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Indian Rubber Industry Under Changing EXIM Policy Regime

With reference to the trend and rate of growth, the last decade has seen many changes in supply, demand and prices of natural rubber (NR) in India. These changes, to a large extent, have originated from the various policy shifts of the government of India with regard to import and export of rubber and rubber products.

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Consequent to the new economic policy introduced in 1991 and further pursuits of globalisation drive, a hitherto insulated Indian rubber sector has been exposed to face the challenges of global economy. Besides providing the Indian NR market a relatively free access to the international market, the Indian NR market witnessed unprecedented peaks and downslides during the 90s.

Since small and petty holdings dominate the production of NR in the country, the output growth is highly sensitive to price changes. As a result, the extreme fluctuations witnessed by the Indian rubber market have considerable implications on production of NR.

Changes in EXIM policies since 1990

The policy of the government towards import of NR has undergone many changes during the last decade. Till 1992 NR was a canalised item of import in the country. However, manufacturers were permitted to import specified quantities of NR directly and free of duty under the export incentive scheme, against their export of rubber products. This policy was changed under the export-import policy announced for the period 1992 - 1997.

According to this policy, NR came under restricted items of the 'negative list' of imports. This meant that NR could be imported only against a licence issued by the government or in accordance with a public notice issued in this regard. The import under public notification scheme may be with or without import duty.

Later, during 1995, government made further amendments in the import policy for NR by permitting the import against freely transferable special import licence (SIL). The import under SIL attracts prevailing import duty besides a premium charged by the export house concerned. Another major policy initiative of the government was with regard to import duty on NR. Another major policy shift was in the form of permitting export of NR since 1992 after removing all restrictions.

Under the export-import policy for the period 1992 - 2002 as well, NR continued to feature in the restricted items of imports under the 'negative list'. The new policy, however, modified the system of advance licence by withdrawing the provision for the import by using VBAL. But, the provision for the import by using QBAL was retained.

Imposition of ban on import of NR by using advance licence was another important policy instrument of the government. During 1997 - 98 and 1998 - 1999 indigenous production of NR was in excess when compared with the demand from the domestic manufacturing industry. In this context, as a measure to enhance the demand for indigenous rubber and to stop further build up of stock due to duty-free imports, the government of India imposed ban on the import of NR against advance licence with effect from 20 February 1999.

As an alternative arrangement, exporters of rubber goods were provided the facility to purchase NR from the State Trading Corporation of India Ltd (STC) at international prices from their locally procured stock. However, duty-free import of NR by the units in the export processing zones (EPZ) and 100 per cent export-oriented units (EOUs) have been continued. A channel still existed for importing NR was SIL. But, the import by using SIL was negligible because it attracted import duty apart from a premium charged by the export house concerned. During 2000 - 2001 government discontinued issuing SIL also. However, SIL holders were permitted to import NR till 31st March 2001. Among the major changes so far effected in the policies towards import of NR, the most important was the removal of NR from the negative list of imports since 1st April 2001. From there onwards import of NR on payment of duty requires no licence. This change has been effected by the government of India in accordance with the commitment made to the World Trade Organisation (WTO) under GATT 1994.

The WTO-mandated trade regime does not permit import duty to go beyond a ceiling, called bound rate. For NR, which comes under the class of industrial raw materials in WTO's classification, the bound rate is 25 per cent (for solid forms) in India. The prevailing rate of basic import duty in India is 25 per cent for solid forms of NR. (There is additional duty of four per cent). For NR latex, for which bound rate fixed is 40 per cent, the prevailing rate of basic duty is 35 per cent. However, the ban imposed on the import by using advance licence has been retained.

Implications on the industry

The various policy shifts effected since the beginning of the 90s, have directly or indirectly facilitated, to a certain extent, integration of the Indian NR market to the international market. Till 1990, Indian prices of NR were significantly higher than international prices. For instance, during 1990 Indian price of RSS four grade was 51 per cent higher than the price of the equivalent grade in the international market.

The devaluation of Indian rupee, effected by the government of India during 1991, increased the international price in rupee terms. As a result, the difference between the prices in the Indian market and international market narrowed down. Another factor, which brought the two markets closer is the considerable increase in the export of rubber products during the post-liberalisation period and the resultant increase in duty-free import of NR influencing the domestic prices.

Further, the decanalisation of import of NR since 1992 facilitated manufacturers to import NR according to their choice of source country so as to negotiate and get NR at the most competitive rate prevailing in the international market. The removal of all restrictions on export of NR since 1992, substantial reduction effected on import duty on NR and the SAARC Agreement are other policy initiatives, which have provided the Indian NR market a relatively free access to the international market.

The VBAL prevailed during 1992 to 1997 had provided the manufacturers to import those raw materials for which the difference in prices between Indian market and international market is relatively higher. With the abolition of VBAL, since 1997, manufacturers could no longer enjoy this flexibility and it necessitated them to import NR to the maximum extent possible. As a result of the various policy shifts favouring outward orientation, the Indian NR market has almost lost its insulation and the international market began to influence the Indian market directly. The average price of RSS four grade rubber in Kottayam market and that of RSS three grade in Kuala Lumpur market for the period 1990 to 2000 are given in the table below. (Since tyre companies import RSS three grade from the international market to substitute RSS four grade in domestic market, prices of these two grades are compared).

As seen in the table, the movement of Indian price since 1992 has been in tandem with the price in the international market even though the latter has witnessed unprecedented peaks during the mid-90s and steep downslides thereafter. The international price of NR recorded a sharp rise during 1994.

The upward trend was noticed since January 1994 and the movement was steady and comparatively slow up to June 1994. Thereafter, it sharply increased and touched the all-time peak of Rs 5,735 per 100 kilogram in April 1995. In harmony with the rise in international prices, NR prices in India also skyrocketed.

The Indian price, which was almost static up to April 1994, recorded a steady improvement from May 1994 and reached Rs 6,171 per 100 kilogram in June 1995. Thereafter, owing to 'Asian Meltdown' and the substantial devaluation of local currencies in Thailand, Indonesia and Malaysia (the three major NR exporters), the international prices of NR plummeted in dollar terms during 1997 and Indian prices also followed the suit.

Table 1: Average Price of NR (Rs/100 kg)

Year	Price of RSS 4 in Kottayam	Price of RSS 3 in Kuala Lumpur	Price in Kottayam as per cent of price in Kuala Lumpur
1990	2147	1425	151
1991	2128	1796	118
1992	2463	2457	100
1993	2546	2538	100
1994	3107	3455	90
1995	5059	5030	101
1996	5122	4764	108
1997	3988	3614	110
1998	3013	2884	104
1999	2997	2644	113
2000	3125	3007	104
2001*	2924	2807	104

(* up to June only)

The disturbing trends prevailed in the Indian NR market has influence on production of NR. As adoption of short-term yield enhancing measures are highly sensitive to price changes, the steep fall in NR prices since 1997 - 1998 dissuaded a good section of growers from attending to these practices and also they reduced harvesting intensity. As a result, productivity growth of NR declined considerably. The productivity growth, which averaged at 5.6 per cent during 1990 - 1991 to 1996 - 1997, came down to 3.1 per cent during 1997 - 1998, 0.9 per cent during 1998 - 1999 and 0.8 percent during 1999 - 2000 before touching zero per cent during 2000 - 2001.

The production, which grew at the average annual rate of 9.2 per cent during the period 1990 - 1991 to 1996 - 1997, took sharp downtrends from 1997 - 1998. The growth declined to 6.3 per cent during 1997 - 1998, 3.6 per cent during 1998 - 1999, 2.8 per cent during 1999 - 2000 and 1.3 per cent during 2000 - 2001.

The tyre sector, responding positively to the policy changes, had resurged at the initial phase of the liberalisation drive. The high growth of 12.2 per cent attained by NR consumption in tyre sector during 1992 - 1993 was mainly due to the excellent export performance of the tyre sector. But, towards the end of the 90s automobile tyre manufacturing industry, to a certain extent, was seen getting affected by increased import of tyres and also slacking of demand in the domestic sector.

As aga 46,781 numbe. ... tyres (of truck, bus and car) imported during 1996 - 1997, the import was 165,668 numbers during 1997 - 1998 and 265,599 during 1998 - 1999. Owing to the existence of Bangkok Agreement giving five per cent concession on import duty, there has been large-scale import of tyres from Korea. Consumption growth in tyre sector fell to -2.4 per cent during 1997 - 1998 and 1.2 per cent during 1998 - 1999. Though it temporarily recovered during 1999 - 2000, it again declined by registering -1.7 per cent growth during 2000 - 2001.

In the non-tyre sector consumption grew nominally by 2.7 per cent during 2000 - 2001 and the growth in total consumption during the year was only 0.5 per cent, the lowest during the last 25 years. This depressed demand condition in the domestic market since 1997 - 1998 is another factor, which has contributed to the price fall. The impact of QR removal has not made any visible change in the rubber goods trade so far. ◆

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