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Don't expect uniform cut, fertiliser makers warn govt after GIDC waiver

LAHORE: The government's efforts for an across-the-board reduction in urea prices could face resistance from some manufacturers as the impact of cuts in Gas Infrastructure Development Cess (GIDC) on industry's cost of production will vary from company to company.

The Economic Coordination Committee (ECC) on Monday slashed the GIDC on fertiliser sector by almost 99 per cent ie from Rs405 a bag to Rs5 with a view of providing relief to farmers reeling under spiking input costs.

The government expects all manufacturers to uniformly revise their prices down by Rs400 per bag after the GIDC cut.

However, a senior Engro Fertiliser executive told Dawn that they would not be able to meet government's expectations.

"We surely will fully pass on the projected reduction in our cost to farmers but you shouldn't expect us to pay the subsidy from our pockets," he said on the condition of anonymity.

The urea prices in the last year alone have increased from an average of Rs1,600 per bag to about Rs2,000, according to a BMA Capital analyst.

The industry sources said the price had risen from Rs1,800-1,850 level owing to increase in gas tariffs announced during the year.

Analyst Yusuf Rahman told Dawn on Tuesday that reduction in the GIDC would decrease cost of urea producers from Rs412 a bag to Rs38. But the impact varies from firm to firm due to three different types of feed gas tariffs.

Yusuf said the plants on concessionary feed gas had in the past shown much higher earnings than rest of the industry on account of concessionary gas rates and GIDC waiver.

He was of the view the uniform price reduction of Rs400 per bag will severely affect their earnings in 2020.

The fuel gas, however, is provided at the same rate of Rs150/mmBtu.

The GIDC reduction for companies like Fauji Fertiliser getting feed gas at Rs300/mmBtu will help lower their cost by Rs412 per bag as they have accrued the entire levy in their cost.

But the reduction in cost of firms like Engro (new plant) and Fatima receiving feed gas at a concessionary rate of $0.70/mmBtu (for initial 10 years of their life) is projected to be around Rs38 a bag.

Both these plants attract GIDC only on fuel gas whereas feed gas supplied to them is exempt from payment of levy under a court decision.

The manufacturing cost of Engro's (old) plant is projected to decline by Rs90 per bag since it pays feed gas tariff of Rs1,021/mmBtu for 70pc of its total consumption and Rs300/mmBtu for the remainder 30pc gas.

Engro and Fatima had approached government prior to the ECC meeting with a proposal to increase feed gas price to Rs635/mmBtu to make up for the "loss" in GIDC revenue but leave urea rates unchanged. The proposal was rejected.

"The urea off-take had hit a new monthly record of 1.4 million tonnes, pushing total sales in 2019 to 6.3m against the five-year annual average of 5.7m, despite the fact that it was being sold for Rs2,040.

"This indicates that farmers have the financial muscle to buy fertiliser at the current prices," a Fatima Fertilizer executive told Dawn.

He also chose to stay anonymous but added gas companies could have raised additional -revenue of up to Rs48 billion if government accepted the proposal.