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Prospect of self-reliance in urea threatened by myopic policies

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GUEST COLUMN

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The price of urea is bound to shoot up the moment China re-enters the market, which may be some time in the middle of '98. So one should not read too much into the present low cost of imported urea

From the days of heavy urea imports during the 70s, India travelled down the road to progressive lowering through the 80s, culminating in their virtual elimination at the end of the decade. During 1990-91, while some quantities came under bilateral trade agreements, import against free foreign exchange was nil.

In the 70s, import of fertiliser was high as the domestic industry was in an infant stage resulting in low indigenous supplies even as demand was rising due to widespread use of high yielding seeds.

In the 80s, the industry grew rapidly under the influence of conducive policies especially the Retention Price-cum-Subsidy scheme, which was implemented in 1977. The system promised attractive returns subject to plant operation at high efficiency level which induced large scale investment and a resultant increase in installed capacity of nitrogen, from 4.58 million tonne during 1980-81 to 8.15 million tonne during 1990-91. In the 90s, there has been considerable slowdown with the N capacity increasing from 8.15 MT to the present 10 MT. Bulk of the increase came from projects planned in the 80s as no new grassroot project has been taken up.

The setback is primarily the result of the return on investment becoming uncertain and unattractive due to progressive tightening of pricing norms — capacity utilisation and consumption of raw material including feedstock and utilities — and delayed reimbursement of various costs necessarily incurred. These changes were implemented in a bid to contain the growing fertiliser subsidy whereas, the real reasons for this lie elsewhere.

Because, the selling price is controlled at a low level to induce increase in consumption, excess of reasonable cost of production and distribution — retention price plus freight and distribution margin — over this is paid as subsidy to prevent unwarranted loss to producers. Increase in production by itself, would inevitably lead to increase in total subsidy payments.

More importantly, subsidy increased because administered prices of feedstock and other inputs were increased steeply while selling prices were kept unchanged in 80s and only a small increase allowed in 90s. Ignoring these factors and merely working on the impression that subsidy was cornered by manufacturers, adverse policy changes were made affecting the industry and vitiating investment climate.

Apart from lopsided thinking on subsidy, government's diminishing faith in the ability of the industry to meet increasing demand in a cost effective manner has also contributed to its woes. What has prompted this? Have Indian producers become inefficient? Or is it because producers in exporting countries can do things better? Let us look at the facts.

The average capacity utilisation of plants in India increased from 53 per cent in 1980-81 to 88 per cent during 1991-92 and further to 93 per cent during 1996-97. Excluding sick units, during 1996-97, this was even higher. The number of plants above 100 per cent went up from just one in 1980-80 to 19 in 1991-92 and further to 24 during 1996-97. Thus, more and more of units joined the rank of better performers.

The average energy consumption per tonne of ammonia improved from 14.8 million Kcal in 1980-81 to 10.9 million Kcal during 1996-97. During 1995-96, the average for gas-based plants at 9.18 million Kcal was even lower than average for the American industry of 9.93 Kcal. Excluding Namrup - a sick unit of HFC - the former was still lower at 8.86 million Kcal. In terms of efficiency thus, the Indian industry is comparable to the best in the world.

On engineering, erection, commissioning and overall project management front, we are second to none. Barring a few instances of delay, mainly due to delay in getting various government approvals, plants have been set up in time bound and cost effective manner. The Iffco Phulpur expansion project was commissioned in December 1997, much earlier than even the target date end of first quarter 1998.

The industry is also involved in setting up projects abroad, ammonia/urea joint venture in Oman in which RCF/Kribhco are equal equity partners with Oman Oil Company and Spic's joint venture with JPMC in Jordan. Spic is also involved in relocating a plant from Sri Lanka to Jabel Ali Free Zone in Dubai.

Despite these strengths, apparent dislike for Indian industry may have something to do with the price at which urea can be imported. At current C&F $100 per tonne, its farmgate cost works out to about Rs 5,500 per tonne against cost of indigenous urea on a weighted average basis of about Rs 7,500 per tonne. Such comparison is misleading because import price is highly volatile. Presently, the price is low because China put a virtual ban on import of urea during 1997-98 due to excess availability at home caused by commissioning a couple of plants and excessive imports during previous two years. Besides, India too has not increased its purchases beyond the 1996-97 level.

The price is however, bound to shoot up the moment China re-enters the market which, according to some indications, may be some time in middle of 1998. Only two years ago, we paid a C&F price of $245 per tonne at which level, the farmgate cost came to Rs 10,000 per tonne against cost of indigenous urea only about Rs 6,000 per tonne. So, we should not read too much into the present low cost of imported urea.

The cost of production in exporting countries is significantly lower than in India despite comparable level of efficiency in production. This is mainly because feedstock primarily as natural gas is available at a much lower price expressed in dollar per million Btu of 1.0 in Iran, Indonesia, Bangladesh, 0.50 in Oman, 0.25 in Qatar. As against this, in India, cost of feedstock to gas-based plants is 2.9 at landfall point, 3.5 along HBJ pipeline, 5.8 to naptha-based units and 4.5 for plants based on fuel oil.

On this basis, however, it would unwise to encourage imports as urea produced abroad at low cost including supplies from the JV under the buy back arrangement will be available only at prevailing international prices. Needless to say, this would depend solely on the world demand supply balance which is bound to become tight if we keep ignoring our industry.

Clearly, the problem is neither with the RPS nor with the industry. Yet, if the urea produced at home and subsidy outgo is higher, the government itself is to blame as, on the one hand, it has raised feedstock price and inputs like power, water, freight, while, on the other, kept selling at artificially low level.

Notwithstanding the above, RPS has been made a scapegoat for all the ills. Already, this has cost the nation heavily by way of considerable slowdown in growth. Continuation of this mindset will accelerate the trend and once again, push us into a situation of heavy dependence on imports. Then, we would not only have to pay a much high price and correspondingly subsidy outgo, even the required quantity of material may not be available. The government would do well to get its act right before it is too late. ●

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