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Natural rubber import is inevitable

A very high price for NR will be detrimental to the growers in the long run

George Jacob

IMPORT of natural rubber has always been a controversy with the producing sector and the consuming sector taking diametrically opposite positions.

To be on the safer side the consumers of natural rubber often project a deficit for rubber and clamour for imports while the growers and their spokesmen strive hard to bring home the fact that either import is not required or the quantum proposed is more or illtimed. This is quite natural and understandable as consumers want to get rubber at the lowest possible price while the producers always look for higher prices. Both the sectors will strive hard to present convincing arguments to substantiate their positions and would adopt all the possible lobbying to outsmart the other.

Growers suspicious

Very often the growers in general look at the import of rubber with suspicion. However, the enlightened group among them reconcile to the inevitability of rubber imports under the present situation in the country. But even they would not spare any effort to question the prudence of arriving at the importable quantum and its timing. It is because that the rubber community at large is not fully familiar with various details connected with imports.

Is rubber import necessary? India has the unique position of having developed a dynamic rubber goods manufacturing industry side by side with an equally promising rubber plantation industry. Both these sectors are showing commendable growth rates with occasional ups and downs. However, the requirements of the manufacturing industry are becoming comparatively larger which cannot be fully met by the plantation industry despite the best efforts made by the Rubber Board with the active involvement and participation of the planters. Therefore, the gap between demand and supply has to be bridged by imports. A peep into the past and the rubber scenario in future will show that the gap is getting widened rather than getting narrowed down. The figures given in Table I would indicate the position.

It is therefore clear that import of rubber is indispensible and inevitable and that it will be required in larger quantities in the coming years, however much one likes it or not.

Very often arguments are put forward opposing imports blindly on the ground that it will always harm the growers. If imports are not made at the appropriate time, the demand will exceed supply and price will start moving up shortly. Then the manufacturers will demand import of rubber. Very often the decision to import takes time and the net result will be landing of imported rubber at the inappropriate time resulting in drastic reduction of the internal price level.

Potential danger

There is also another potential danger in such a situation. A prohibitively high price of natural rubber or lack of its availability may compel the consumers to look for other possible substitute materials. It is a known fact that synthetic rubber is always there to replace natural rubber. Even though this is a gradual process, it is a process riddled with far-reaching consequences on the future growth prospects of the plantation industry itself. Another possible fall-out of such a situation will be the hiking of the price of rubber goods by the manufacturers. Past experience has shown that when rubber price eases, there will not be a corresponding reduction in the selling price of finished products on one pretext or the other. It is no doubt true that undue increase in the price of

The writer is Secretary, the Rubber Board, Kottayam.

finished products may invite consumer resistance. But when the manufacturers of a product join together as a cartel and increase the price the consumers are left with no alternative but to absorb the increase.

Import licences

During 1950's and 1960's India was importing natural rubber to meet the deficit. Import licences were issued to actual users on the condition that the difference between the indigenous price and imported price should be remitted to the Rubber Board. Copies of the licences issued were also endorsed to the Rubber Board. Up to 1973-74 the Rubber Board had received money on account of this. From 1973-74 onwards surplus in the domestic market emerged necessitating exports from 1973-74 to 1977-78. From 1978 to 1991 import of rubber was canalised through the State Trading Corporation of India. The STC imported rubber on Government account and distributed it to the actual users within the broad frame work and guidelines laid down by the Government of India. The rate of import duty and the rates at which distribution is to be made were fixed by the Government.

This system invited lot of criticisms from all corners. The consumers often raised problems of quality, high price and shortage in weight. There were also occasions when releases were made untimely depressing the domestic prices which invited very adverse criticisms from the growers. Even the STC was not very keen to continue with this operation as they had little freedom or flexibility to operate it on a commercial basis. The system of canalising imports was subsequently dispensed with after 1991.

While import of NR is considered the most important aspect to be borne in mind is that under the current Exim policy NR is in the negative list of restricted items for import. In other words, free import of NR is not permitted.

Table I

Year	Production	Consumption	Deficit excess	Total import	Export
1950-51	15830	19854	(-) 4024	4170	964
1960-61	25697	48148	(-) 22451	23125	—
1970-71	92171	87237	(+) 4934	2469	—
1975-76	137750	125692	(+) 12058	—	—
1980-81	153100	173630	(-) 20530	9250	—
1985-86	200465	237440	(-) 36975	41431	—
1990-91	329615	364310	(-) 34695	51942	—
1992-93	393490	414105	(-) 20615	16498	5999
1993-94	435160	450480	(-) 15320	21384	186
1994-95	471815	485850	(-) 14035	8531	1961
1995-96	506910	525465	(-) 18555	53225	1130
1996-97	547000(P)	578000(P)	(-) 31000	—	—
2000-01	695000(P)	746000(P)	(-) 51000	—	—
2005-06	817000(P)	982000(P)	(-) 165000	—	—
2010-11	914000(P)	1233000(P)	(-) 319000	—	—

P - Projected.

Three channels

At present rubber can be imported through the following three channels:- (1) Import against public notice, (2) import against special import licence, and (3) import against advance licence.

Import against public notice is attempted when the Government is convinced that the indigenous availability is not sufficient to meet the demand. Therefore, the Government takes a decision to import rubber and accordingly a public notice is issued for the purpose. The Government would invite applications from actual users and after scrutiny of the applications import licence is issued specifying inter alia the period within which import is to be completed. Import against public notice commenced from 1993-94. Imports against public notice will not always be without import duty.

Import against public notice is resorted to when there is shortage of rubber in the market evidenced by spiralling prices or anticipated shortfall in availability as per projections made. The most crucial point is the identification of the period as well as the quantum of import. The starting point is the requisite data prepared by the Rubber Board on production, consumption and stock. This data is presented in the Statistics and Import/Export Committee, an important sub-committee of the Rubber Board in which nominees of the growers, large as well as small and the consumers are members.

Follow-up action

The decisions of the Committee are placed in the meeting of the Rubber Board for final approval. The decisions then will be communicated to the Government for needful follow-up action. These decisions are once again considered by the Rubber Monitoring Group, a powerful committee presided over by the Additional Secretary, Ministry of Commerce. The recommendations of the Rubber Board need not always be accepted and acted upon by this committee. The recommendation of the RMG is considered by the Government for taking final decision on imports.

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Rubber can also be imported against special import licence. Large business houses doing outstanding export business are notified as star export houses and they will be eligible to get special import licence. Those who want to make use of this licence can purchase it from export houses by paying a premium. The current premium is reported to be around 8%. In addition to the premium import duty at the rate of 20% (after the reduction in the previous budget from 25%) plus 2% additional import duty of the FOB value are to be paid by the intending importer. Because of the premium and the import duty import under this channel is not a very attractive proposition.

Advance licence is a regular channel available to the rubber goods manufacturers who export their products to import the main raw materials that go into the production. There are value-based advance licence and quantity based advance licence. As the title indicates under value-based licences the value of raw materials that can be imported are indicated and in the case of the other the quantity. Mostly rubber goods manufacturers are possessing value-based advance licences.

No import duty

Advance licences are available to exporters of rubber goods based on norms for each product exported. Only the raw materials specified in the licence subject to certain ceilings can be imported under this licence. There is also a time limit within which the raw material has to be imported. The exporter can also sell his advance licence for a premium provided he has fulfilled his export obligation and obtained endorsement to that effect from the import licensing authority. The licence can be transferred in full if no imports have been made or in part excluding the quantity and value of imports already made. An attraction of this channel is that no import duty is to be paid on the imports. This is a channel which is often used by the tyre and other big units to import rubber. An advantage of this system is that by increasing the quantum of exports the entitlement for import can also be enlarged. The main disadvantage is that it will be available only to those manufacturers who export rubber goods. It is seen that rubber goods manufacturers often divert the entitlement for importing other raw materials than rubber where the price advantage is comparatively more.

The exact quantity of rubber imported against advance licence are not readily available. Nevertheless the figures can be estimated with reasonable accuracy as shown in Table II.

Table II

Year	Estimated quantity of NR imported under advance licence (MT)
1990-91	17314
1991-92	15070
1992-93	17884
1993-94	15809
1994-95	8093
1995-96	13327
1996-97 (Up to September)	10377

Cost benefit

It is pertinent to glance through the cost benefit analysis of purchasing local rubber via-a-vis imported rubber. For the sake of a comparative analysis the base prices taken are that of RSS-4 for local rubber and RSS-3 for imported rubber since the tyre manufacturers who are the main importers of rubber prefer local RSS-4 and in case of import they go in for RSS-3 to supplement the availability of RSS-4. See Table III.

From Table III it is clear that import of rubber without duty will be the most advantageous for the manufacturers as at the current prices the advantage is to the tune of Rs. 9456 per tonne. This is precisely the reason why growers are always suspicious of rubber imports. If rubber is imported with 22% duty the landed cost will be Rs. 55296 as against Rs. 48593 for local rubber, thus having an increase of Rs. 6703 per tonne over local rubber. If rubber is to be imported under SIL a premium has also to be given for purchasing the licence, which is at present 8%. So the landed cost under this system will be higher further by 8% more.

Speculators gain

So the controversy over the reduction in duty was a matter which was blown up to very high proposition without properly analysing and examining its impact on the Indian prices. It was only a much ado about nothing in brief. The only purpose it served was a sudden fall in the price level as a psychological reaction to this which indeed helped only the speculators. The market after an initial setback regained its old position and the speculators were able to get some windfall gains. It is therefore obvious that growers were not in any way benefited from this controversy; in fact they were adversely affected for a few days by a decline in price.

The rubber goods manufacturers of late have been insisting on bringing rubber under open general licence (OGL). They argue that when exports of NR is allowed without any restriction, it is only logical that there must be free imports. Their contention is that if the rubber price is to be in tune with international price, this is the only way. They also point out that at the moment when rubber is needed to arrest a sharp increase in price the only channels readily available to them are imports under SIL and advance licence. Import under public notice is time consuming and cumbersome.

While SIL is not attractive advance licence is available only to big consumers with export backup. This facility is therefore not available to majority of medium and small manufacturers who produce goods for internal consumption. Besides under advance licence import of other raw materials are more attractive than rubber and by resorting to rubber imports as an extreme step the manufacturers are losing some cost advantage.

Growers' stand

The growers on the other hand counter these arguments effectively. Their main argument is that many commodities are afforded protection in the country by either prohibiting or restricting imports and rubber is only one among them. Growth of the rubber plantation industry is a priority and thrust area since the country has enough potential yet to be exploited. The future growth of the industry depends heavily on the price level and cost of production and that any attempt to reduce the price may dishearten and discourage further investment in the plantation sector. This will result in larger imports in the years to come resulting in a high outflow of valuable foreign exchange which the country can hardly afford.

The growers also argue that comparing import and export on the same plane is erroneous, since import is always possible while the prospects of exports are dim due to the Indian price being always higher than international prices. Besides the rubber goods manufacturing industry is armed with advance licence which is a blanket permission to import any quantity without restriction, the only condition being that there should be corresponding export performance. This channel being available to big manufacturers they can restrict a sudden increase in price by importing sufficient quantity to offset the increase. The advantage of this will also accrue to the medium and small units, and therefore their apprehension is unfounded.

Interests protected

A close analysis of the existing set up shows that the interests of both the producing and consuming sectors are protected equally to a great extent. The consumers on their part should appreciate that NR production should increase many fold in the country to cater to their increasing demand and they should not press for imports under OGL a step which would certainly put the wheel of growth of the plantation sector backward.

The producers on their part should reconcile to the fact that import is inevitable and a very high price, even though appear lucrative in the short period may be detrimental to their interests in the long run. □

Table III

Comparative cost of indigenous and imported rubber based on the price on 26-2-1997

(Rs./Metric tonnes)

	Cost of indigeneous RSS-4 grade rubber (Kochi market)	Cost of duty paid RSS-3 grade imported from Kuala Lumpur at Kochi	Cost of duty free RSS-3 grade imported from Kuala Lumpur at Kochi
1. Base price as on 26-2-1997	42750	42980	42980
2. Purchase tax at 11%	4702.50	0	0
3. Freight and insurance on imported rubber @ 5% of the base price	0	2149	2149
4. Custom duty on imported rubber @ (20 + 2)% on base price	0	9455.60	0
5. Cess on indigenous rubber	1000	0	0
6. Port clearance charges @ 1% on CIF price for imported rubber	0	451.29	451.29
7. Terminal handling charges such as loading, stacking charges and such incidental charges on imported rubber	0	260	260
8. Incidental charges viz., loading and other charges for indigenous rubber	140	0	0
9. Total landed cost of imported rubber at the Ports/FOB price of indigenous rubber	48592.50	55296.89	45840.29