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- ❖ The Honorary Consult of The Republic of South Africa, Mr. Shrestha, is currently an Academic Assembly Member of the National Academy of Science & Technology (NAST) and is also spearheading various organizations namely Butwal Power Company Limited, Kabeli Hydropower and Uppermai Hydro Development Pvt. Ltd.
- ❖ He is currently the Vice Chairman of EC Member, Confederation of Asia-Pacific Chambers of Commerce & Industry (CACCI) and has been the President of Federation of Nepalese Chambers of Commerce and Industry.
- ❖ He has been a Board Member of the Nepal Rastra Bank and has headed various development projects and Forums.

2nd Petrochemical Conclave

18th March 2013

New Delhi

Business Session presentation:

By Mr. Pradeep Kumar Shrestha

- *Vice President SAARC Chamber of Commerce and Industries*
- *Managing Director – Panchakanya Group*



PRESENTATION OUTLINE

- A. Sustainability, Trends and Challenge: *Global Trends, Economies of South Asian Countries with reference to Petrochemical Industries, Environmental and Sustainability Challenges*
- B. Regional Cooperation: *Focus areas for improving trade between neighboring countries, impediments & bottlenecks, growth areas and upcoming opportunities*

C. Economic Threat & Challenges in the SAARC region and the way forward

- D. Innovations / Technology: *Latest developments, innovations, emerging trends in terms of technology and innovation, focus on untapped areas with high growth potential.*



A. SUSTAINABILITY, TRENDS AND CHALLENGE

- Today, the Petrochemical industry is an integral division of manufacturing and consuming sectors.
- Since the birth of industry, the US has been the powerhouse in petrochemical markets.
- Today with discoveries of large resources of shale gas and with advancement on extraction technologies has again created a resurgence of the Industry.
 - With the economic climate downturn and petrochemical demand shifting towards the east, the European petrochemical producers are loosing to maintain a competitive edge on a global stage.



A. SUSTAINABILITY, TRENDS AND CHALLENGE: *contd..*

- Petrochemical Industry in this century is witnessing a paradigm shift from West to the East and with natural advantage of low cost feedstock, the Middle East is emerging as a global production hub.
- Given the rapid growth in demand in China, it is without a doubt that India is also becoming an emerging consumption center in Asia.
- Emergence of National chemicals and oil companies as global players is likely to shake up the global Petrochemical industry. The western companies will have to realign their strategies to catch up with the Asia Petrochemical boom, particularly China and **India**.



B. REGIONAL COOPERATION

- Asian markets in the next decade driven by China and India is expected to grow strongly.
- Feedstock availability, technology and management expertise will be a pertinent issue for petrochemical business in Asia.
- Domestic capacity will not be enough for the rising Asian demand and we will be dependent on import : e.g., China's reliance on naphtha as feedstock for Petrochemical.
 - Refining capacity expansion will not suffice with the demand.



B. REGIONAL COOPERATION: *contd..*

- Similarly India also uses naphtha for petrochemical production and recent initiatives of the government to establish petrochemical cluster will fuel the need for additional feedstock
- Technological and managerial expertise are lagging in compare with European and American peers. To change this, Asian Govt. are developing their local petrochemical through investment and incentivizing on local R&D.
- India to promote this industry, in 2007 kicked off Petroleum, Chemical and Petrochemical invest regions initiative.



C. Economic Threat & Challenges in the SAARC region and the way forward



Historical background:

- South Asia – Golden sparrow by British as this region was enriched with tremendous potential
- United India had 22.6% of global GDP in 1700 compare to 23.3% of entire Europe and 1 Indian rupees was equivalent 3 US \$.

South Asia Today:

- Misuse of resource and through non productive issue, the whole South Asian regions accounts for less than 2% of global GDP and merely 1.7% of Global Trade.
- According to reports 40% South Asian live below poverty line
 - 65% have no access to clean water.

SAARC & Trade liberalization Regime in South Asia:

The SAARC formed in 1985 only started trade liberalization in 1993 with the signing of SAPTA with limited scope as only small number of tradable items were given preferential duty rate.



Intra-regional trade in compared with leading trade blocks of the world

- SAARC countries intra-regional trade in 1995 was only **3.8%** , in 23 years has increased a meager 5.4% only
- intra -ASEAN trade has increased from 12% to 26% from 1967 to 2010
- intra-NAFTA trade has increased from 38% to 58% from 1994 to 2010
- intra-EU trade has increased from 35 % to 55% from 1992 to 2010
- COMESA(African trade) has witness growth from 10% to 23% from 1994 to 2010

South Asian Free trade agreement (SAFTA) & provisional economic integration

- SAPTA upgraded to SAFTA in 2004. All SAFTA member countries to bring Zero-rate tariff by 2016. This will help increase level of intra-regional trade activity.
 - Lack of political will among member states has resulted in limited concession, limited depth of tariff cuts, failure to deal with non-tariff issues and restrictive rules of origin. This has caused intra-Regional Trade under SAFTA to reach only \$1.2billion in the first five years.
 - Rigorous SAFTA implementation guideline, absence of clear cut modalities are other road block preventing SAFTA to move forward



Problems and Obstacles

1. Absence of trade facilitation mechanism
2. Non-Tariff Barriers
3. Lack of political will to implement SAFTA in true perspective:
 - Snail pace growth in intra –SAARC trade is due to the lack of political will for implementation of SAFTA in true spirit.
4. Non-business friendly environment:
 - Tariff barriers which are being replaced by NTBs has diverted the trade outside the region instead of seizing intra-regional economic activities.
5. High cost of Trade due to inadequate connectivity:
 - Cost of operating business is high due to under utilization of available land, rail and seaport. Improvement in infrastructure is required



Suggestions for promoting intra-SAARC economic cooperation

Business community needs to demand governments to provide business friendly environment by remodeling economic policies based on purely commercial basis without politically motivated aspirations.

- **Implementation of SAFTA:**
 - removal of NTB's, adopt a regional investment protocol
 - promote energy cooperation
 - as per SAARC 15th declaration: effective exploration of regional hydro power potential, grid connectivity and gas-pipeline
- **Need for effective Trade facilitation Mechanism:**

high cost of formal trade due to poor trade mechanism

 - Adopt mutual recognition of standards, common tariff nomenclature, the harmonization of custom procedure etc
 - Implement SAARC single window initiative



- **Regional Connectivity:**
 - Cooperation through enhanced digital connectivity
 - SAARC countries with their regional telecomm companies should collaborate and reduce tariff. We recommend SAARC cellular sim for SAARC region.
 - Integration of regional infrastructure through connectivity by road, rail, sea and air AND adopt open sky policy.
- **Visa Issue:**
 - Visa regime is still very stringent in Bangladesh, India and Pakistan
 - Approx 1 million businessmen involved in regional trade
 - Presently only 100 SAARC exemption stickers available for each country. We recommend up to 200 to more as per SCCI recommendation
- **Involvement of Private Sector at policy making level:**
 - It is important to consider private sector participation in Eminent Persons Groups at various level

Others - On priority based

- Negotiate to reduce items in the negative list
- Eliminate or reduce hidden trade barriers and enter into a binding commitments removal of NTB's
- Common sub-sector approach to encourage commitments in trade in services
- Build a trade database of service for South Asia



D. INNOVATIONS/TECHNOLOGY

Facts

- Key asset of Asia's petrochemical sector is 'expected growth'
- Per capita consumption of polyolefin, proxy for petrochemical is low in Asia but the consumption growth is the highest in the world for many years and is expected to remain high in the coming decade.
- China and India are main drivers of growth as expansion of manufacturing sector and improving economic condition and standard of living in Asia.
 - Chinese consumers with annual income above USD 10,000 is expected to increase to 300 million by 2020
 - India's middle is expected to reach 400 million by 2025 all this leads to consumption of products with petrochemical content.



D. INNOVATIONS/TECHNOLOGY: *contd..*

Asian and South Asian petrochemical players enjoys growth prospect but also face gap in technology and management expertise.

Asian and South Asian markets against this backdrop must consider the following strategic questions:

1. What are the best approaches to develop expertise locally? And should we establish R&D facilities or acquire western company R&D expertise?
2. How Should South Asian players position themselves globally as population's economic position improves?
3. Is advanced technology from Europe and America important or strategic access to feedstock more important in short run? Anyways to combine them both?
 4. How can South Asian countries form alliances to protect their production from foreign competition?
 5. What development gaps are there between China and less developed Asian country like India and how can we close these gaps?



E. CLOSING REMARK

Petrochemical market is increasingly being globalized in terms of technology transfer, feedstock sourcing and market access. All companies active in this sector face the same issue of access to technology, feedstock and markets with each players having different starting as per their strength and weakness.

Possible ways to compensate for the weakness

- Joint venture
- M&A
- Organic international expansion aimed at up or downstream integration
- Product specialization or development of scale

As regional petrochemical development continues industries will face challenge relating to

- Energy
 - Feedstock availability
 - Climate change – particularly CO emissions



E. CLOSING REMARK: *contd..*

- India as the largest petrochemical producer in the region can encourage and promote manufacturing units of paint, plastic, rubber, detergents, fertilizers, textile and solvents.
- South Asian Petrochemical one of the largest company can open its unit through joint ventures with companies around the region.
- In the Asian century (21st), petrochemical industry will play a crucial role in view of climate change for which South Asia is venerable despite the fact that we only contribute 6% of total CO2 emissions

“Its time for us to grow in unison, exchange expertise and create mutual stake for regional integration of South Asia”



THANK YOU



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