

Report on suspicion of collusion amongst cement plants leading to shortage and high costs

1. Introduction

During June and September 2023, the media highlighted a persistent shortage of cement over more than two weeks. This scarcity prompted individuals to turn to social media platforms to express their views and opinions about the shortages. The main cause of the supply shortage in the market were purportedly because of shutdowns of the country's leading cement manufacturers for maintenance.

Dungsam Cement Corporation Ltd (DCCL), Penden Cement Authority Ltd (PCAL) and Lhaki Cement are the three biggest manufacturers in the country. They produce three main types of cement - Ordinary Portland Cement (OPC-43), Portland Pozzolana Cement (PPC) and Portland Slag Cement (PSC). PPC has the highest demand in the country.

A study was carried out to ascertain the causes of the shortage during particular periods and study what can be done to ensure uninterrupted supply at all times for the benefit of the construction industry and the economy as a whole.

2. Situation Analysis

Post-pandemic, there was a substantial increase in construction, although comprehensive data on ongoing residential and other projects are not available. The pandemic had directly or indirectly forced interruption of most construction projects, resulting in a backlog within the industry. As restrictions were lifted, predictable growth in the construction sector is visible.

2.1. Production for 2022 & 2023

In 2022, production of Portland Pozzolana Cement (PPC) was 537,101 MT. DCCL was the highest producer in 2022, producing 328,459 MT (> 60%). According to Bhutan Trade Statistics, 2022, 116,417 MT was exported from Bhutan, which works out to approximately 21.67% of the total production. Conversely, 12,103.07 MT of PPC was imported in 2022.

The combined output of the three plants were 192,572.08 MT and 242,245.16 MT during 2023 Q1 and Q2 respectively. According to latest data available on BTS, during the first quarter 46,771.26 MT was exported while 741.05 MT was imported into the country.

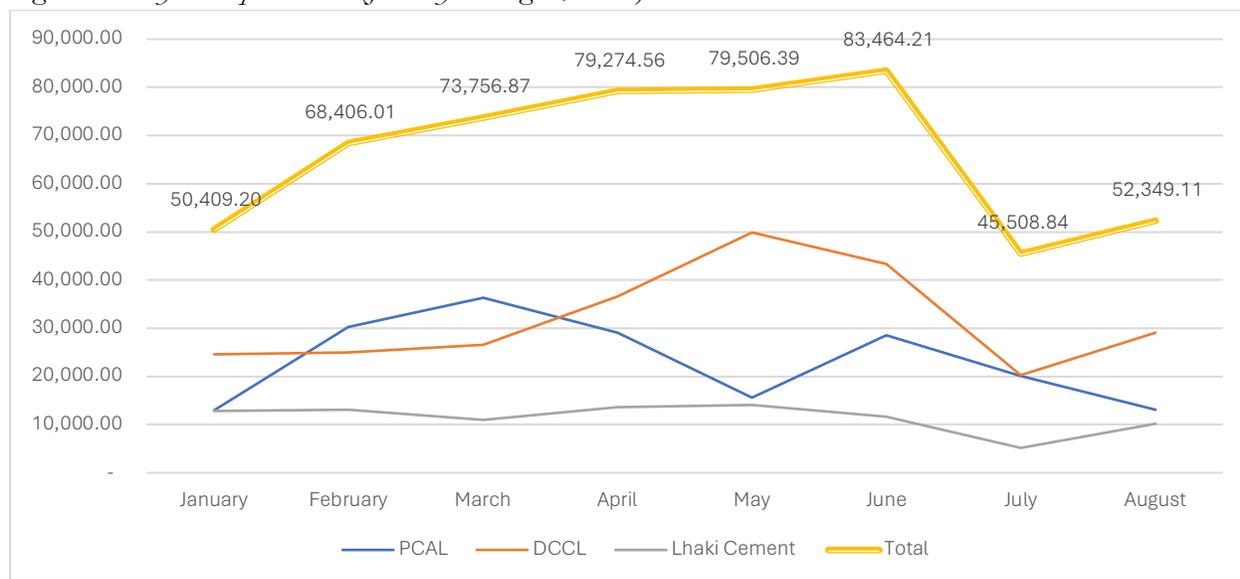
Monthly output trends differ amongst companies. PCAL production picked up from January but declined precipitously the following two months. Production picked up in June but has declined over the next two months. In contrast, DCCL recorded high output in May, and the lowest in July. Meanwhile, Lhaki Cement similarly had a fluctuating output, reaching its highest points in February and May and experiencing lows in July and August. Put together, cement output has steadily increased starting January till June, after which there was sudden drop. Production has started to pick up from August (Fig. I).

2.2. Maintenance Shutdowns and Stockpiles

All cement plants undergo regular maintenance during which production ceases. Normally, cement plants intend to do this during periods when demand for cement is low, i.e., January and July or August every year, but due to technical issues, they are not always able to stick to their plan.

PCAL follows a biannual maintenance shutdown schedule, with estimates of 15 days for half-yearly maintenance and 25 days for annual maintenance. DCCL conducts maintenance shutdowns in July and November, each lasting for a period of 20 days. On the other hand, Lhaki Cement undertakes maintenance shutdowns two to three times a year, typically lasting one to two weeks. The scheduling of these shutdowns is contingent upon the plant's performance and operational integrity, rather than a fixed timetable.

Fig 1: Monthly PPC production (January – August, 2023)



Source: PCAL, DCCL and Lhaki Cement

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Furthermore, in order to guarantee uninterrupted supply, cement plants are reported to implement strategic measures. DCCL maintains a stockpile of 10,000 MT to cover for the duration of the shutdown. Similarly, PCAL maintains a stock of 7,000 MT, contingent on the availability of essential raw materials, particularly clinker. Lhaki Cement maintains a reserve of clinker, typically ranging from 3,000 to 4,000 MT to boost production when required.

2.4 Other factors influencing cement production and implications on supply

Cement production issues in Bhutan stem from a range of factors associated with aging plants and associated technical breakdowns. Additionally, uncertain supply and sudden price hikes of essential raw materials exert external pressures on the supply chain. Further, Bhutanese cement plants continue supplying to Indian markets to ensure that they do not lose their established markets.

3. Recommendation

Failure to maintain a consistent supply of cement to the domestic markets can cause economic loss from delays in construction to increase in costs of stocked cements by agents to take advantage of the short supply. Prolonged supply disruption can also lead to compromises in the quality of the infrastructure and must be avoided at all times.

Cement is critical to the construction sector and all efforts must be put in to guarantee supply at all times; though measures such as:

3.1 Proper planning and communication

Cement manufacturers should proactively communicate their scheduled maintenance periods to the general public in advance, so that projects and home builders can also plan their need in advance thereby minimizing construction disruptions.

3.2 Implement strategic stockpiling

Cement manufacturers need to continue maintaining or possibly expand their stockpiles of cements before scheduled maintenance shutdowns or other possible manufacturing disruptions. This reserve can act as a buffer during shortages and help stabilize supply.

3.3 Temporary subsidy of cover tax differentials

Sometimes, for one reason or the other, domestic production may falter and the construction may need to depend on imports. During prolonged periods of scarcity of domestically manufactured cement, the government after analyzing the overall cost and benefit to the economy, may consider subsidy for import to cover the cost difference between domestically produced and imported cement as a result of the 15 per cent import tax.