Natural Rubber in Post-QRs Regime

The impact of the trade control measures on natural rubber imposed last year, though still too early to discern, must be seen in the context of the removal of quantitative restrictions on imports and the liberalised trade regime in place over the past decade.

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The three trade control measures on natural rubber (NR) introduced by the government of India in 2001-02 have been apparently in response to the prevailing uncertainty in the domestic market confounded by a surge in imports consequent to the removal of quantitative restrictions (QRs) on major forms of NR from March 31, 2001. Though the domestic NR prices have been moving in tandem with world prices since 1992 mainly due to major policy shifts on external trade, the removal of QRs on NR imports is unprecedented, as imports had been subject to QRs from 1947 to March 31, 2001.[1] Therefore, the perceived objective of the new trade control measures has been the containment of the crisis arising from the cumulative effect of lower NR prices and the potential free imports of NR. The new control measures are: (1) declaration of statutory minimum prices for RSS-4 and RSS-5 effective from September 12, 2001; (2) restriction of NR imports only through the designated ports of Kolkata and Visakhapatnam effective from December 10, 2001 and (3) mandatory quality standards for both domestically processed and imported NR in conformity with the standards specified by the Bureau of Indian Standards (BIS) effective from December 12, 2001.[2] The context, perceived objectives and scope of the measures are rather unprecedented since the two major policy shifts on external trade of NR in India in December 1968 (coinciding with partial decontrol and direct market intervention) and dilution in the tariff and non-tariff barriers on NR imports from 1991-92. Prima facie, the contextual underpinnings of the measures have been the persistence of lower NR prices since 1997 vis-à-vis the peak level attained in 1995-96 and a steady increase in imports mainly through the duty-free channel since April 2001 compared with the five previous years. Accordingly, the two perceived objectives of the new measures are to: (1) stabilise domestic NR prices at desired levels, and (2) restrict imports so as to prevent further deterioration in prices. The scope and efficacy of the three policy initiatives merit attention on account of their potential implications in the context of the liberalised policy regime pursued by the country and the growing process of market integration resulting in the convergence of domestic and world market prices of NR since 1992. In order to understand the implications of the measures on the perceived objectives, it would be logical to provide a brief review of the major milestones in the NR market intervention schemes by the government since independence under various policy regimes.

Market Interventions in Retrospect

The monopoly procurement of NR at fixed prices by the government during 1942-46 marks the beginning of statutory regulation of NR prices in India [George 1999: 190]. The subsequent policy initiatives pursued by the government of India in the post-independence phase consisted of notification of minimum and maximum prices, buffer stocks, exports and control on imports of NR through tariff and non-tariff barriers over time. Although the price policy regimes followed in the post-independence phase were basically transitory in nature to suit context-specific issues, the market interventions were integral parts of an overall strategy to achieve the perceived objectives of insulating domestic prices from fluctuations in the world market, stabilising at remunerative levels and achieving self-sufficiency in NR production [ibid: 190-91].

Among the various policy initiatives pursued by the government in the post-independence phase, control on NR imports through tariff and non-tariff barriers such as import duty and the mode of imports was crucial in protecting domestic prices from fluctuations in the world NR market. Though various forms of control over NR imports were not singularly instrumental in stabilising prices at desired levels, two major policy shifts on NR imports in the early 1970s and 1990s merit attention in the present context.[3] Till the early 1970s import of NR was directly undertaken by rubber products manufacturers based on the import quotas prescribed by the government [George et al 1988:M-162]. However, subsequently the State Trading Corporation of India (STC), entrusted with the task of market intervention, dominated the external trade in NR. Therefore, a major share of NR imported into the country was canalised through STC from the early 1970s till the early 1990s. Though serious reservations have been reported on the announcement and actual timing of NR imports during this phase, the direct market intervention measures of the government had been remarkable for their proactive agenda [Lekshmi et al 1996:87].

However, a major policy shift observed in the early 1990s was the prominence accorded to direct imports by rubber products manufacturers through duty-free channels as an incentive for export of rubber products, and reduction in import duty in the backdrop of the economic reforms launched in 1991. As a result, since 1991-92 not only canalised imports of NR through the STC have been dropped, but around 96 per cent of the total quantity of rubber imported in the 1990s was routed through duty-free channels; especially through the advance licensing scheme [George 1999:195]. An important consequence of this policy change has been synchronisation of NR prices in the international and domestic markets since 1992.[4] Another major trend observed has been a surge in imports of NR even during the three years of highest reported surpluses of NR in the 1990s.[5] In spite of the inadequacy of plausible explanations on the erratic behaviour of the NR imports during the 1990s, the prominence attained by the duty-free channel of advance licensing scheme (ALS) as the major source of imports instilling the elements of convergence between domestic and international prices attracted more public attention during the declining phase of domestic NR price since 1997. Rescue operations by both the central and state governments in the form of a targeted buffer stock of NR since September 1997 did not yield the desired result as the domestic price has been essentially moving in tandem with world market. Consequently, the government has banned import of NR under ALS from February 1999 in the context of prevailing uncertainty in the domestic market.

The New Policy Measures

Statutory minimum prices: The ban of import of NR under ALS was expected to provide the relevant signals in the domestic market for price stabilisation at desired levels. However, during the 31 months between March 1999 (since the ban was imposed) and September 2001, the average monthly prices of the major forms of processed sheet rubber (RSS-4 and RSS-5) were relatively stagnant and remained at low levels.[6] The prevailing trends in the market were also not conducive to any dramatic change in prices, as basically the trends were in tandem with the movement of world market prices. It is in this background of stagnant lower prices confounded by the removal of QRs on the import of NR and sustained pressure by the representative bodies of the planting community that the government declared statutory minimum prices of Rs 32.09 per kg and Rs 30.79 per kg for RSS-4 and RSS-5 respectively, with effect from September 12, 2001. Though legally all subsequent transactions on the respective grades of sheet rubber conformed to stipulated prices, the actual farm-gate prices realised by the growers appeared to be relatively lower than the statutory prices and these were more in conformity with the price reported by rubber dealers till the first week of April 2002. Conversely, the price reported by the rubber trading community during this six-month period between October 2001 and March 2002, was more in tune with international prices rather than the statutory minimum prices. Therefore, there had been serious operational level contradictions between the officially published statutory minimum prices and the actual prices realised by the growers which were more closely related to international price movements. This apparent contradiction was short-lived as differences between the officially published prices and dealers' prices have been narrowing from April 2002 mainly due to an increasing trend in the domestic market prices surpassing the statutory minimum prices in tune with the international price movements.

Though the time frame to capture the net impact of the declaration of the statutory minimum prices since September 2001 is too short, two emerging observations from a policy angle are: (1) the officially reported domestic market prices of NR after the fixation of statutory minimum prices, till April 2002, masked the required degree of transparency; and (2) the apparent divergence between dealers' price and the official price vis-à-vis the relative convergence between the former and international prices exposing operational level constraints in implementing the statutory minimum prices in a liberalised trade policy regime. In effect, it appears that the duty free channels of NR imports and the removal of non-tariff barriers on imports have been effectively transmitting signals of convergence between the world and domestic prices since 1992.

NR imports through designated ports: The ban on NR imports through ALS from February 1999 had a salutary effect. Against 20,213 tonnes of NR imported in 1999-2000, only 8,970 tonnes were imported in 2000-01. However, the elimination of QRs on NR import from March 31, 2001 heralded the opening up of the duty-free channel of duty entitlement passbook scheme (DEPB) compatible with the new policy regime. Operationally, the three major differences between the ALS and DEPB are the following: (1) ALS is a pre-export incentive scheme with actual user condition facilitating duty-free imports of inputs required for export production subject to the fulfilment of a time-bound export obligation. DEPB is a post-export incentive scheme which provides for duty-free imports by exporters without passing through the licensing route; (2) compared with the mandatory actual user condition of ALS, both DEPB and the materials imported against it are freely transferable; and (3) the nexus between exportables and importables, which is mandatory under ALS, is absent in DEPB [Joseph and George 2002b: 909-10].

In view of the steady increase in NR imports consequent to the removal of the QRs, a new form of control has been imposed which allows NR imports only through the designated ports of Kolkata and Visakhapatnam with effect from December 10, 2001.[7] The estimated volume of imports of NR, at 50,273 tonnes during 2001-02, was the highest during the past five years and to a certain extent, underlines the implications of the policy changes from March 31, 2001. Although primary data pertaining to the channel of imports, the cif value and the sources of imports are not available for the entire year (2001-02), availability of such basic information contained in the original trade documents provided by the Indian customs department from December 10, 2001, consequent to the new form of control, gives broad indications. Table 1 illustrates the dominance of the duty-free DEPB channel of imports during the four-month period between December 10, 2001 and March 31, 2002.

Though a total quantity of 6790.152 tonnes of NR was imported during this period, the analysis is restricted to 6542.632 tonnes, as the bill of entry issued by the customs department is not available for the remaining quantity imported in four consignments. As is evident from the table, Kolkata is the major port of import (93.55 per cent) and out of the total quantity imported through the two ports, 89.55 per cent was through the duty-free channel of DEPB. Portwise data showed that while more than 95 per cent of the import through the Kolkata port availed the DEPB facility, 100 per cent of the import through Visakhapatnam exhibited the other extreme of duty paid channel. Although, no specific reasons could be attributed to the observed differences in the portwise channels of imports, the relative export orientation of the importing firms might have contributed to the differences, as in both cases tyre companies accounted for bulk of the imports, at 92.25 per cent (Kolkata) and 82.38 per cent (Visakhapatnam). Another important observation is the extent of apparent under-invoicing by importers as is evident from the differences in the average cif value of imports till March 31, 2001 and the average fob prices of various grades during the contracting period. The estimated cost of freight and insurance varies from Rs 1.21 to Rs 1.84 per kg of imported rubber from the major ports of exports. Even after deducting this cost component from the unit value of imports, the extent of apparent under-invoicing had been marginal in the case of major forms of rubber imported.[8] However, the difference was more notable when the statutory minimum prices fixed for the respective grades in the domestic market were compared. The difference was more than 23 per cent in the case of RSS-3 and 25 per cent in RSS-5.

Table: Channelwise Import of NR from December 10, 2001 to March 31, 2002

Quantity Imported (Tonnes)					
Through Kolkata Port		Through Visakhapatanam Port		Grand Total (Tonnes)	
DEPB Channel	Duty Paid Channel	DEPB Channel	Duty Paid Channel	DEPB Channel	Duty Paid Channel
5858.931 (95.72)	261.941 (4.28)	Nil (0.00)	421.760 (100)	5858.931 (89.55)	683.701 (10.45)

Notes: 1 Excluding 247.520 tonnes of four consignments for which bill of entry is not available.
2 Figures in parentheses denote respective percentage shares.

During this period, more than 54 per cent of the total NR imports was constituted by the visually graded sheet forms of processed rubber. Major trends observed in the import of NR consequent to the removal of QRs focus mainly on two aspects: (1) to a large extent, the popularity of the DEPB scheme has nullified the expected outcome of the minimum notified prices in the domestic market; and (2) therefore, it underlines the point that unless the control measures are mutually reinforcing, the operational-level relevance of such schemes will be seriously eroded.

Quality control measures: Among the control measures implemented in the post-QR regime, the mandatory quality control schemes simultaneously made effective for both domestically processed/marketed rubber and imported rubber would have important long-term implications. The government notifications effective from December 12, 2001 on mandatory quality standards in conformity with the standards specified by the BIS assume importance in the context of the growing relevance of competitiveness in quality of both processed rubber and rubber products. According to the provisions of the Agreement on Technical Barriers to Trade, certain WTO-compatible non-tariff import restrictions can be imposed pertaining especially to standards in quality and packing [Joseph and George 2002b:98]. However, an important condition is that imposition of such quality standards on imported products should be identical to the standards applicable to products of national origin. Therefore, simultaneous imposition of mandatory quality standards for domestic and imported rubber in conformity with BIS specifications was probably based on this provision.

The rejection of 160 tonnes of technically specified block rubber (TSR) imported through the designated ports after the implementation of this quality control measure underlines its potential for preventing imports of inferior quality NR irrespective of the channel of imports. However, the scope of the quality control measure as per the BIS norms is rather limited as during the period under review more than 56 per cent of the imported rubber consisted of various forms of processed rubber subjected only to visual grading and assessment compared with the technically specified properties of TSR. Therefore, from a long-term policy angle, the possibilities of promoting the production of only technically specified forms of NR may have to be investigated in conjunction with the building up of adequate infrastructure facilities to monitor the prescribed quality standards for both domestic and imported rubber. Such a comprehensive package of policy initiatives will yield the desired results by improving the quality parameters of processed rubber to harness the strategies for export of value added rubber products.

Conclusion

Although a comprehensive assessment of the three trade control measures imposed since March 31, 2001 is circumscribed by the limited time/span, observed trends give broad indications on the compatibility of the measures in an era of growing liberalised trade policy regime. First of all, the efficacy of the trade control measures has to be perceived in the context of obvious differences that exist between priorities and strategies pursued in the protected trade policy regime during 1947-1991 and in the post-1991 phase. While the focus on self-sufficiency in NR production with its protective trade policy appendages had been the hallmarks of the pre-liberalisation phase, the policy imperatives underlining value added exports with competitiveness in cost and quality have been the priorities in the liberalised trade policy regime. It is true that the statutory minimum prices imposed at various phases of the pre-reforms phase had the desired effect of insulating domestic prices from fluctuations in the world market prices and in achieving rapid strides in the production of NR. However, in an era of liberalised trade, the operational level significance of statutory minimum prices has been beset with problems ranging from issues related to implementation and contradictions arising from cheaper NR imports through the DEPB route. The trends in NR imports after December 10, 2001, indicate that as long as the difference in prices between domestic and world markets is attractive, NR imports through the duty-free channel will continue as there are well-defined limitations in backtracking from the liberalised trade policy initiatives pursued since 1991. However, the absence of 'nexus' between exported products and imported inputs in the DEPB scheme requires thorough scrutiny in order to prevent unhealthy trade practices. In a comparative sense, the mandatory quality control measures have to be pursued with the required support to ensure the export promotion of value-added rubber products for more meaningful results. From a long-term policy perspective, barriers erected by contradictory ad hoc trade control measures have to be replaced by a comprehensive package of mutually reinforcing and transparent schemes to promote mandatory quality upgradation and value added exports. EPW

Notes

1 Till March 31, 2001, NR imports were either under the canalised or restricted list of imports.

Forms of NR Freed of QRs on March 31, 2001

HSTC Code	Product
400110.01	NR latex, not pre-vulcanised
400110.02	NR latex, pre-vulcanised
400121.00	NR, smoked sheets
400122.01	Oil extended NR
400122.02	Chemically modified forms of NR, including graft rubber
400122.09	Other technically specified natural rubber
400129.01	Other Hevea rubber
400129.02	Crepe rubber from latex, pale latex crepe
400129.03	Estate brown crepe
400129.09	Other natural rubber, non-latex
400130.00	Balata, gutta-percha, guayule, etc

2 The first two measures were promulgated by the government through Extraordinary Gazette Notifications of SO876 (E) dated September 12, 2001 and 41 (RE-2001)/ 1997-2002 dated December 19, 2001 respectively. The mandatory quality standards were implemented through notifications G S R 897(E) and SO1205 (E) dated December 12, 2001.

3 The major ingredients of direct market intervention by the government involving the State Trading Corporation of India (STC) since the early 1970s were essentially twofold: (1) undertaking export of NR when there is a reported surplus leading to price crash, and (2) importing NR based on the reported consumption-production gap on behalf of the manufacturers. However, since the early 1990s STC's role in NR imports has been insignificant consequent to major policy changes.

4 In contrast to the protected domestic prices of the 1980s, the ratio between world and Indian NR prices has been around 1:1.

5 For instance, the highest reported surpluses during the decade have been in 1995-96, 1997-98 and 1998-99. The NR imports were also higher during these three years.

6 The coefficient of variation of average monthly prices of RSS-4 and RSS-5 during the 31-month period was only 7.89 per cent and 7.69 per cent respectively.

7 One of the possible reasons for designating these two ports could be higher port charges. For instance, the wharfage in Kolkata port amounts to Rs 0.32 per kg of imported NR compared with Rs 0.16 in Chennai and Rs 0.09 in Mumbai and Rs 0.14 in Kochi. The proximity of directorate general of commercial intelligence and statistics (DGCIS), the authorised national organisation for external trade monitoring, could be another factor for fixing Kolkata as one of the designated ports.

8 For instance, it was only 9.3 per cent in the case of RSS-3 and 3.4 per cent in the case of TSR 20.

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