Urea fertiliser

Safeguarding India's interests at Doha

Uttam Gupta

MUCH has been said about the group-wise uniform concession scheme for urea (based on the ERC) with which the Government proposes to replace the existing unit-wise retention price scheme (RPS). But following the removal of Quantitative Restrictions on imported urea in April 2001, the moot question here is if the scheme will be compatible with the country's WTO obligations?

In December 2000, India promised to remove QRs on a host of commodities, including urea. On the other hand, the decision to implement the group-wise concession scheme and keep it in force until 2006 was announced in this year's Budget. Against this backdrop, it appears that the Government would have factored in the implications of a QR-free regime. However, a closer look is necessary of the issues involved.

Under the group-wise scheme, the concession under each of the proposed five groups is higher than the subsidy on imported urea. For plants in the naphtha category, the concession is Rs 8,400 per tonne (without adjustment for import parity price), while the subsidy works out to Rs 1,500 per tonne (based on prevailing C&F cost of $110 per tonne and Customs duty at 5 per cent). How will this differential be perceived under the WTO?

Under the EXIM policy, released on March 31, the Government permitted imports of a host of sensitive commodities, including urea, only through designated state trading enterprises (STEs). Presumably, this was done to prevent a sudden surge in imports and restrict these to the extent necessary to meet the shortfall in the indigenous supply *vis-à-vis* the demand. But we cannot ignore the fact that the STEs will have to conduct imports on 'commercial' considerations and in a 'non-discriminatory' manner as stipulated under Article XVII of the WTO agreement.

This means that while undertaking imports, the STEs will have to give all exporting countries equal opportunity by inviting open competitive bids. This means they cannot refuse requests for imports from private parties that are otherwise not allowed to undertake direct imports. On the other hand, if they refuse or do not import the quantities requested, this could be treated as being discriminatory! Therefore, the above arrangement cannot provide a cushion against a surge in imports on a 'sustained' basis. Sooner than later, we may have to face a situation of free imports without any ceiling. Since urea's selling price will continue to be controlled at a low level until 2006, the excess of reasonable cost of supply from domestic units over this will have to be reimbursed as concession support. If the same level of concession is extended to imported urea to ensure compatibility with the WTO, this will spell disaster for the indigenous industry.

To protect its viability, the desirable course could be to provide concession support to domestic urea at a higher rate than on imported urea. Under a scheme of concession support for decontrolled fertilisers, such an arrangement has existed since July 6, 1996, whereby the concession on domestic DAP has been generally kept Rs 1,000-1,500 per tonne higher than on imported DAP. Though this has so far not been objected to, it needs to be assessed whether this can pass the test of — non-discrimination — adumbrated under Article III, dealing with 'national treatment.' Another alternative could be to extend concessions to domestic urea only. In the case of DAP, after its decontrol and removal of QRs in August-September 1992, and a short spell of providing concession on domestic and imported DAP at a — uniform — rate. Between April 1, 1993, and July 5, 1996, only domestic DAP was eligible for concession support at Rs 1,000 per tonne. If, as a matter of policy, the Government decides to 'exclude' imported material from the purview of support, then the very question of any discriminatory treatment does not arise.

Even, under a dispensation of support to domestic manufacturers on an 'exclusive' basis, there can be no room for complacency. There is an urgent need to carefully monitor the position with regard to the cost of imported material *vis-à-vis* the selling price.

Thus, imported urea may not pose any threat to domestic industry so long as its cost to the farmer is higher than the selling price. For instance, at present, the cost of imported urea is Rs 6,000 per tonne against the selling price of Rs 4,600 of the domestic variety. In this case, however, the C&F price of imported urea drops to a level well below the $100-mark. The equation could change and threaten imports! Under the various options discussed above, there is an inherent element of 'vulnerability'. Consequently, alternatives to imposing Customs duty need to be urgently considered. Considering that urea is an 'unbound' item under the WTO, its duty can be raised from the existing 5 per cent to the desired level. This option should remain in New Delhi's armoury lest the Indian industry, faced with high feedstock, is left high and dryIn such an event, the Government should consider setting the 'bound' rate at a reasonably high level. The relevant exercises should take into account the prevailing high cost of feedstock to domestic industry and the likely international price of urea in a situation of surplus availability in the world market. The reduction commitments should also not be considered in isolation from the country's ability to reduce feedstock prices.

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(The author is Additional Director, Economics, Fertiliser Association of India, New Delhi.)