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# The darker side of rupee float

The full convertibility of the rupee does not augment well for the fertiliser industry as it depends heavily on imported raw materials, which when bought at the market exchange rate work out to be exorbitant, says **Uttam Gupta**

THE historic act of making the rupee fully convertible on trade account has been widely acclaimed, and with reasons. It will boost exports, increase remittances and encourage foreign investment. But there is a darker side to it as well.

Increase in the selling prices of petroleum products and fertilisers is the inevitable outcome of the unified exchange system. The concerned authorities in the government have discounted apprehensions regarding rise in prices of petroleum products. At least, not for the time being. But, both Dr Manmohan Singh and senior officials in the finance ministry have preferred to remain silent as regards the impact on fertiliser prices. Let us consider the full ramifications of such a step on fertiliser prices.

While indigenous production of phosphatic materials depends inevitably on the import of raw materials and intermediates, exports are "banned". Consequently, while it has nothing to gain from the new exchange system, the loss is inevitable as more rupees have to be paid for every dollar worth of imports.

Interestingly, even last year, fertilisers had met the same fate. Under the partial covertibility regime, its raw materials and intermediates were required to be imported at the market exchange rate. But, the Joint Parliamentary Committee on Fertiliser Pricing came to the rescue. Based on its recommendations, in mid September 1992, these materials were allowed to be imported at the official rate of exchange. Now, with the introduction of the unified exchange rate, fertilisers are back to square one as the very foundation on which the relief was based has slipped. The effect on the cost is mind boggling.

We have five DAP producing plants that use imported phos acid and ammonia. Currently, the C&F landed cost of these two intermediates in one tonne of DAP works out to about $190. On the basis of the market exchange rate of about Rs 32 to one US dollar, consequential extra payment of Rs 6 to a US dollar, will increase the cost of production of these units by about Rs 1,150 per tonne. Then, we have two plants which use captive ammonia but import phos acid. The extra cost in their case will be about Rs 950 per tonne.

Plants which have a large contribution of their own phosphoric acid, will also be similarly affected as the basic raw materials i.e. rock phosphate and sulphur are imported by them. The cost of complex phosphatic materials, other than DAP, is also expected to go up sharply.

With ad hoc subsidy of Rs 1,000 per tonne, the selling rice of DAP after decontrol was in the range of Rs 6,900-7,200 (excluding local taxes). During 1993-94, ad hoc subsidy is not available. This, together with the consequences of convertible rupee, implies that the selling price of DAP will be around Rs 9,000 per tonne if the domestic industry DAP during rabi 1992-93 is expected to decline sharply by about 33 per cent. To expect the farmers to pay an extra Rs 2,000 per tonne tantamounts to asking the impossible. And, why should they when imported material is available at a much lower price?

Interestingly, from an already low of $180 per tonne, until some time back, in recent tenders to Pakistan, imported DAP has been quoted at about $160 C&F per tonne. Including handling and distribution cost, $160 per tonne will translate to a farmgate cost of about Rs 6,500 per tonne. With decanalisation of DAP imports already in place and the present comfortable availability of material in the global market, apparently, the farmers should visualise no problem in meeting their requirements at prices no more than they paid in the last season. However, there is need for caution.

Current international prices of DAP are depressed. And, a major reason is that China, which imports about 4-4.5 million tonnes of DAP annually, has been away from the market for a bit too long.

Far from being remunerative, the f.o.b. realisation of about $110 per tonne (corresponding to US $160 C&F) does not even fully cover the cash cost of American producers. There are even reports of plant closures in Florida. This is an inherently unsustainable situation and will end sooner than latter. Indeed, the underlying fundamentals of the global market force the price of DAP go up. Till then, however, we can't afford to be complacent. There is an urgent need to consider ways to ensure the continued viability of the domestic industry from the onslaught of imports.

In this connection, the reported decision of the consortium of phos acid and ammonia users to cancel the tender for purchases during April-September 1993, is clearly not a healthy sign as this will lead to closure of the plants after existing stocks are exhausted.

Already, IFFCO has reportedly indicated its intention of closing the DAP/Complex plant at Kandla. Apart from serious socio-economic ramifications of this, the domestic industry deserves a favourable consideration purely on grounds of unfair competition from the suppliers abroad aggravated by full float of the rupee. This requires a bit of elaboration.

The thrust of the new economic policy is to foster competition both internally and externally. But this pre-supposes a level playing field. The finance minister clearly recognised this or else he would not have given excise reliefs across a wide cross section of the industries while continuing with the programme of phased reduction in the customs duty. In this case, the unfairness in competition is so stark that the C&F landed cost of phos acid and ammonia in one tonne of DAP alone is about $190 as against the finished product coming at a much lower price of $160 per tonne. Indeed, it a case of dumping specifically aimed at causing injury to the domestic industry.

> To expect the farmers to pay an extra Rs 2,000 per tonne tantamounts to asking the impossible, especially as imported material is available at a much lower price

It is an extraordinary situation requiring special efforts if the industry is to survive. After all, we know that if our plants close down and we have to resort to large scale imports, the DAP price is not going to remain static. Only some time back in 1990-91, we have paid $230 C&F per tonne. The situation may repeat itself and we need to be adequately prepared to face this eventuality.

What then could be the remedy? Clearly, the JPC option is no longer available. In the present exchange regime, there is no question of giving relief on the import of raw material through this route. Ad hoc subsidy on sales of indigenous material has not found favour in the Union Budget, presumably, on the ground that it is inconsistent with the overall policy of phasing out subsidies. A third alternative could be to try with the phos acid and ammonia suppliers a "substantial" reduction in the price of these intermediates. Let us look at the magnitude of the desired effort on this front.

Currently, there is a gap of about Rs 2,500 per tonne between the farmgate cost of imported DAP on the one hand and indigenous material on the other. For bridging this the required reduction in phos acid and ammonia price will have to be of the order of $140 and $50 per tonne respectively. This means aiming at a phos acid price of $190 per tonne which has never been achieved in the entire decade of 80s. Clearly, while the possibility of some price reduction cannot be ruled out, action under this option alone will not save the industry from the impending disaster.

Lastly, and perhaps, the only effective option under the circumstances is to treat this as a qualifying case for levying an anti-dumping duty on imported DAP. However, appropriate action through this route is a time consuming process and by which time irreparable damage might have been done. As an alternative, the government could levy a provisional duty at an appropriate level. In fact, even the Chelliah committee has recommended that in case the international prices of products dip below a certain level, a provisional duty at about 25 per cent, may be levied which can be withdrawn when the normal situation is restored.

Undoubtedly, this would mean taxing the farmers at a time when it is possible for them to get the material cheap. But, in shaping our strategy, we should not forget that the farmers need the supplies at a reasonable price on a sustained basis. It should not happen that for a couple of seasons they get the material cheap and thereafter, the rates become exorbitant and supplies uncertain. A radical shift in our focus towards imports at this stage may result in the above situation.

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