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Obligations under the QR-free regime

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Under QR-free regime, urea produced abroad will be allowed 'free' entry without any ceiling. The Background Paper on Long-term Fertiliser Policy proposes restricting urea imports to only 1.5 million tonnes per annum as per CCEA decision. This is an indication of the government's resolve to maintain self-sufficiency. However, such a stipulation could be misunderstood as being incompatible with our obligation under WTO! Logically, freedom to import should be accompanied by freedom to sell within India. At present, distribution of urea — including imported urea — is controlled under ECA. The Background Paper has recommended removal of distribution controls in Phase-I, i.e., 2000-01 and 2001-02. If, this is implemented, then automatically, imported urea can be freely sold.

According to recent reports, the ministry of agriculture is reluctant to allow dismantling of distribution controls. If, these are retained and, at the same time, there is no restriction on sale of imported urea, this could create problems for domestic producers. Alternatively, if, sale of imported urea is also regulated, then, this will undermine the spirit of permitting free imports! The government proposes to continue controls on selling price of urea for five years, i.e., upto 2005. Generally, this price is lower than cost of supply whether from domestic units or imports. At present, difference is given as subsidy; for imports based on 'actual' cost and domestic units on 'reasonable' cost computed under RPS. If, control on sale price continues, then, logically, subsidy will also have to continue.

The Background Paper talks of replacing — in Phase-I — existing unit-wise RPS by LRMC based NRP. Further, it has recommended FDCR (feedstock differential cost reimbursement) for naphtha and fuel oil based plants. Additionally, government is contemplating to give higher weighted average RP — under existing dispensation — to such units whose existing RP is higher than NRP plus FDCR. In all, this will imply five sets of NRPs. There are substantial inter-plant variations in reasonable production cost due to differences in delivered cost of feedstock. If, these are also suitably factored by allowing specific FDCRs, then, number of NRPs will be much higher than five.

The above leads to a scenario under which subsidy support to various units will be different and that generally, such support will be higher than on imports. This could be viewed by exporting countries as an attempt to undermine their comparative cost advantage and therefore, unfair and discriminatory. A similar view could be taken in respect of DAP wherein, under scheme of concession support already, domestic DAP is entitled to higher concession than on imported DAP.

The real test will come at the end of transition, i.e., 2005, when, APR is proposed to be dismantled. Then, levy of import duty — the only protection mechanism available — will not ensure viability of all plants. The high cost units will, therefore, have no option but to close unless efforts are made during the transition to lower production cost.

In view of above, GOI should ensure that gas companies (various consortia involved in LNG projects include central PSUs in oil and gas sector) actually make LNG/domestic gas available — at factory tap — at reasonable price. Currently, import of LNG attracts a basic duty of 5 per cent. In addition, there is surcharge @ 10 per cent, CVD 16 per cent and SAD 4 per cent. All put together, effective duty works out to 26.38 per cent. This needs to be drastically reduced. The domestic gas is exempt from excise duty; however, it attracts CST and local taxes (in some states like Gujarat this is 20 per cent) besides royalty. These will have to go.

On transport of gas through HBJ, GAIL charges a hefty Rs 1150 per thousand cubic metre. This is a major factor leading to high production cost of plants along HBJ. This should be brought down to about Rs 466 per thousand cubic metre.

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