# Food security under free trade?

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IN THE impeding international trade regime free from quantitative restrictions (QRS), the buzz word is either reduce cost to brace up to competition from imports or pack up. Applying this concept to the urea manufacturing plants in India would lead us to a startling conclusion that all of them should wind up. This is because their reasonable production cost is higher than the cost of imported urea of about Rs 4,500 per tonne (US $85 per tonne C&F plus 5 per cent customs duty plus port handling charges).

In case, the customs duty is raised to 40 per cent -- this is the maximum rate generally advocated by economists --, the cost of imported urea will increase to about Rs 5,800 per tonne. While, this may provide relief to some units having production cost lower than this. The million dollar question is whether the country can afford to loose domestic producion capacity on a large scale?

Presently, supplies from all plants running at optimum capacity utilization more or less matches the demand; only small quantities i.e., about 500 thousand tonnes (likely during 1999-2000) is being imported.

For the future, except expansion project of Chambal Fertilizers commissioned towards end 1999, no more projects are under implementation (the four projects viz., RCF , Thal-III, KRIBHCO, Hazira-III, IFFCO, Nellore and Gorakhpur pending with the government for quite some time, were recently rejected by PIB). Consequently, incremetnal demand will have to be met from imports.

Even assuming no growth in demand (this is theoretical), loss of sizeable production from existing capacity --this could be anywhere between 5-10 million tonnes -- will lead to corresponding imports to meet the existing demand. this in turn, will cause a steep increase in he international price of urea which depends primarily on global demand supply balance in which imports by India and China play a major role. The past developments bear ample testimony to this stark reality.

Apart from high prices, there is a serious risk of the required quantities not being available in the international market. Then, you have additional problems of availability of foreign exchange as well as constraints of logistics.

For instance, existing infrastructure at ports is ill-equipped to handle large quantities; serious congestion at ports and resultant delays in berthing of ships during 1995-96 when, urea imports were 3.78 million tonnes is indicative of the shape of things under a scenario of imports on a much large scale.

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In view of above, it is in he interest of the country and in particular, continued food security (this is a major concern voiced by the Indian government even at the WTO), that we maintain reasonably high level of self-sufficiency in fertilizers.

In fact, the sixth and the seventh five years plans prescribed only 1.0 million tonnes (or 2.2 million tonnes urea - to be imported. This was reiterated by the eighth plan working group.

A relevant question is as to why we should encourage high cost domestic production when imports are cheap? Here, there is need for caution. Currently, imports are cheap because India is by and large, self-sufficient. The day we compromise on this supplies from abroad will virtually go beyond our reach.

Some of us brand this as asking for an open ended license to produce at whatever cost. For the producing units, relevant factors are capacity utilization, energy consumption, etc. For all these, under pricing, there are prescribed norms which are fairly tight.

Then, you have the cost of various inputs particularly, feedstock power etc. These costs are shaped by companies/agencies like ONGC, IOC, GAIL, HPC, SEBs and so on (all owned and controlled by the government). The production cost of urea in India is high primarily due to high cost of feedstock i.e., naphtha about US $7.0-8.0 per million Btu, gas/naphtha to gas based plants along HBJ pipeline at an effective cost of about $3.0 per million Btu as against less than US $1.0 per million Btu to plants in exporting countries in the Middle East.

Even as production efficiencies of Indian plants are comparable to the best in the world, if only, feedstock prices are also brought down to international levels, their cost of producing urea will be even lower than plants abroad. In such a scenario, Indian producers would be able to compete with imports even without duty protection.

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