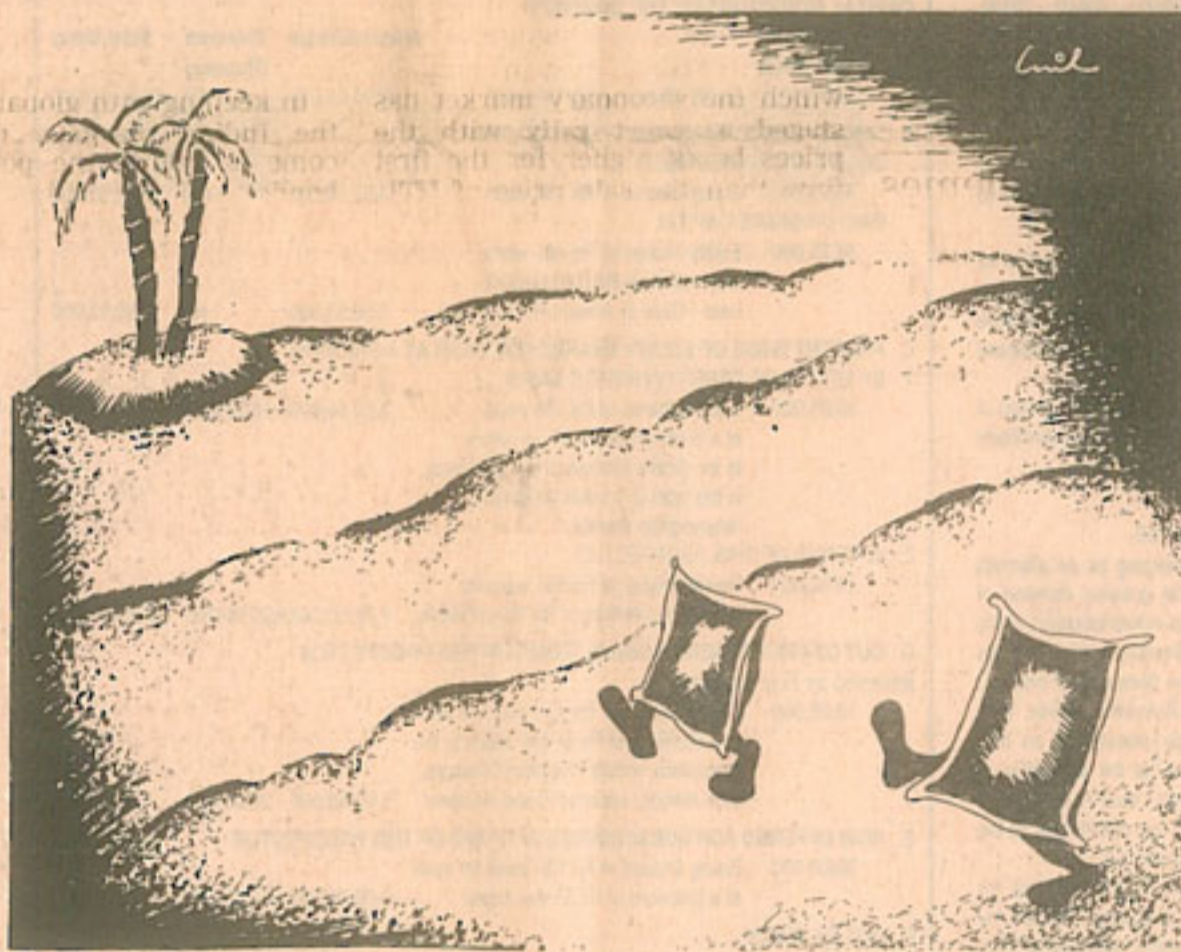
This obviously assumes that there would be no pricing and distribution control on urea, say, four years from now when these project would have been commissioned. Even assuming that the present controls remain intact by then, the increased cost of imports will have to be financed by higher subsidy payment, which again may not be desirable.

Purely, on strategic considerations also, it appears to be grossly inappropriate to set up industries abroad and promote industrialisation, employment and economic development there when our own country badly needs the same.

That brings us to the critical question of why the sudden dislike for home territory. And, this becomes all the more intriguing when the government itself is providing the lead through the companies owned by it.

The overwhelming reason is that we seem to have lost a sense of value for our own reserves of gas. A quarter of the gas production is being flared for the last several years. Timely implementation of the project for elimination of flaring could have prevented this. Moreover domestic availability is being indiscriminately allocated to other sectors such as power, petrochemical and sponge iron etc., thus reversing the time tested priorities for utilisation of gas.

The government has already made one mistake by creating unnecessary and unwarranted distortions in the gas utilisation and pricing policy and in the process, making investment in creation of fresh fertiliser capacity in the country unattractive. It would do well not to make another by allowing Indian industry to move abroad which is only fraught with dangerous consequences. Instead, it should concentrate on rectifying the first mistake that would not only give the national economy the best value for its own feedstock, but, would also help in promoting industrialisation at home with all its consequential benefits.



the long-term agreement with the concerned host government, the possibility of the latter backing out with regard to price or even quantities is not entirely ruled out. After all, if supplies could be unilaterally discontinued for prolonged periods or substantial cuts enforced in our own country, why can't the same happen on a foreign land.

In evaluating choices, recent international developments have to be considered. Consequent to disintegration of the Soviet Union and introduction of market-oriented reforms, Russia has now substantially jacked up the price of its Siberian gas and, excepting Ukraine, all other FSU countries and East European nations are being charged well above the going rate of \$2.5

no less important, both from the national viewpoint as well as the company. In regard to the former, presently we may not realise the significance in view of the surfeit of reserves estimated at about \$15 billion as on April 1, 1994. But, this is not a sustainable situation as much of it is in the shape of portfolio investment which might go back and export growth may not sustain even as the sudden surge in imports, particularly of essential items, cannot be ruled out.

In contrast, import of urea from our own plants in the Gulf will have to be paid for in foreign exchange and would constitute a perpetual drain on the reserves.

From the company as well as the