VII POST-DEREGULATION EXPERIENCE

When the prestigious NALCO smelter in the public sector went into production in March 1987, rumours began circulating that controls on aluminium industry would be soon lifted. It was widely believed that the government would lose no time in moving in that direction as soon as NALCO stabilised its production. Once it was known that in its first full year of production NALCO was headed for achieving production of about 90 thousand tonnes, the government took the opportunity of Budget presentation to announce the decontrol of the aluminium industry from March 1989. Along with the decontrol, several changes were made in the duties on aluminium. Import duty on aluminium ingot was abolished[1], and the import duty on aluminium waste and scrap was reduced from 35 per cent to 20 per cent. At the same time, excise duty rates on aluminium and its products were raised. The excise duty on primary aluminium was raised from 18% previously to 20% plus Rs.2500 per tonne. Excise duty on aluminium scrap, powders and flakes and other products like containers, stranded wires and cables was raised from 20% to 30%. Excise on rolled products was increased from 25% to 35%, while, on aluminium circles of 0.56 mm - 2 mm, the rate of duty was increased from 18% to 30%. There was also an increase in excise in aluminium foils from 15% to 25%. In raising the excise duty on aluminium and products, the object of the government, it seems, was to mop up the extra income to be earned by aluminium producers as a result of the decontrol.

After the decontrol announcement, the aluminium producers froze supplies for about a week to determine their prices. Subsequently, they raised the prices by Rs.2000 to Rs.3000 per tonne with effect from March

1. The price increases made by various producers are shown below :

Table 7.1

Price Increases in Aluminium

(Rs./tonne)

	CG Ingot	EC Ingot	Wire Rods
BALCO	2101	2101	2576
HINDALCO	2101	2101	2576
INDAL	2081	2081	2456
MALCO	3251	3291	3866
NALCO	2051	3051	3026

Though with the removal of price control a spate of price increases was feared by aluminium consumers, this did not occur. Rather, there was a downward trend in the market price of aluminium ingot. It is seen from Table 7.2 that in February 1989, i.e., before the decontrol, the price of aluminium ingot was Rs.47.77 per kg. in Bombay market and Rs.48.25 per kg. in Delhi market. By the end of 1989, the prices in Bombay and Delhi markets came down to Rs.42.33 and Rs.43.25 per kg., respectively. During this period, there was a downward trend also in the prices of aluminium sheets/coils.

One reason why large increases in aluminium prices did not take place in the post-deregulation period is that there was a significant downward trend in the international price of aluminium in this period and liberal, duty-free import of the metal was permitted by the government. It is seen from Table 7.3 that the price of high grade aluminium ingot in London Metal Exchange declined from $2712 per tonne in July 1988 (over $3600 per tonne in June 1988) to $1634 per tonne in December 1989, and further to $1455 in February 1990.

Table 7.2

Prices of Aluminium, Bombay & Delhi Markets

(Rs per kg.)

	Bombay	*Delhi*	
	Ingot	Ingot	Coil 22 swg.
Oct. 88	41.44	40.50	47.60
Nov. 88	41.52	40.88	50.25
Dec. 88	43.41	45.25	57.25
Jan. 89	46.61	47.25	60.00
Feb. 89	47.77	48.25	62.15
Mar. 89	46.67	48.00	66.90
Apr. 89	45.28	45.75	67.88
May 89	45.23	44.95	61.46
Jun. 89	44.64	44.93	58.81
Jul. 89	43.75	44.42	57.56
Aug. 89	43.27	43.65	56.10
Sep. 89	42.29	42.93	55.10
Oct. 89	43.40	42.75	56.50
Nov. 89	42.70	43.63	56.00
Dec. 89	42.33	43.25	55.50

Source : *Minerals & Metals Review*, various issues.

Table 7.3

Price of Aluminium Ingot in London Metal Exchange

($/MT)

		Standard	High Grade
1988			
	April	2508 -	
	May	2995 -	
	June	3594 -	
	July	2585	2712
	August	2706	2766
	September	2386	2422
	October	2308	2353
	November	2385	2438
	December	2378	2505
1989			
	January	-	2400
	February	-	2185
	March	-	2078
	April	-	2137
	May	-	2262
	June	-	1916
	July	-	1743
	August	-	1797
	September	-	1719
	October	-	1821
	November	-	1737
	December	-	1634
1990			
	January	-	1529
	February	-	1455

The metal became more and more attractive. As a result, domestic prices of aluminium were kept in check and there was a spurt in import of aluminium. During 1989, about 36 thousand tonnes of aluminium metal was imported, as against 7.3 thousand tonnes during 1988. To

check the spurt in aluminium import, the government reimposed customs duty on aluminium at the rate of 5% ad valorem plus Rs.2500 per tonne in October 1989. This has not, however, been much successful in stopping aluminium import.

It would be interesting to take a look now at how the effective rates of protection to the production of aluminium and semi- fabricated products changed in the post-deregulation period. Since sufficient data are not available at present for 1989, only some rough estimates of the effective rates of protection for the period March-December 1989 could be made, and these are shown in Table 7.4. Along with these estimates, similar estimates for 1986 and 1987 are also shown in the table.

Table 7.4

Estimates of Effective Rates of Protection to Aluminium, Rolled Products and Foils

(Per cent)

	Aluminium	Rolled	Foils
1986	-0.9	95.7	142.6
1987	-12.4	210.7	323.9
1989 (March-Dec)	-10 to -14	57.3	93.9

Comparing domestic (ex-factory) and border prices of aluminium ingot for the period March 1989 to December 1989, the nominal rate of protection to aluminium is found to be 0.6%. Since border prices for tradeable inputs used in aluminium production are not available, it is not possible to compute the nominal rate of protection to tradeable inputs (and therefore value added at world prices). However, going by the average rate of nominal protection to tradeable inputs in the estimates of effective protection to aluminium for three previous years (53.6% for 1988, 76.6%

for 1987 and 96.2% for 1986), it does not seem unreasonable to assume that, in 1989, the average rate of nominal protection to tradeable inputs was somewhere in the range of 50% to 100%. The effective rate of protection to aluminium computed on the basis of this assumption, is found to lie in the range -10% to - 14%. It may be inferred therefore that the production of aluminium metal continued to be disprotected, even after the decontrol.

Estimates of effective rates of protection to rolled products and aluminium foils indicate that the production of these semi- fabricated products enjoyed significant protection during March- December 1989. There was, however, a fall in the rate of protection to these items compared to the protection rates prevailing in 1986 and 1986. It appears therefore the gap between the effective rate of protection to aluminium metal and to semi-fabricated products was reduced in the post-deregulation period.

NOTES

1.

It would be recalled that by the end of 1988, the rate of import duty on aluminium ingot was Rs.500 per tonne plus 5 % auxiliary duty.