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Restrictive regime for feedstock is a mockery of reforms

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LIBERALISATION and globalisation, in the true sense of the term, mean that users/consumers should have the freedom to source products from wherever they like. But, in reality, we find blatant deviation from this cardinal principle. This is amply demonstrated by the prevailing scenario in the case of naphtha, a major feedstock/fuel used by fertiliser, power and petrochem units.

Thus, in April 1998, when, naphtha was taken outside the purview of the administered price regime (APR) and oil companies allowed to fix prices based on market forces, logically, the government should also have decanalised it and allowed free imports. This was not done. Under the Exim policy, import of naphtha is restricted—it cannot be imported without a license.

There is, however, a provision for import without a license, provided the return stream generated as a result of its use in the manufacturing process, is sent to domestic refineries. It appears that this condition has been conceived keeping in mind petrochemical industries where return stream—a euphemism for certain residual fractions arising while cracking of naphtha—is generated.

Why have ingenious bureaucrats in DGFT/commerce ministry, entrusted with the responsibility of drafting the relevant notifications, insisted on fulfilling this requirement as a pre-condition for allowing free imports? Perhaps, they are of the view that the benefit of return stream, which leads to lot of value addition, should accrue to government-owned and controlled oil companies only.

One fails to understand why an importer who pays the full price for the product, should be deprived of the freedom to use or dispose it in a manner he deems fit and avail of the consequential benefits. The irony is that despite prescribing such a restrictive condition, DGFT brands such imports as 'an import without a license'.

The condition is so opaque that it leaves scope for varying interpretations, thereby leaving importers at the mercy of customs authorities. For instance, how does one deal with a case like fertilisers, where the entire feedstock is used in the manufacture and no return stream is generated? When there is no return stream, the question of sending it to refineries does not arise. Logically, therefore, a fertiliser manufacturer should be allowed to import without a license. But, according to DGFT, the requirement of the clause is not met as for this to happen, the manufacturing process should lead to generation of a return stream.

Recently, the commerce ministry issued a clarification to the effect that if return stream is used 'captively' in the manufacturing process, the user will be deemed to have fulfilled the requirement. However, the manner in which the relevant circular is worded leaves room for ambiguity.

The Exim policy allows for the possibility of imports of naphtha by power plants for captive consumption. This again is subject to the importer/user fulfilling prescribed conditions, as mentioned in the public notice. Until some time back, the Dabhol Power Corporation (DPC), promoted by Enron, was importing naphtha for its power plant at Dabhol in Maharashtra. Recently, this permission was

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withdrawn and DPC directed to source all its requirements from Indian Oil Corporation (IOC).

A highly restrictive policy environment under which industries like fertilisers are not even permitted to import naphtha makes a mockery of the much avowed process of economic reforms. Meanwhile, taking advantage of the situation, domestic oil companies are fixing prices to suit themselves.

While fixing the ex-refinery price, oil corporations have violated the principle of import parity pricing (IMPP) with impunity. Thus, instead of taking f.o.b. realisation from exports, which is what global suppliers realise and would also be the netback if our refineries were to export, they take C&F landed plus handling charges (adding customs duty in case of fuel oil). This results in artificial inflation of prices.

At the time of dismantling APR, the oil companies had agreed, in principle, to adjust ex-refinery prices to reflect the movement in the IMPP level. Here, too, they have been terribly inconsistent. Thus, when in 1998-99 IMPP decreased, the price was not proportionately reduced. But, when the global prices rose sharply, as in 1999-2000, up to November 2000, these were promptly raised.

In short, irrespective of underlying circumstances, oil companies have managed to keep prices high. Ironically, even under the current situation of surplus when naphtha is being exported at significantly lower prices, prices on domestic supplies continue to be high. The plight of users in sourcing supplies from refineries gets further exacerbated on account of hefty marketing margin loaded by oil companies and sales tax.

If manufacturers were allowed to undertake imports, it would be possible for them to bring about a substantial cost reduction. For instance, a unit located in Gujarat could save up to about Rs 4,000 per tonne primarily on account of saving in marketing margin and sales tax. There is, therefore, an urgent need for amending the Exim policy to allow free imports.

It is unfortunate that despite being denied the freedom to choose the source of supply, fertiliser units are being castigated for not reducing their production cost. The background paper on 'Long Term Fertiliser Policy' released by the then minister for chemicals and fertilisers, Suresh Prabhu, in July 2000, commented that the high cost units based on naphtha and fuel oil would have to be eased out under the liberalised regime when QRs on urea imports are removed in April 2001.

Recently, in his Budget speech for 2001-02, the finance minister announced the government's decision to determine concession rate for plants based on naphtha and fuel oil under the urea concession scheme. While, on the one hand, this would lead to substantial reduction in realisation, on the other, units will continue to incur high costs.

It is high time that the government put a stop to this doublespeak. It should remove all restrictions on import and give full freedom to user industries for sourcing their requirements. If it cannot then it should stop looking at them with contempt for their consequential high production costs that are inevitable.

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