

Standing Committee Report Summary

Demand and Availability of Petrochemicals

- The Standing Committee on Chemicals and Fertilizers (Chair: Ms. Kanimozhi Karunanidhi) submitted its report on the subject 'Demand and Availability of Petrochemicals' on March 17, 2021. Petrochemicals are chemical products derived from hydrocarbons that, in-turn, are derived from crude oil and natural gas. The petrochemical industry mainly comprises of synthetic fibre/ yarn, polymers, synthetic rubber, synthetic detergent intermediates, performance plastics, and the plastic processing industry. Key observations and recommendations of the Committee include:
- **Gap between demand and supply:** The Committee observed that the gap between India's demand and its capacity to produce major petrochemicals will increase from 1,124 kilo tonne per annum (KTPA) in 2018-19 to 7,112 KTPA by 2025 (533% increase). It noted that a Joint Committee has been constituted by the Ministry of Petroleum and Natural Gas (MoPNG) and the Department of Chemicals and Petrochemicals (DCPC) with industry experts to examine the petrochemicals demand and supply scenario. A draft Petrochemicals Perspective Plan has also been prepared in this regard by DCPC in consultation with stakeholders, including MoPNG and Engineers India Limited (EIL).

The Committee recommended that the Joint Committee comprising of senior representatives of MoPNG, DCPC, EIL, and private sector, and experts from the industry should be declared as the nodal entity for examining all issues related to demand and supply of petrochemicals. Further, the Joint Committee should study the existing reports and perspective plans in light of the prevailing economic scenario. The government should chalk out a concrete roadmap based on it, along with a definite timeline, to achieve self-reliance in petrochemicals and take necessary steps accordingly.

- **Petrochemical-specific action plan:** The Committee observed that the demand and supply forecast for 2025 is almost balanced in respect of certain petrochemicals such as polypropylene and purified terephthalic acid. However, the demand and supply forecast for 2025 is in deficit in respect of many other petrochemicals. Some other petrochemicals including styrene and polycarbonates are being entirely imported as there is no domestic production capacity for them. The Committee recommended that the demand and availability of each petrochemical should be studied separately and appropriate steps should be taken to augment their production so as to meet their demand domestically. Wherever necessary, customs duty

should be increased to safeguard the interests of domestic producers and discourage the imports of petrochemicals which are produced in the country. The Committee further recommended that DCPC should facilitate setting up of plants to manufacture the petrochemicals being imported wholly or substantially.

- **Capacity utilisation:** The Committee observed that capacity utilisation for major petrochemicals increased from 80% in 2015-16 to 87% in 2018-19. However, 100% capacity utilisation could not be achieved for any of them except synthetic detergent intermediates. The Committee noted that as per DCPC, factors such as cost of feed stock and scale of production encourage cheaper imports of petrochemicals, leading to lower capacity utilisation in the country. It recommended that DCPC should conduct a study in coordination with the industry associations to find out the exact reasons for not achieving 100% capacity utilization for various petrochemicals and take appropriate steps accordingly.
- **World-scale plants:** The Committee observed that DCPC has recommended an increase in import duties to make domestic petrochemicals cost competitive in the world so as to promote investment for building world-scale petrochemical plants. It noted that increasing import duties may be one of the factors which may help, but many other factors are equally essential to attract investment for world-scale plants. These factors include faster and hassle-free clearances, lower capital cost, and incentives for setting up world-scale plants such as tax holidays. The Committee recommended DCPC to study the incentives offered by leading countries such as China and Vietnam to attract investment for petrochemicals and methods adopted by them for ease of doing business and take suitable steps.
- **Free Trade Agreements (FTAs):** The Committee observed that imports from FTA partners increased at a higher rate than India's exports to partner countries. The trade deficit in chemical and petrochemical sector with FTA countries has worsened after signing FTAs. It noted that India's utilisation of FTAs remains low as complex rules of origin, lack of information on FTAs, higher compliance costs, and administrative delays dissuade exporters from using preferential routes. It recommended the government to study the impact of FTAs on the trade of chemicals and petrochemicals and take appropriate steps to safeguard the interests of the domestic industry. If necessary, the government may renegotiate these FTAs and take due care of the domestic industry while negotiating future FTAs.

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