

An unwarranted customs duty hike

UTTAM GUPTA

IN the Union Budget for 1999-2000, customs duty on fertiliser project imports has been raised from nil to a basic rate of five per cent ad valorem. In addition, it will attract surcharge of 10 per cent. Inclusive of this, effective rate of duty will be 5.5 per cent. Besides, project imports will also attract counter-vailing duty (CVD) of 10 per cent. With this, net impact will be 16.05 per cent.

The duty on import of plant/machinery used for renovation and modernisation of existing fertiliser plants will also increase from existing nil to five per cent plus surcharge at the rate of 10 per cent plus CVD at the rate of 10 per cent. The net incidence will thus be 16.05 per cent.

The levy of duty will have the ef-

fect of substantially raising project cost and, in turn, reasonable cost of production by correspondingly increasing capital related charges (CRC). To get an idea, let us consider a mega size ammonia/urea project of 1350/2200 tpd capacity. At current rates, this will cost about Rs 1,600 crore.

Assume an import component of about Rs 600 crore. The duty of 16.05 per cent would increase cost by Rs 96 crore. Add interest during construction (at the rate of 15 per cent per annum and taking three-year construction period), effective increase in cost would be Rs 146 crore.

Now, assume financing of this with Rs 73 crore as loan and equity each. That would involve annual interest outgo of Rs 10.95 crore (at the rate of 15 per cent) and return Rs 14.24 crore (19.5 per cent pre-

tax linked to 12 per cent post-tax allowed under RPS). Add depreciation at the rate of 6.33 per cent or Rs.9.24 crore, increase in CRC due to duty would be about Rs 34.43 crore per annum. This much money will have to be paid as additional subsidy under RPS. At normative urea production of 6.9 lakh tonne, i.e., 90 per cent of base capacity, on a per tonne basis, subsidy payment to a new project will be higher by about Rs 500 per tonne.

In view of the above, so long as the Government controls selling price of urea at a low level — to induce increase in consumption and, in turn, foodgrain production — it does not make sense to levy import duty which will only inflate subsidy bill. Even worse, while, revenue inflow by way of duty is one time, outflow will be recurring.

It may be recalled that prior to

1.3.1985, fertiliser project imports attracted a duty of 40 per cent. Based on recommendation of Economic Administrative Reforms Commission (EARC), this was removed w.e.f. 1.3.1985. The duty was, however, revived w.e.f. 1.3.1987 at 15 per cent. W.e.f. 28.8.1992, this was again abolished based on JPC recommendation.

Even as underlying fundamentals have not changed viz., continued control on selling price of urea and heavy subsidy on it, re-introduction of customs duty on fertiliser project imports is wholly unwarranted. The duty should be revoked in the overall interest of containing subsidy outgo and attracting investment in this vital industry.

The author is Chief Economist with the Fertiliser Association of India