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Will urea imports surge?

IN the EXIM policy released on March 31, the Government has removed QRs on import of urea from this April as per our commitments under WTO — thereby, paving the way for free and un-restricted imports.

Is the Government geared to protect domestic industry from possible surge in cheap imports? Under QR free regime, conventionally, protection is given by levy of import duty. Urea being an 'unbound' item under WTO, the Government can impose duty at any level say, 100 per cent or even higher. But, it has decided to maintain it at existing level of 5 per cent (there was surcharge of 10 per cent which has been removed in the Budget for 2001-02)!

The cost of feedstock in India is substantially higher than in exporting countries (for instance, gas is priced at about $2.5 per million Btu against less than $1.0 million Btu in Middle East; naphtha costs even more at about $7.5 per [illegible]ion). This renders Indian industry seriously handicapped vis-a-vis imports.

Guest Column

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Consequently, it is virtually impossible to protect the former at 5 per cent duty. The Government has, however, permitted import of urea (apart from other sensitive items viz, wheat, rice, maize, petrol, diesel and ATF) only through designated state trading enterprises which will conduct imports solely as per commercial considerations. Under Article XVII, this is compatible with WTO. Whether, this will help in checking import surge remains to be seen?

Assuming for a moment that the above dispensation is not helpful. We need to look at another important aspect. Currently, there is control on selling price of urea at a low and uniform level (this is proposed to be continued [illegible]il 2006 as recommended by ERC). The entire material including imports has to be sold at this price only.

The current selling price of urea is Rs 4,600 per tonne or about $100 per tonne. The current C&F cost of imported urea at about $125 per tonne is higher than this. In fact, during the entire decade of 90s (except during 1999-2000), the former was higher than $100 per tonne. Consequently, even with 'Nil' import duty, imports will be un-economical. A duty of 5 per cent or higher, will further tilt the balance against foreign supplies.

Beginning 2001, the ERC has recommended an increase of 7 per cent per annum in selling price until 2006. But, for 2001-02, the Government has not implemented this. Even if, it is raised, post-hike, this will be Rs 4,922 per tonne or about $106 per tonne. The C&F cost of imports being higher than this, foreign supplies will still remain un-economical.

The above inference is valid only if, the Government does not provide any subsidy support on imported urea (unlike existing dispensation under which, the excess of C&F cost plus handling and distribution cost over selling price is subsidised). In case, however, it continues to give subsidy, then, whether or not imports pose a threat, will depend on the level of subsidy support. Due to control on selling price at low level, the Government gives subsidy to domestic units — under unit-wise RPS — to compensate them for excess of reasonable cost of production and distribution over this and ensure a reasonable return on investment. Based on ERC recommendation, in his Budget speech, Finance Minister has proposed replacement of RPS by a group-wise concession scheme.

Under the scheme, concession rates recommended by ERC viz, Rs 8,400 per tonne for naphtha group without adjustment for IMPP of feedstock and Rs 6,500 per tonne with adjustment, will be higher than required support on imported urea (based on C&F cost plus handling/distribution minus selling price).

Whether or not this is compatible with WTO needs to be carefully assessed. The issues of control on selling price, subsidy support, import duty and so on, are all inter-related. Therefore, the question of protecting the domestic industry cannot be addressed in isolation. The Government should come out with an integrated policy package — covering all these aspects — to ensure its continued health and growth.

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