# 3. Securing the Chemicals Industry

## 3.1 Panelists

- Shri Deepankar Aron, Joint Secretary, Department of Chemicals and Petro-chemicals (DCPC)
- Mr. A.K. Gupta, Noted Trade Remedies Expert
- Shri Manish Sinha, Former Executive Director, IndianOil Ammonium Nitrate Manufacturers Association (IANMA)
- Shri Shanmugananth M, President, IC, DFPCL
- Shri Soutrik Ganguli,VP, RIL
- Shri R. N Kaul, Secretary, REGMA
- Shri Ashwani Mahajan, National Co–convenor of Swadeshi Jagran Manch


## 3.2 Background

The Indian chemicals sector stands out as one of the most rapidly advancing industries globally. It has attained the status of being the sixth-largest chemical producer, with a market size of $178

billion in 2021. As per industry reports, this sector is poised for further expansion, with an anticipated CAGR of 11–12%, reaching a value of $290-310 billion by 2027.

However, the Indian chemicals industry is facing unprecedented challenges from foreign imports, primarily from China, Russia, South Korea and the USA. This influx includes strategic chemicals like Isopropyl Alcohol (IPA), PVC, Ammonium Nitrate and refrigerant gases at unsustainable volumes and prices that threatens domestic industrial capabilities and nation's self-reliance and. This concept note aims to explore the key issues, impact, and potential solutions to safeguard the Indian chemicals industry.

## 3.3 Thematic areas of discussion

1. Rampant Imports: Excessive and uncontrolled imports of chemicals, such as IPA, PVC, Ammonium Nitrate and Refrigerant gases leading to not only decline in domestic capacity utilization, reduced market access for domestic players but also
2. Threatening the current and future domestic investments in the respective sectors.
3. Threat to Downstream Industries: Heavy reliance on imported chemicals could threaten the downstream industries such as pharmaceuticals, agriculture, infrastructure, and energy, making them vulnerable to disruptions in the supply chain.
4. National Security Concerns: Dependence on imported chemicals/gasses poses risks to national security, healthcare, and infrastructure resilience.
5. Trade remedies: How trade remedies can be used efficiently to safeguard domestic industries against unfair trade practices and thereby ensuring level playing field.

## 3.4 Key Actionable Insights

### 3.4.1 Dumping of IPA by China threatening the survival of domestic IPA industry:

As India aims for a $7 trillion economy by 2030, the demand for IPA is estimated to reach around 300,000 TPA to support the pharmaceutical sector. Presently, India's IPA production capacity is about 140,000 TPA, but this is being aggressively challenged by imported IPA. The domestic IPA industry, despite investing over ₹1200 crores as capital expenditure, is threatened by imports, particularly from China. Though imports from other countries like South Korea, Taiwan, Europe, USA also happens, China expoeters practise predatory pricing, echoing the Penicillin-G crisis of the early 2000s.

The IPA industry needs a level playing field to have sound reinvestment economics for its growth. The current trade remedy process is lengthy and therefore sometimes delays the trade remedy process which could be fatal to the industry. The panel recommended the need for more

efficient and timely government interventions to address unfair trade practices and achieve 'Atmanirbharta' in this critical industry. To prevent repetition of the penicillin industry's fate and to protect the healthcare and pharmaceutical sectors from import dependency, the panel discussed the urgency of implementing Anti-Dumping Duties.

### 3.4.2 Technical Ammonium Nitrate Industry: Non level playing field due to unavailability of natural resources

Over 77% of India's power generation relies on coal, which depends on ammonium nitrate for coal mining operations, highlighting the importance of ammonium nitrate to secure India's growing energy demand. During COVID-19 and the Russia-Ukraine war in 2022, India faced ammonium nitrate shortages due to supply chain disruptions. There was a risk of India going into dark. In response, the government (DPIIT and Ministry of Coal) appealed to the domestic ammonium nitrate producers to increase domestic capacity.

The Hon'ble Prime Minister's vision of Atmanirbhar Bharat in Coal hinges on securing a reliable, domestic supply of ammonium nitrate. Without achieving self-sufficiency in ammonium nitrate, India's coal industry remains vulnerable to global disruptions, as evidenced during the COVID-19 pandemic and the Russia-Ukraine war. These events highlighted the critical risks associated with import dependency, where supply chain disruptions can halt coal production and jeopardize the nation's energy security.

Natural gas is the primary feed stock for producing ammonium nitrate. Natural gas is priced at USD 2 per MMBtu in Russia while it is available in India at USD15 per MMBtu for the production of ammonium nitrate. Hence, the cost of the feed stock to produce ammonium nitrate in India is 7.5 times higher than the cost of the same feed stock to produce ammonium nitrate in countries (e.g. Russia) that export to India due to the unfair trade practices, thereby posing a threat to India's energy supply chain.

This makes investments for increasing ammonium nitrate capacity in India unviable. Country's vision to make India Atmanirbhar in Coal will come under jeopardy if domestic ammonium nitrate industry is not able to invest in new capacities required to support increase in domestic Coal production.

To level the playing field, it was discussed that there is a need to increase the Basic Customs Duty (BCD) from 7.5% to 20% to make domestic manufacturing of ammonium nitrate viable. A 12.5% increase in BCD on ammonium nitrate would affect coal production costs by 0.25% and will not have any adverse effect on public at large. However, it will ensure supply chain resilience and security of India's energy sector.

### 3.4.3 Threat to domestic PVC Industry due to ballooning imports: Endangering USD 8 Billion of committed investments

PVC is integral to sectors driving 29% of India's GDP and is crucial for agriculture, construction, healthcare, and other industries which are of strategic importance for a growing economy like India. The panel highlighted that currently the domestic PVC industry has a capacity of 1.6 million tonnes against a demand of 4 million tonnes in FY-23. This disparity is exacerbated by issues such as dumping and reduction in import duties.

The last capacity expansion in the domestic PVC industry occurred in 2009, highlighting a significant gap between current production and the forecasted demand of 7 million tonnes by FY 2030. To address this, the Indian government increased import duties on PVC to 10% in 2019, prompting $8 billion in investment plans for capacity expansion. However, the COVID-19 pandemic led to supply chain disruptions and a temporary increase in PVC prices. To stabilize the market, the government reduced import duties back to 7.5% in 2021. This reduction aimed to alleviate price spikes but resulted in a surge of imports, further challenging the domestic industry. With PVC prices now below 2019 levels, the viability of the planned USD 8 billion investments is in question. For the investments to proceed and enhance self-reliance in this critical sector, a stable investment environment is necessary.

Compounding the problem, the two largest PVC-producing nations – China and the USA – are grappling with floundering economies, significantly affecting their PVC consumption and forcing them to ship more volumes to India. This surge in imports puts additional pressure on the Indian PVC industry, threatening its viability and competitiveness.

To achieve 'Atmanirbharta' and protect the domestic PVC industry, the panel discussed the urgent need to implement Anti-Dumping Duties (ADD) and restoration of the import duty to 10%. These duty revisions and trade remedies will enable the domestic industry to meet the country's increasing PVC demand and ensure supply chain resilience for the national building chemical.

### 3.4.4 Infiltration of imported spurious gases in the Refrigeration Industry: Looming threat to Public Safety.

The urgency surrounding the issue of spurious refrigerant gases was a central focus of the panel discussion, particularly concerning the excessive imports and infiltration of R-152A (a combustible refrigerant gas) in India. Originally intended for limited applications, R-152A is being imported in quantities far exceeding its legitimate demand. While the actual demand is approximately 1,000 tons, imports have surged to 4,000 tons. This surplus 3000 tonnes of R-152a gas is seeping into the secondary refiller market, where it is used as an adulterant for R-22 refrigerant in older generation air conditioners. Given that R-152A is flammable and technically unsuitable for such applications, its misuse has led to numerous accidents, posing a significant public safety problem.

To combat this issue, the panel emphasised the necessity of strengthening enforcement against spurious refillers. A key recommendation was to link import licences for refrigerant gases to verified 'Actual End-User' demand. This measure would ensure that imports are aligned with legitimate end-user requirements, thereby preventing surplus gases from flooding the secondary market. Integrating the 'Actual End-User' condition into the import control regime was seen as a crucial step in controlling the influx of the spurious gases like R-152a.

Furthermore, the panel highlighted the need for developing stringent safety standards in collaboration with regulatory bodies such as the Petroleum and Explosives Safety Organization (PESO) and Ozone cell. These measures collectively aim to mitigate the risks associated with spurious refrigerant gases and enhance overall market integrity and consumer safety.

Watch the session on YouTube:

https://www.youtube.com/watch?v=pkAoPoQ37UM&t=2321s

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