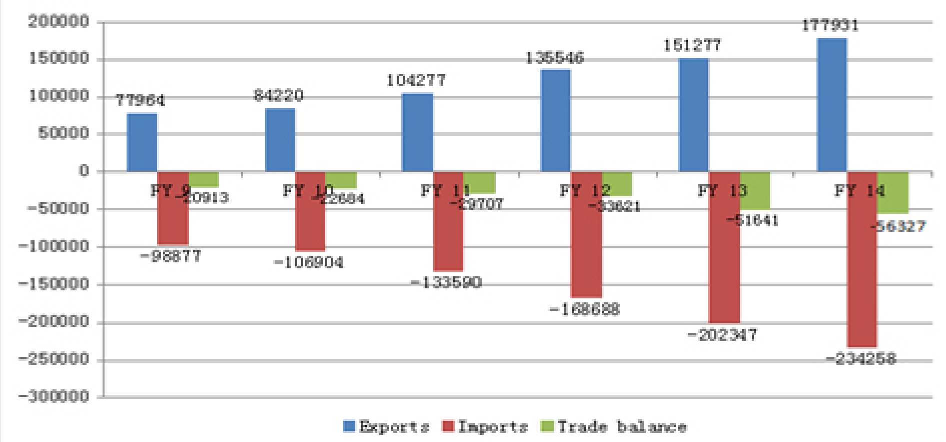
Sector Brief – May 2015

Background: Chemical industry is one of the oldest industry in India and contributes to 3% of the Indian GDP, 13-14 % of exports and 8-9% of total imports. The Petrochemical industry, which entered in the Indian industrial scene in 1970s, registered a rapid growth in the 1980s and 1990s. Today, petrochemical products permeate the entire spectrum of daily use items and cover almost every sphere of life like clothing, housing, construction, furniture, automobiles etc. The Indian basic petrochemicals market (including end products market which includes polymers, synthetic fibers, elastomers and surfactants) the total petrochemical market has grown at a CAGR of 11% from USD 19.3 billion in FY11 to USD 24 billion in FY13.Oil and Gas are considered to be feedstock in petrochemical processes that manufacture such products as plastics, detergents, solvents, elastomers and fibers such as nylon and polyesters. The oil and gas sector is one of the six core industries in India that plays a pivotal role in influencing decisions across important spheres of the economy.

Current Scenario: Foreign investment is one of the major reasons behind the growth of oil and gas sector. The petroleum and natural gas sector attracted foreign direct investment worth $6519.53 million between April 2000 and January 2015. Currently oil producing companies and refineries are not doing as well as oil marketing companies.

Figure 1 depicts the trend of imports and exports of major chemicals and petrochemicals in India during 2009-2010 to 2013-2014 along with the trade balance across these years. The import of major chemical and petrochemical products contributed 8.6% of total imports in 2013-14, compared to 7.6% in 2012-13 whereas exports of major chemical and petrochemical products contributed 9.4% of total exports in 2013-14, compared to 9.3% in 2012-13.

Figure 1 : Trends in Export and Import of major chemicals and petrochemicals (in Rs. Crore)



The major policy initiative of developing Petroleum, Chemicals and Petrochemical Investment Regions (PCPIRs) as a petrochemical hub in South Asia was formulated in 2007 which aimed at attracting massive investments in these industries totaling around $100 billion (£66 billion). However due to lack of any focused approach by the government, nor a continuation in leadership less than 10% of the proposed investments in PCPIRs have been realized. The lone PCPIR located at Dahej, Gujarat, accounts for a major chunk of investment. So far, PCPIRs have been approved at five locations in the states of Gujarat, Andhra Pradesh, Tamil Nadu, Orissa and Karnataka. Meanwhile, PCPIRs are being planned in Madhya Pradesh and other regions. Currently only 2.7% of refinery output is being used for petrochemical industries. Cracker units are being built at refineries and downstream facilities through PCPIRs to address the challenges presented by lack of feedstock.

Future Trend: By 2015-2016, India's demand for gas is set to touch 124 MTPA against a domestic supply of 33 MTPA and higher imports of 47.2 MTPA, leaving a shortage of 44 MTPA as per projections by Petroleum and Natural Gas Ministry of India. India is predicted to account for 12.4% of Asia Pacific regional oil demand by 2015.

The Indian petrochemical and chemical market is estimated to be around $144 billion – the third largest in Asia. The chemical industry is likely to touch $190 billion by the financial year 2017–18 on account of an estimated increase in demand for chemicals from various sectors.

The ministry aims to increase the output from refineries for petrochemical industry to 7%, thereby increasing the market from $150 billion to close to $400 billion. This will generate 3.7 million jobs. It will also revolutionise and metamorphose the entire industry and it will be a reality in the next five years. The chemical and petrochemical industry can be a game changer for Indian economy. Till now though India has been primarily refining crude oil for energy requirements, now the emphasis will be on deriving more value from sources by cracking materials for downstream industries. In future the refineries will not be for fuel purpose only but will also aim at increasing feedstock for downstream industries by 3 times.

Policy Announcements: According to Union Budget 2015-2016, Provision of subsidy for sensitive petroleum products has been set at Rs. 301 billion for 2015-16 (BE) which could be adequate for full FY16 and carry-over of Q4 FY15 if crude oil prices remain at current levels. Government has proposed to reduce basic custom duty on certain inputs, raw materials, inter mediates and components of chemical and petro chemical industry.

A draft national chemical policy has been firmed up with extensive consultations with stakeholders and is under finalization.The new chemical policy aims to increase share of chemical sector in India's GDP through initiatives like setting up of chemical clusters, building enabling infrastructure, facilitating fast track project clearances, expanding manufacturing capacities and skill development. The policy will also bring the entire chemical industry under one administrative roof. Currently, the refinery part of petrochemicals is with the ministry of petroleum and natural gas; agrochemicals with the agriculture ministry and different aspects of chemicals are fragmented. The new policy whose main thrust will hinge on the Make in India initiative will help establish links between the fragmented chemical industry units and allow the industry to become self reliant, successful exporter and a strong industry in the next 5 years.

The ministry is reviewing the PCPIR policy of 2007 in order to fast track its implementation and attract investments.

The new Government is giving thrust on some of the key ease of doing business parameters like setting up a fully functional single-window system for all clearances, reforming labour laws and easing the land acquisition rules which would give necessary push to 'Make in India'.