

India Trade Policy

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Commerce Ministry preparing new action plan to double exports to \$500 bn

PTI

New Delhi, June 24, 2012: With merchandise demand slowing down in global markets, the Commerce Ministry is drawing up a new strategy for achieving exports of \$500 billion by the end of 2013—14. It will take around a month to prepare the action plan. The focus will be on reducing transaction costs of exporters, ensuring they do not face non-tariff barriers in the importing countries, a senior Commerce Ministry official told PTI.

While the ministry had drawn a strategy paper in May last year on doubling exports in three years from \$251 billion in 2010—11, deteriorating conditions in the global economy require a fresh look at the gameplan, the official said.

The African continent, which has shown resilience along with Asia despite turmoil in the European markets and slowdown in the US, would be the main plank for the action plan being worked out by the Commerce Ministry.

It has identified 25 African countries, including South Africa, Nigeria and Egypt to achieve increased shipments for about 200 Indian products including pharmaceuticals, fruits and vegetables and textiles. “We are trying to create a matrix. We will see which product has major demand in a particular nation and what type of problems an exporter faces” the official said.

The final strategy will be prepared after the government-industry interface. —We will consult exporters for the feedback. They know what is the potential and where are the issues.

Africa is growing by about 4.5 per cent per annum. Although, India’s total merchandise exports to this region stood at only \$16.28 billion in 2010-11, there is huge demand for Indian goods.

Besides, Latin American and Asian markets are also emerging as major export destination for Indian products after demand slowdown in the traditional markets of Europe and the US.

India’s exports grew by 21 per cent to \$303.7 billion in 2011—12. However, according to officials, this year would be more difficult for exporters. In April, the shipments declined by 4.16 per cent year-on-year.

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Big Banks Told to Fund Exporters

Dheeraj Tiwari & Rishi Shah, Economic Times

New Delhi, 4 July, 2012: The finance ministry has directed banks with substantial overseas presence to arrange credit for Indian exporters in a bid to halt a sharp slide in shipments from Asia's third-largest economy.

Banks with overseas presence will have to extend credit directly or make funds available to exporters through smaller banks for which arrangements have to be finalised within a week, the finance ministry has told chief executives of public and private sector banks in a letter sent on Monday.

The letter says big banks, by which the ministry seems to mean lenders such as SBI and ICICI Bank that have a large overseas presence, will have to work out within a week a mechanism to fund smaller banks to ensure flow of credit to micro and small-sector exporters.

We have told big banks to help customers of smaller banks by lending directly to these banks with a mark-up of not more than 10 basis points, a finance ministry official told ET, adding that a flight from risk in the international markets had reduced availability of foreign exchange.

India's exports declined 4.2% in May as demand slowed in the European Union, negating the impact of the moderation in imports on India's current account deficit that climbed to a post-1991 high of 4.2% of GDP in 2011-12.

The trade deficit, which is a sub-set of the current account, rose to \$189.9 billion in 2011-12 from \$130.6 billion in 2010-11.

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Fine-tune strategy to impose anti-dumping duty

PTI

15 Mar, 2012, NEW DELHI: The government should fine tune its strategy on anti-dumping duties to avoid unwanted international criticism, the Economic Survey said today.

India has been getting a lot of undue flak for the highest anti-dumping initiations, the survey tabled in the Lok Sabha said.

"Though India's anti-dumping policy has been directed to checking genuine cases of dumping, there is a need for some fine-tuning of its strategy to avoid unnecessary international criticism," it said.

The country's anti-dumping initiations increased to 55 in 2008, fell to 31 in 2009, but again increased to 41 in 2010.

Brazil with 37 initiations stood second in 2010. During 2011-12 (up to 31 December 2011), six fresh anti-dumping investigations have been initiated by the Directorate General of Anti-dumping and Allied Duties (DGAD).

"The hype around the high number of anti-dumping cases of India needs to be dispelled by highlighting comparative value figures of other countries," it added.

However, the survey said that the domestic economy needs to be adequately protected from the cheap imports of dumped or smuggled goods through the porous Indian borders.

It said that the uncertainty in the international economic environment could lead to a rise in anti-dumping measures by countries in the coming months.

Countries initiate anti-dumping probes to check if the domestic industry has been hurt because of a surge in cheap imports. As a counter-measure, they impose duties under the multilateral WTO regime.

The measures are taken to ensure fair trade and provide a level playing field to domestic players. It is not a measure to restrict imports or cause an unjustified increase in the cost of products.

India WTO Review Highlights Growth, While Urging for More Reforms
Bridges Weekly Trade News Digest

21 September 2011: The last four years have seen strong economic growth in India, largely as a result of trade liberalisation and structural reforms set in motion in the 1990s, according to a new WTO secretariat report on the country's trade policies. While the country has done well to avoid the adoption of protectionist trade measures in response to the global economic crisis, the report found room for improvement in areas such as agricultural import tariffs, transparency in government procurement, and the use of anti-dumping measures.

WTO members met on 14 and 16 September to review the report from the trade body's secretariat; the report, known as the Trade Policy Review (TPR), praised India's promotion of sustainable growth through trade policy and foreign direct investment. The review also lauded India's ability to use trade policy for the achievement of long term goals, such as promoting economic growth.

However, the secretariat warned, India's tendencies toward using trade policy for resolving short term problems such as inflation could be counterproductive. The report noted that using trade

policy instruments for such purposes —may detract somewhat from the stability sought, as this requires constant fine tuning of policies, rendering the trade regime more complex.¶ Members at the review largely acknowledged India’s efforts in reducing average most favoured nation (MFN) tariffs; during the period under review, MFN tariffs fell from 15.1 percent in 2006-7 to 12 percent in 2010-11. Attempts in India to —streamline customs procedures¶ were also commended by both members and the secretariat report, particularly the adoption of an electronic customs clearance system.

Agriculture, antidumping policies draw notice from members

Agricultural tariffs and anti-dumping measures took centre stage in the review’s suggestions for further improvements, and drew particular attention from the US at the review. Despite an overall drop in tariffs, the review reported an agricultural tariff rate of 33.2 percent, compared to 8.9 percent for manufactured goods. This protective trade policy is propagating —low productivity and modest growth rates, the report cautioned.

US Ambassador Michael Punke, in his statement at the review, acknowledged the challenges posed by inflation in India; however, he also called for increased openness in the country’s trade policies, placing particular emphasis on —long-term reductions in agricultural tariffs, and removal of unjustifiable sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) impediments on agricultural imports.

Chairperson Mario Matus, who is also Chile’s ambassador to the global trade body, also highlighted in his concluding remarks the questionable —scientific basis for certain [SPS] measures adopted by India¶ and urged the country to eliminate those technical standards that were acting as trade barriers. Similarly, the review cited India as one of the highest users of anti-dumping measures, which target products whose price abroad is less than that in their country of origin.

The secretariat report found that India had initiated 209 anti-dumping investigations against 34 trading partners in the period covered by the review period, imposing 207 anti-dumping measures; this was an increase from the 176 anti-dumping investigations and 177 anti-dumping measures initiated during the previous review period.

The US also spoke out about transparency concerns, citing —India’s failure to submit required notifications to the WTO, particularly in the areas of agriculture [and] subsidies,¶ and not regularly engaging in public notifications of matters impacting trade and investment as a source of difficulty for those firms seeking to conduct business in India.

Doha issues creep into discussion

While the review generally praised India’s involvement in the Doha Round negotiations, the US made a point in its remarks to bring up the long-standing differences between the US and India in the struggling trade talks.

Punke noted that, while the US —support[s] India’s use of an open trade policy¶ to fulfil objectives of inclusive growth and economic development, such support —underscores our disappointment in India’s reluctance to participate in meaningful market opening through the Doha Round negotiations, despite India’s place as one of the world’s fastest growing economies.¶

The US has long disagreed with Brazil, India, and China over industrial sector tariffs, with the US arguing for mandatory participation in ‘_sectorals,’ i.e. the cutting of tariffs across an entire industry.

Washington has asked that emerging economies take on greater responsibilities when it comes to non- agricultural market access, in order to reflect their growing role in the global economy.

More information

Trade policy reviews are held for all WTO members; the global trade body's rules mandate that the four largest traders - China, the EU, Japan, and the US - undergo such reviews every two years, with other countries having longer lag times between reviews. The last review of India's trade policies was in May 2007. ICTSD reporting

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US slams slow, opaque Indian trade policy

Tom Miles, Reuters

GENEVA, Sept 14 - The United States attacked India's trade policy on Wednesday, criticising its barriers to agricultural imports and retail sector investment and warning that it may not have shaken off the red tape and trade restrictions that has long plagued foreign business.

The broadside from U.S. Ambassador Michael Punke was part of India's trade policy review, a regular examination of trade liberalisation that every member of the World Trade Organization (WTO) has to go through at the hands of its peers.

Punke said the lack of transparency helped explain why India was ranked 165th out of 183 in the World Bank's "Doing Business" report. Stumped U.S. trade officials had repeatedly been forced to ask India to explain its policies to prepare for the review.

"We, ourselves, became increasingly amazed at how many matters we found to be important and for which we were unable to obtain answers independently," Punke said, according to a transcript of his remarks.

The U.S. criticism was far stronger than a WTO report issued as a starting point for the debate, which had largely welcomed India's efforts to open trade, while disapproving of its frequent tweaks to trade policy for political reasons.

In a list of criticisms, Punke decried "exceedingly high" tariffs in agriculture and a "severely restricting" government procurement regime.

INFLATION

Recognising India's need to fight inflation, he called for a strategy of lowering food prices with significant, long-term reductions in agricultural tariffs and the removal of "unjustifiable" impediments to agricultural imports based on health concerns and other technical barriers to trade.

While its policy in agriculture, India's biggest employer, was doing "a disservice to consumers and producers", it had also done little to develop the largest sector of its economy, services, with multiple policy initiatives stalled for several years, Punke said.

Market opening had helped the information technology sector to flourish, so it was disappointing to see India charting a different course in other areas, Punke said.

"For example, the past year has witnessed policies, already adopted or being considered, that explicitly shut out imports entirely ... or require private entities to source a significant amount of their purchases from manufacturers in India, as in the case of policies on electronic products and telecom equipment.

"Although India has expressed its intention to continue on its successful trajectory of liberalization, these types of initiatives tend to evoke comparisons to trade-restrictive policies pursued in previous, poorly-performing periods of India's economic development."

The United States was also worried by recent signals that India might limit foreign direct investment in sectors such as pharmaceuticals and banking, which had previously flourished thanks to more open policies.

Plans to update India's laws on intellectual property also "fell well short of best practices", Punke said.

India should avoid export restrictions and minimum export prices, he said, since access to global markets had been increasingly important for its economy.

"It is unfortunate, however, that India has chosen to push exports in the past year through a series of new trade-distorting export incentives," the U.S. trade envoy said.

"The United States considers these measures particularly troubling when afforded to the textile and apparel sector, given India's obligation to gradually phase out export subsidies in that sector starting no later than 2007."

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India rejects West's criticism of trade policy

PTI

Sep 16, 2011, GENEVA: India today rejected the criticism of its trade policy, especially by the US, at the WTO and asked the members to judge the country by what it has done over the years.

"Nearly all of you, including our partners in regional trade agreements have commended India's openness and continued liberalisation ... I am, therefore, somewhat puzzled at the criticism levelled at us by some members about the inadequate market access offered by India," India's Commerce Secretary Rahul Khullar told WTO members.

"Judge us by what we have done over the years and not by the latitude we have," he said, in a response to the US criticism that "the agriculture sector in India remains closed to many foreign products".

The US trade envoy Ambassador Michael Punke expressed sharp concern "about the lack of transparency in many aspects of India's trade policy" and a range of restrictions faced by members in the government procurement, agriculture trade, weak enforcement of intellectual property rights and sanitary and phytosanitary measures.

Some other WTO members also expressed concern about rising anti-dumping measures and continued gap between the applied and bound tariffs by India.

Khullar argued that despite large merchandise trade deficit, which is projected to increase to 11.5 per cent of the GDP in 2013-14, India has kept its markets open for imports.

The Secretary said the concern about "the large gap" between bound and applied tariffs for agricultural products is "nothing but a reflection of our steady and continued autonomous tariff liberalisation".

He said there is no merit in labelling "India's import licensing regime as complex". Khullar said that it affects only a few restricted items primarily on grounds of protection of human, animal and plant life and the environment.

He also dismissed the concerns raised by the US that Indian apparel and garment exporters receive special tax credits saying "our export promotion schemes are based on the concept of duty neutralisation and providing a level playing field".

As regards trade remedy measures, particularly anti-dumping, India said if "it had a protectionist intent, then the easy route of increasing the tariffs up to the bound rates was available to us, we have not gone down that road."

The chair for the trade policy review mechanism Ambassador Mario Matus said members "praised India for having used trade policy to promote sustainable growth".

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SBI to cut loan rates by 25-50 bps for exporters

Business Standard

June 21, 2012 Mumbai: State Bank of India, the country's largest lender, would cut interest rates on loans for exporters by 25-50 basis points, a senior official said. The new rates are likely to be effective from next week, after the bank's asset liability committee meets this Saturday.

The move comes following the central bank's decision to increase export refinancing limits of banks, to 50 per cent, to improve liquidity in the system. At present, the Export Credit Refinance (ECR) limit is fixed at 15 per cent of the rupee export credit eligible for refinance as at the end of the second preceding fortnight.

The measure was announced by the Reserve Bank of India (RBI) central bank on Monday. According to its estimates, the increase in refinancing limit can provide additional liquidity of Rs 30,000 crore in the banking system.

News agency PTI quoted SBI chairman Pratip Chaudhuri that the bank was mulling a rate cut to exporters following the regulatory relaxation. "We will surely cut lending rates to exporters...the quantum will be decided by our Alco (asset-liability committee) meeting," he was quoted.

The interest rate charged on the ECR facility is equivalent to the repo rate, currently eight per cent. Yesterday, RBI had asked banks to lower interest rates chargeable to eligible exporters, so that the latter could avail of the benefit of two per cent interest subvention scheme of the central government.

"Banks may reduce the interest rate chargeable to the exporters, as per the base rate system... eligible for export credit subvention by the amount of subvention available, subject to a floor rate of seven per cent," the central bank said in a notification.

On the impact of the RBI move on liquidity, Chaudhuri said it would have some impact in the future, but did not say by how much, PTI reported.

The Reserve Bank on Monday, while leaving the key interest rates and cash reserve requirements of banks unchanged at its mid-quarter review, enhanced liquidity to exporters by increasing the refinancing limits. Banks, on an average, have been borrowing Rs 1 lakh crore from RBI daily, due to tight money supply conditions.

Last week, SBI had announced up to a 3.5 per cent cut in lending rates to top-rated companies, small and medium enterprises and farm loan borrowers but not for individuals, effective June 1.

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Latest 'sops' will help exporters not exports hit by global recession

Ashoak Upadhyay, Hindu Business Line

June 11: The Commerce Ministry has just released the annual supplement to the Foreign Trade Policy 2009-14 amidst a pervasive gloom over almost the entire global economy.

The world economy has not been as low as now and that sentiment is also reflected in trade; world trade has been slowing after 2010, according to data from the World Trade Organisation. After a strong rebound from the Wall Street debacle in 2009 with 13.8 per cent expansion, world trade decelerated to 5 per cent in 2011 and in its forecast last year for 2012, the WTO rued a further fall to 3.7 per cent this year.

As World Trade Organisation's Mr Pascal Lamy said while presenting the forecast for 2012, —More than three years have passed since the trade collapse of 2008-09, but the world economy and trade remain fragile. The further slowing of trade expected in 2012 shows that the downside risks remain high. We are not yet out of the woods.

What may make matters worse are the responses to this feeling of being stuck in the woods. As Mr Lamy pondered, —...the sluggish pace of recovery raises concerns that a steady trickle of restrictive trade measures could gradually undermine the benefits of trade openness.

Against this backdrop almost every initiative by an exporting country trying to edge into the big league of China or other East Asian exporting nations must appear hollow and foolhardy or symbolically heroic at best.

Exports faltering

India's exports have been faltering for years in line with the fortunes of world trade. In an ideal world of growing economic prosperity around the world, the Commerce and Industry Minister, Mr Anand Sharma's annual statement on trade policy could make sense.

In typical fashion, the Commerce Ministry has rolled out a series of concessions worth Rs 1,200 crore to encourage exports. This robust boost comes on the back of a rather modest growth of 3.2 per cent in merchandise exports. Other concessions and fiscal incentives have also been introduced. As usual interest subventions are expected to encourage exports. The two per cent subvention has been extended to March 2013 for handlooms, handicrafts, carpets and small and medium enterprises.

Populism runs through the scheme. Thus as has been the case routinely, labour-intensive sectors, such as toys, sports-goods, processed agricultural products and ready-made garments will also now be covered under the interest rate subvention scheme.

The policy expects to give —a thrust to employment creation, encourage domestic manufacturing, reduce dependence on imports, help market diversification and cut transaction costs for exporters, according to Mr Sharma. What the revenue implications for a fisc in this year of slowdown means, the Minister did not say.

Such concessions sound all too familiar, the concerns expressed and attempted to be addressed remain the same year after year in a way that is eerily out of sync with the times we live in. All these

schemes of generosity for labour intensive industries could have conceivably worked when the global economy was booming and small industries required a leg-up to cope with competition. The jury is out if they did; and in times such as the present such —sopsll do not help exports so much as exporters. Interest subventions do not encourage product refinement innovation or market diversification; all they do is protect profit margins in falling-export scenarios.

Policymakers never draw that distinction between export growth and exporters' margins by defining very clearly that in truth, interest subsidies help the latter and not the former.

All that hype about aiding labour intensive industries and employment are like the rhetoric of populism meant to assure constituents unable to survive in a fiercely competitive export market that the Government stands by them.

Handloom exports have been a mainstay of merchandise exports but are slipping not just because of apathy in creative re-engineering but also competition from smaller countries such as Bangladesh moving up the value chain in apparel exports to the US.

In fact the current Foreign Trade Policy regime (2009-2014) was framed in parlous times, just a year after the Wall Street crash and its language too is brave and objectives futile: to arrest and stem the slide in export performance and to double the share of India's exports in global trade by 2020.

Europe, US woes

That is a tall order: the world economy by which we primarily mean the US and Europe, that are crucial to the fortunes of emerging export economies including India, is not likely to improve soon. Parts of the Euro Zone and the UK are in recession and America is still slithering along the floor.

By 2014 Europe will have to face the music as bailed out governments have to renegotiate debt rollovers or redeem those three-year bonds. In any event, some panic will ensue and panic is not good for export growth.

Predictably, Indian exporter-associations are thrilled by the fiscal concessions and incentives announced by Mr Sharma.

The Federation of Indian Exporters' Organisations (FIEO) waxed eloquent: —in the wake of contraction of global demand and Euro Zone crisis, the support extended through the Foreign Trade Policy was tremendous and will help in imparting competitiveness to exports. The sentiment is self-defeating: the contraction in demand cannot be turned around by fiscal concessions, the support extended through the Foreign Trade Policy... It has to be addressed by policies in the importing countries to boost consumer spending through income-generating economic expansion. That at the moment is missing and it is likely it will be for some time to come.

In the event, is the Foreign Trade Policy at all relevant at times such as the present? At moments when the world economy cannot sustain robust trade between nations, the question is a vexing one.

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Deemed export benefits likely to be pruned

Nayanima Basu, Business Standard

June 20, 2012, New Delhi: The Directorate General of Foreign Trade (DGFT) would soon change the deemed export benefit scheme under the Foreign Trade Policy (2009-2014), following its large-scale misuse over several years, especially by power companies. A draft policy by DGFT would be put up for feedback by all stakeholders, after which the scheme would undergo significant changes.

In May 2011, the Ministry of Commerce & Industry had constituted a committee under the chairmanship of Director General of Foreign Trade Anup K Pujari. This had representatives from the Department of Industrial Policy and Promotion, the Department of Economic Affairs, the Reserve Bank of India and the Department of Revenue.

Deemed exports refer to transactions in which goods supplied to users do not leave the country and the payment for these supplies is received either in Indian currency or in foreign exchange. But these are subject to several conditions. Deemed export benefits include a rebate on duty chargeable on imports or excisable material used in the manufacture of goods supplied to projects.

Essentially, we want to bring in a level playing field between domestic manufacturers and exporters. Since the benefits have been misused for several years now, the government first decided to issue clarifications on this scheme last year. However, we have now decided the policy needs to be relooked. The draft report is ready, we should be coming out with the policy soon, Pujari told Business Standard. The new policy would seek to reduce benefits and provide these only to deserving suppliers. It might also do away with the benefits altogether. In 2010-11, the DGFT had brought to the notice of the finance ministry fake claims by certain suppliers, especially firms that supplied boilers, turbines and generator.

In 2010-11, the DGFT noticed deemed export dues to the tune of about Rs 5,000 crore were not paid. At the same time, we noticed a large number of companies were misusing the benefits and making fake claims, and the government could save about Rs 4,000 crore. We also issued guidelines clarifying the policy, as the companies complained of ambiguity in the policy, Pujari added.

Companies that didn't pay dues have dragged the DGFT to court and the case is currently underway.

The revised scheme would focus on the relevance of import substitution in today's scenario and equitable treatment between domestic and international suppliers. The move is aimed at saving about Rs 2,000 crore annually, officials said.

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\$500 b export target looks difficult to hit

Hindu

2 June 2012: With the economic growth continuing its downward slide and the global situation remaining grim, Commerce and Industry Minister Anand Sharma, on Friday, said given the present circumstances it would be difficult to achieve the \$500 billion export target set for 2013-14.

This assessment by Mr. Sharma comes soon after exports registered a meagre 3.2 per cent year-on-year rise to \$24.4 billion in April 2012. The continued slowdown and worrying export situation has sent the government into the consultation mode with sops likely to be announced for labour-intensive sector in the next few days.

Despite heavy odds facing the economy, he was hopeful that exports would be able to register a 20 per cent growth. —It is a question of supporting labour-intensive sectors. We have to take a holistic view to ensure that we should remain competitive globally. It is important for India to have a sustained thrust on exports, he said.

The sharp deceleration in import growth to 3.8 per cent to \$37.9 billion resulted in trade deficit narrowing to \$13.2 billion, the lowest in the last seven months. Reduction in trade gap would at least lessen worries arising out of sharp decline in rupee against the U.S. dollar.

The Foreign Trade Policy is scheduled to be announced on June 5.

Finance Secretary R. S. Gujral asserted that the depreciation of the Indian rupee would ultimately help exporters in the long-run. —The depreciation of rupee prima facie would help exporters in terms of higher realisation in terms of rupee. Overall, in the long-term, it would help the exporters, he said after the meeting of Board of Trade (BoT) chaired by Mr. Sharma.

At the same time, he said the weakening rupee was hurting importers badly. The rupee was trading at 55.92 against the U.S. dollar at the inter-bank foreign exchange market.

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Trade policy seeks to prop up exports

Asit Ranjan Mishra & Kirthi Rao, Mint

June 5, 2012, New Delhi: At a time when domestic growth sentiments have weakened dramatically while global uncertainty has increased with talk of Greece exiting the euro zone, the government announced several fiscal measures for exporters and manufacturers that were cheered by the industry.

As a part of the supplement to the Foreign Trade Policy (FTP) 2009-14, commerce, industry and textiles minister Anand Sharma extended the interest subsidy scheme and the export promotion capital goods (EPCG) scheme by another year till 31 March 2013.

In order to facilitate import substitution and curb the galloping trade deficit, the commerce ministry has allowed exporters to use the various scrips available to them for payment of excise duty for domestic procurement. Such instruments under the —focus product scheme have so far been allowed only for payment of customs duty during imports. The commerce ministry said in a statement that the move is also expected to save foreign exchange. “This decision has been taken to promote domestic manufacturing and value-addition and employment, and will be a significant measure of import substitution” Sharma said.

Sharma set a target of 20% export growth in the current fiscal year ending 31 March. While recognizing that the difficult economic situation in the euro zone poses a real risk of sinking the world into yet another recession, the minister said he expects a turnaround in exports later this year. “Coming few months can be very testing. Things will start turning around by August or September” he said.

India’s exports grew 20.9% in 2011-12 to \$303 billion (Rs. 17 trillion today), while the trade deficit expanded to \$185 billion during the same period. However, merchandise exports’ growth slowed to 3.2%, to \$24.5 billion.

Outgoing commerce secretary Rahul Khullar had, however, said last month that export growth may come down to 10-15% in the current fiscal year given the not-so-encouraging news from the US and the European Union. —We will be lucky to achieve 10-15% export growth this year, he had said.

The forward-looking measures will help boost exports and achieve this year’s target of 20% export growth” said R.V. Kanoria, president of the Federation of Indian Chambers of Commerce and Industry, welcoming the announcement.

However, Kanoria said that incentives for exports would not help achieve the desired results unless the fundamentals of the overall economy improve.

Holding that the FTP announcements are the right thrust at the right time, Confederation of Indian Industry president Adi Godrej said the measures would boost exports and help the country achieve its export target of \$500 billion by 2013-14.

He pointed out that there is a need to work on port infrastructure and freight, which continue to be a hindrance for exports. —Revision of SEZ (special economic zone) and 100% EoU (export-oriented unit) schemes, which have (been) deferred, should be addressed soon, he said.

While commerce ministry officials declined to disclose the fiscal implication of the incentives, Ajay Sahai, director general and chief executive of the Federation of Indian Export Organisations (FIEO),

said it may not exceed Rs. 1,300 crore. —Most measures they have announced have no fiscal aspect, so I don't think this will have an impact on the fiscal deficit. They have been allocated about Rs. 1,300 crore and would have worked only within those parameters, he said.

In order to boost e-commerce, export shipments from Delhi and Mumbai through post will now be entitled to export benefits. “An inter-ministerial task force constituted by the ministry of finance would expeditiously look into various aspects to the feasibility of enabling shipments through all postal locations” Sharma said.

FIEO president Rafeeqe Ahmed said the support given to e-commerce has great potential and can provide a direct selling platform to micro, small and medium enterprise exporters.

Under the interest subsidy scheme, which has been extended by a year, credit is made available to labour-intensive sectors at a 2% cheaper rate. While the scheme, so far, has been available to just four sectors— handlooms, handicrafts, carpets and small and medium scale enterprises—additional sectors such as toys, sports goods, processed agricultural products and garments have been added to the scheme from the current fiscal year. Under the EPCG scheme, manufacturers and exporters are allowed to upgrade their machinery through imports of capital goods at zero duty under the obligation to export eight times the value of the duty saved.

Though the coverage under the EPCG scheme has not been changed, the scope has been enlarged by allowing exporters that have availed the benefits under the technology upgrade fund scheme to avail it for the same line of business.

To promote manufacturing activity and employment in the north-eastern region of the country, export obligations under the EPCG scheme have been cut to 25% of the normal export obligation.

In order to boost exports of environment-friendly products, the EPCG export obligation has been reduced to 75% of the normal obligation for 16 green technology products such as electrically operated vehicles, solar cells and bio-mass gasifiers, among others.

To promote market and product diversification, seven new markets have been added to the focus market scheme (FMS) and an equal number of new markets to the special FMS. While countries such as Algeria, Aruba, Austria, Cambodia, Myanmar, the Netherland Antilles and Ukraine have been added to FMS; countries such as Belize, Chile, El Salvador, Guatemala, Honduras, Morocco and Uruguay have been added to special FMS. Sharma said income-tax benefits for 100% EoUs that expired 31 March 2011, are being revamped. —A committee was constituted for this purpose, which has now submitted its report, and over the next few months we shall be making an announcement of the revamped 100% EoU scheme, he said.

Sharma also said the SEZ policy and deemed exports scheme that provide exemption and remission of duty for supplies to specified projects to domestic manufacturers are being reviewed and changes in the policies will be announced soon.

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Indian Govt to announce new guidelines to revive SEZs

Press Trust of India

5 June 2012, New Delhi: The government will come out with new guidelines to revive export hubs, special economic zones (SEZs), which have lost sheen after imposition of certain levies and proposal to take away tax incentives.

The government had imposed Minimum Alternative Tax (MAT) and Dividend Distribution Tax (DDT) on SEZs in 2010-11, which were earlier exempted from almost all levies.

Admitting that due to imposition of MAT and DDT, there has been a —visible slowdown in growth of export from SEZs, commerce and industry minister Anand Sharma today said a new set of guidelines would be announced to make the SEZ policy more buoyant.

“We have undertaken a comprehensive assessment of the SEZ scheme to re-visit certain aspects of the policy and operational framework and after concluding the inter-ministerial consultations, we will be able to come out with new guidelines to make the operation of the SEZ policy more buoyant” he said, while announcing the supplementary Foreign Trade Policy.

The Direct Tax Codes (DTC) being considered by Parliament proposes to do away with the income tax exemption given to them and instead link tax sops to investments made in them.

Profit-linked benefits were the main attraction of the SEZ scheme. The initial phase of SEZ scheme, launched in 2006, saw developers lining up in big numbers for projects. It was also seen as a real estate opportunity.

At present, over 100 developers are seeking more time from the government to execute their projects and over 50 developers have surrendered the projects.

Exports from SEZs stood at Rs 3.65 lakh crore in 2011-12. With investment of Rs 2.02 crore, these zones provide employment to over 8.45 lakh.

Overseas shipments from the 153 operational tax free havens have come down to 12 per cent in the country's total exports from about 30 per cent in the previous years.

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Indian Govt announces steps in FTP to boost green products

Press Trust of India

New Delhi, June 5: Coinciding with the World Environment Day, the government today announced various steps to encourage exports of green products.

According to the annual supplement to the Foreign Trade Policy (FTP), exports of items like solar cells, wind turbines, water treatment plants and electrically-operated vehicles will be entitled to additional benefits under the Export Promotion Credit Guarantee (EPCG) scheme.

"In order to promote manufactured exports of green technology products, export obligation under EPCG scheme is being reduced to 75 per cent of the normal export obligation for 16 identified products like solar cells," Commerce and Industry Minister Anand Sharma said while announcing the FTP.

The decision to encourage export of green products was part of the seven-point strategy to boost shipments amid global slowdown and weak demand in the US and Europe.

Export Promotion Capital Goods (EPCG) is an export promotion scheme under which an exporter can import certain amount of capital goods at either zero or three per cent customs duty, for upgrading technology related with exports.

However, to avail the scheme, the exporter has to meet a pre-determined export obligation over a certain period.

"Provide incentives for manufacturing of green goods recognising the imperative of building capacities for environmental sustainability," he said.

Faced with uncertain global environment, the government today announced a slew of measures, including extension of 2 per cent interest subsidy by one year, as part of 7-point strategy to achieve 20 per cent increase in exports to USD 360 billion in the current fiscal.

In 2011-12, India's exports grew by 21 per cent to USD 303.7 billion.

World Environment Day, which was initiated in 1972, is a celebration of global awareness on environmental issues celebrated on June 5th every year.

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India promises support for manufacturers

James Fontanella-Khan, Financial Times

New Delhi, May 11, 2012: India's commerce minister said the government would intervene to support the country's ailing manufacturers after official data showed a contraction in industrial output for the first time in five-months.

Anand Sharma, a senior minister in the Congress-led government, on Friday expressed —deep concern about the 3.5 per cent year-on-year fall in industrial production in March, a sharp drop from the 4.1 per cent increase in February.

The minister also urged India's central bank to offer manufacturers lower lending rates to help revive a sector that employs millions of people across the country.

The output contraction is the latest sign that the sovereign debt crisis in Europe and slowing consumer demand at home are choking Asia's third-largest economy.

“ [The] slow down in exports growth in April in the backdrop of the economic crisis in the eurozone is ... a worrisome development,” said Mr Sharma. —The government will intervene in sectors which require support.”

The fall of industrial output was driven by a sharp drop in manufacturing and capital goods, which slumped 21.2 per cent. Electrical machinery manufacturing sank 43 per cent, while apparel production fell 55 per cent.

The poor data could force India's central bank to ease monetary policy further and will add to the pressure on policy makers to push key reforms needed to revive economic growth.

“Growth risks have clearly gained prominence with today's numbers” said Leif Eskesen, chief economist for India at HSBC.

“These headwinds primarily stem from the all too well-known factors: tight monetary conditions, weak external demand, administrative obstacles and the negative impact on sentiment from the persistent policy paralysis” he added.

Growth in the last three months of 2011 was the slowest since 2009, rising 6.1 per cent in the quarter ending December 31, significantly lower than a year earlier when it hovered above 8 per cent.

“It is high time that government fast tracks the implementation of major projects which will increase the overall confidence and also stimulate growth in the industrial sector” said RV Kanoria, president of the Federation of India Chambers of Commerce and Industry.

The worrisome production data follows weak exports in April and comes against a backdrop of growing concern about India's weakening economy. Government officials told the Financial Times on Thursday that India was set to reintroduce incentives to revive the country's struggling export sector.

However, separate efforts to shore up the weak rupee – which fell to its lowest rate ever against the dollar on Wednesday – could have a negative impact on exporters. The Reserve Bank of India said on Thursday that exporters will have to convert 50 per cent of their income into rupees.

Standard & Poor's, the credit rating agency, last month revised the outlook on India's long-term rating to negative from stable. It also warned that it would downgrade its sovereign debt rating unless the government passed key reforms to reduce the country's widening fiscal deficit.

India's fiscal deficit increased to 5.9 per cent of gross domestic product in the year ending in March 2012, above the government 4.6 per cent target, on the back of increased fuel subsidies and populist welfare schemes.

On Friday the Indian rupee dropped for the sixth day this week – the longest losing streak since October 2008 – to Rs53.64 against the US dollar, while India's main share index dropped 1 per cent after the data release.

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Sops Likely on Exports to New Markets

Economic Times

May 18, 2012, NEW DELHI: The government is likely to offer incentives on exports of labour-intensive items and reward exporters who diversify into new markets as part of a slew of measures to revive the country's flailing export sector.

The sops, which will particularly benefit sectors such as textiles, handloom, leather and carpets, are expected to be part of the foreign trade policy for 2012-13 to be announced on June 5.

"The government will try to do everything feasible, given the pressure of resources, to maintain India's export momentum," commerce and industry minister Anand Sharma had promised exporters on Thursday.

Slow rate of export growth has resulted in a record trade deficit of over \$180 billion in 2011-12. With the rupee in a free fall against the dollar, India's current account deficit could worsen to 4% of GDP.

India's exports growth began to slow down in the second half of last financial year. In April, exports grew just 3.2% year-on-year.

Although exports in 2011-12 breached the \$300 billion target by posting a 21% growth, the growth had slowed to 10% in the last six months of the year with September and March posting negative growths. Sharma said the exports were facing multiple challenges that included the Eurozone crisis, high cost of credit to the industry, and reduced dollar credit.

He said the government will focus on major products that have been exported in good quantities and labour-intensive sectors that have a social dimension of job creation, job sustenance or job losses.

The Apparel Export Promotion Council wants the government to revive the market-linked incentive scheme, which was allowed to lapse on March 30, 2012.

The finance ministry had not extended sops worth more than 1,700 crore, which included an interest rate subvention or discount scheme for select sectors and market and product-linked cash incentive schemes. The scheme was announced in October last.

Exporters also asked the government to extend the product and market linked incentive schemes to more countries and items to help them fight the slowdown in demand in both developed and emerging economies.

With growing focus on India's widening current account and trade deficits, the government is now forced to think of ways to make exports grow.

FIEO has asked the government to reintroduce the interest subvention scheme for exports with effect from April and extend it to all sectors.

The cost of export credit, which was 7% in July 2010 prior to adoption of base rate, has increased to 11.5%-12% with the withdrawal of interest subvention, Fieo chief Rafeeqe Ahmed said. "Interest rate in our competing countries in South East Asia is in the range of 5%-6%," he said.

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Bid to bridge widening export-import gap; exports sops may come back

Amiti Sen & Vinay Pandey, Economic Times

9 May, 2012, NEW DELHI: Two months ago, with fiscal consolidation on his mind, Finance Minister Pranab Mukherjee scratched out export subsidies from his budget. Today, worried by a widening gap between imports and exports, the government is thinking of bringing back sops for exporters.

These subsidies are likely to include discounted interest rates, and product- and market-linked incentives. The government believes these could boost exports and help narrow a trade deficit which has expanded to 9% of GDP.

"Recently, we had a debate in Parliament on the export situation while discussing the demand for grants. We are seriously looking at giving fresh incentives to exporters," Commerce and Industry Minister Anand Sharma told ET.

Incentives, worth about Rs 1,700 crore, were announced in October last year. These included sops for exporting products such as textiles, engineering goods, chemicals and electronics to new and traditional markets, and the interest subvention scheme that gave loans to exporters from select sectors at subsidised rates. Both expired on March 31.

The budget was a disappointment for exporters, who were expecting handouts, as the finance minister refused to acknowledge tough times in overseas markets, including jitters caused by uncertainty in the EU.

"The budget left 150,000 micro, small, medium and large exporters highly disappointed," said SP Agarwal, president of the Delhi Exporters' Association.

Situation Has Worsened

"Due to the global slowdown, we were expecting a lot from the government," said Agarwal.

Since then the situation has worsened, with exports actually shrinking in March 2012, the first time this happened since 2009, at the peak of the Great Recession.

This is probably what has changed the government's thinking.

India's trade deficit rose to an all-time high of \$185 billion in 2011-12 from \$130 billion in the year before despite hitting targeted exports of \$300 billion. Imports surged to \$488.6 billion, driven primarily by oil and gold. The current account deficit for 2011-12 was likely to be 4% of the GDP, not a comfortable number for policymakers.

It should ideally come down to 3% to 3.5% in the current fiscal, commerce secretary Rahul Khullar had said. For that to happen, the country needs to increase exports.

"The finance ministry seems more responsive to our demand now, and the commerce minister may be in a position to deliver a few incentives for exporters when he announces the foreign trade policy later this month," a commerce department official told ET.

The government is looking at re-introducing the interest subvention scheme for small and medium size exporters, as well as some vulnerable sectors, such as handicraft and handloom, that expired last fiscal.

Banks give loans to eligible exporters at a 2% discounted rate under the scheme and are later reimbursed by the government.

Cheap credit is a key concern for exporters as the RBI's decision to deregulate foreign currency denominated loans was expected to result in a sharp increase in interest rates, said Ajay Sahai, director general, Federation of Indian Export Organisations.

"We have already seen 40-45% increase in interest rates charged by banks for credit to exporters in the last two years after the RBI allowed interest rates to be brought above base rates," Sahai said.

Other incentives that are being discussed are direct sops for sectors which are struggling to retain their foothold in traditional markets as well as trying to make in-roads into new ones. These incentives will be in the form of scrips that can be either used to import products at discounted import duties equivalent to the value of the scrips or sold in the market.

Although India's exports crossed the goal of \$300-billion in 2011-12 growing 21%, exports grew only 10% in the second half of the fiscal.

ET View: Be Competitive

The government's plan to bring back subsidies such as cheap loans to prop up exports makes no sense. Instead, the government should open up trade in farm products, which are severely restricted now.

A record 75 million tonnes of grain will pile up by next month and much will be lost in the monsoons that will follow. Instead of allowing grain to rot, the government should allow exports. Beefing up storage, marketing and transport infrastructure will also increase the competitiveness of manufactured exports.

A weak rupee, which inflates import costs, actually improves export competitiveness. Competitiveness is the answer, not sops.

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India tells WTO it will further open market for LDCs

PTI

April 22, 2012, NEW DELHI: Four developing countries, including India, have told the WTO they would further open their markets for least-developed countries, a move which will help boost the economies of the poor nations.

"Four WTO members (India, China, Chinese Taipei and Korea reported their commitment to opening their markets for products from least-developed countries (LDCs)...reflecting increased efforts by the developing economies to improve market access conditions for exports from the poorest countries," the WTO said on its website.

At a meeting of the sub-committee on LDCs held this week, these members have provided information on their duty-free schemes. The committee is dedicated to discuss issues of particular importance to LDCs. India's duty-free tariff preference scheme is operational since 2008, and since then duties are being gradually eliminated to bring 85 per cent of its tariff lines under duty-free coverage (for LDCs) over a period of five years, it said.

India is among the fastest growing markets for exports from LDCs.

The LDCs comprise about 12 per cent of the world's population, but account for less than 2 per cent of world's GDP and about 1 per cent of global trade in products.

India's trade with Africa, a continent which comprise maximum number of LDCs, has increased to \$16.28 billion in 2010-11 from \$10.3 billion in the 2009-10.

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Free trade agreements should be result-oriented

PTI

15 Mar, 2012, NEW DELHI: The government should aim at "result-oriented" free trade agreements as there are no signs of any meaningful conclusion of Doha Round of talks for a global trade deal in the near future, the Economic Survey 2011-12 said today.

"While there are no signs of any meaningful conclusion of WTO negotiations in the near horizon, India's push towards regional and bilateral agreements should result in meaningful and result-oriented FTAs and CECAs," the survey said.

India is negotiating about a dozen free trade agreements with countries like Australia, Indonesia, New Zealand, Canada, and European Union.

Over 150 WTO members have been negotiating a new agreement for liberalising the world trade since 2001 without a breakthrough.

The talks have been marred by wide differences between the developed and developing countries on the level of opening and protection of their respective markets, the survey said.

India has successfully implemented comprehensive free trade pacts with Malaysia, Japan and South Korea.

The survey added that the challenges for India on the trade front are daunting but needs to be addressed with speed and dexterity as the opportunities are equally great and still untapped.

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WTO challenges and strategies

Gulzar Natarajan and Srikar M.S, Livemint

Feb 16, 2012: As India integrates rapidly with the world economy, there is increasing awareness about the need to align national economic policies with its World Trade Organization (WTO) commitments.

In recent months, policies proposed by the government of India to provide a level playing field for domestic thermal and solar power generation equipment manufacturers against unfair Chinese competition have been questioned on the grounds of its conformity to WTO rules. In particular, local content requirements imposed on solar generators for eligibility under the national solar mission, appears to violate them.

This assumes greater significance given the growing acceptability and importance of industrial policy— whereby governments enact proactive policies to guide the development trajectory of specific industries. There is now ample evidence, both from the developed economies and most recently from emerging Asia, of the critical role played by preferential industrial policy in promoting domestic manufacturing. It is, therefore, important that we explore the extent of a country's —domestic industrial policy space that does not infringe on its WTO obligations.

A brief understanding of the WTO provisions relating to these issues is in order. Article III (4) of the General Agreement on Tariffs and Trade, 1947, prohibits protectionism and discriminatory treatment against imported products and in favour of domestic products (the —national treatment rule). However, article III (8) permits —payment of subsidies exclusively to domestic producers and for governments' non-commercial procurements. Taken together, in the context of power generators, it means that while governments cannot promulgate an industrial policy that directs a private generator to use only domestic components, it can subsidize its domestic equipment manufacturers, subject to the provisions of the Agreement on Subsidies and Countervailing Measures (SCM).

The WTO agreement that governs the subsidies framework is SCM. It defines two basic categories of subsidies— —prohibited and —actionable. The former prohibits all local content subsidies which favour the use of domestic over imported goods. The latter, though not prohibited, can be challenged either through multilateral dispute settlement or through countervailing duties if the imports cause —serious prejudice to the interests of another member.

But a subsidy is —actionable under the context of SCM only if it is —specific to an enterprise or industry or group of enterprises or industries. Further, a subsidy is defined as a —financial contribution that involves a —charge on the public account. Alternatively, a subsidy which is —widely available within an economy is excluded from SCM.

This means that subsidies are restricted to grants, loans, equity infusions, loan guarantees, fiscal incentives, the provision of goods or services, and the purchase of goods. They do not include any indirect and trade-distorting structural subsidy by way of —revenues forgone—lower (than cost recovery) utility tariffs, low land prices, repressed labour market, artificially cheap capital and so on—which are universal in nature.

All these provisions benefits China as much as they hurt India. The definition of subsidy in SCM fits nicely into China's preferred international trade strategy and national industrial policy. Given its booming economy and favourable fiscal balance, the Chinese government can afford to massively subsidize its manufacturers with subsidies that are —widely available within the economy. For

example, in 2010 alone, the China Development Bank gave \$30 billion in low-cost loans to top five domestic solar panel manufacturers.

But countries such as India cannot afford an industrial policy that subsidizes their domestic producers. They, therefore, prefer to protect their domestic industry with preferential treatment through regulatory barriers like tariffs and domestic content requirements. Now, with regulatory restrictions prohibited by the national treatment condition and China-type manufacturer subsidies made impossible due to the weak fiscal positions of their governments, manufacturers from developing countries are left to fight an uneven battle against their Chinese competitors.

Any international trade law that seeks to control trade discrimination should equally neutralize the ability of governments to either regulate or subsidize away foreign competition. Regulation and subsidy are two sides of the same coin—a regulation is an indirect negative subsidy on the foreign competitor while a fiscal concession to domestic manufacturers is a direct positive subsidy to them. In other words, any WTO regulation to restrict trade discrimination can itself be fair only if the degree of restraints imposed on regulation is the same as that imposed on subsidies. Therefore, since China's universal subsidies for its domestic industry is structural and, therefore, inevitable, it is only fair that its competitors should retain some right to balance Chinese trade competition with regulatory restraints.

In this context, India's strategy should be threefold. The first priority should be a carefully tailored, WTO compliant, industrial policy that promotes local industry. Second, it should aggressively pursue the WTO's dispute settlement mechanism to establish that China's structural subsidies are actionable.

Finally, as a strategic goal, India should push for renegotiating SCM itself so as to achieve a more equitable balance between the —national treatment principle and SCM.

But with the Doha Development Round itself faltering, treaty renegotiations look a distant possibility whereas active engagement with the existing WTO mechanisms appears more practical. However, aggressive pursuit of India's interests at WTO should carefully balance specific sectoral interests with broader economic and consumer interests.

Gulzar Natarajan and Srikar M.S. are civil servants. These are their personal views.

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Foreign trade policy: Rules to be set in clear words to curb graft

Amiti Sen, ET Bureau

Feb 6, 2012, NEW DELHI: The government is scrutinizing the foreign trade policy to weed out provisions that give discretion to the authorities or are ambiguously framed.

"The policy is inadvertently worded in a way that it is open to interpretation of officials at customs ports. This leads to confusion and breeds corruption and has to be set right," a government official told ET.

The annual supplement to the five-year foreign trade policy is likely to be announced in April this year. "We are going through the policy with a tooth-comb to identify all ambiguous areas," director general of foreign trade Anup Pujari told ET.

For instance, in some places the policy mentions a set of guidelines for "items of steel" and another set of guidelines for items "made of steel". "It is nowhere mentioned what comprises items of steel and how much steel has to be in a product to qualify it as an item made of steel," the official said, adding that it could be interpreted in a number of ways.

Exporters and importers say the ambiguities lead to harassment.

"Some rules are so unclear that they are interpreted in a certain way by exporters and in a different way by customs officials which leads to harassment and our goods get held up for days," said S P Agarwal, an exporter of handicrafts and madeups to Europe.

Welcoming the government's attempt to bring clarity in the policy, Agarwal said in case some confusion still remains, it is the DGFT and not the customs officials who should take the final decision.

"At times, exporters and importers bribe officials to take advantage of loopholes or to just get their consignments released," a Delhi-based textile exporter said.

The policy should lay emphasis on improving procedures and trade facilitation especially since acute constraints on finances will make it difficult for the government to announce major concessions and incentives, said K T Chacko, former DGFT and director, Indian Institute of Foreign Trade.

"The policy can be refined in a way that scope of different interpretations is narrowed down," he said, adding that the DGFT should take inputs from exporters, export promotion councils and commodity boards to identify all problem areas.

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Centre plans agri FTA across India

Mukesh Ranjan, Asian Age

Jan 29, 2012: Unfazed by its failure to roll out FDI in multi-brand retail in the light of strong Opposition from regional parties, particularly from key UPA ally Trinamul Congress, the Centre has now embarked on preparing a law to streamline inter-state trade and transportation of agricultural produce, which involve state taxes.

The aim of such a law is to free traders from multiple local taxes like octroi and toll tax. Under the proposed law the traders would be required to register themselves only to a centralised system by paying a stipulated fee for a minimum five years and would then be free to trade all across the country.

The agriculture ministry's move, which has the backing of Prime Minister Manmohan Singh and the law ministry, is considered a step towards reforming the marketing side to ensure free flow of commodities like rice, wheat, pulses and oilseeds all across the country and, in turn, help reduce inflationary pressure. But the flip side is that the move is likely to hit the FDI-in-retail kind of political roadblock as it encroaches upon the revenue streams of state governments.

Sources in the agriculture ministry, however, have argued that the government would not allow such a situation to arise as, before finalising the Cabinet note (in progress), —states will not only be informed about the law, but will also be taken on board on the revenue-sharing mechanism. Ministry officials feel that once a consensus is built among the states that a part of —the registration fee will be shared with the state governments in lieu of the estimated loss in their revenue, the benefits of the proposed law would be manifold. —It will not only reduce red tape, but also help keep inflation under control, they said, adding that at present local taxes like octroi, toll tax, entry fees etc account for almost 15 per cent of the actual price of farm produce.

As per the plan, once a trader registers himself with the centralised authority, he will be issued a certificate that will give him the flexibility to move his goods from one state to another to sell, or purchase, without paying any state levies. He can also trade in more than one agriculture produce marketing committee either within or outside his state.

The proposed legislation, which has been cleared by the law ministry, is to be called the Inter-State Agriculture Produce Trade and Commerce (Development and Regulation) Bill.

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India may exclude clause on lawsuits from trade pacts

Asit Ranjan Mishra, Livemint

The DIPP which allows firms of the partner country investing in India to take legal action against the govt at a global forum in case of any dispute has in principle decided not to include such a condition

Jan 29: India is likely to exclude in bilateral trade pacts a clause that permits a foreign investor to sue the host country at an international dispute settlement agency. The department of industrial policy and promotion (DIPP) has in principle decided not to include such a condition, an official said on condition of anonymity, which allows firms of the partner country investing in India to take legal action against the government at a global forum in case of any dispute.

“This is now the view worldwide that the state should not get drawn into private disputes,” the DIPP official said. “That’s why we are cautioning to be more careful.”

India had declined to include such a clause, also known as investor to state dispute settlement mechanism, in negotiations over a trade pact with the European Union, Mint had reported on 4 July. The negotiations are not over yet.

Hong Kong-based Philip Morris Asia Ltd, owner of Australian affiliate Philip Morris Ltd, last year threatened to sue Australia at a global forum on the government’s cigarette-packaging norms, which the firm said would violate that country’s obligations under a bilateral investment treaty with Hong Kong.

An Australian draft legislation, which aims to make tobacco products less attractive to consumers, seeks to prohibit all logos, along with different colouring and layout, on cigarette packs. It also requires that health warnings cover a substantial portion of each package, the International Centre for Trade and Sustainable Development said on 29 June.

Australia has said that it will not include a clause that allows an overseas investor to sue the country at any global arbitration body in any of its future bilateral trade agreements.

India has comprehensive economic partnership agreements (CEPAs) with Singapore, South Korea, Japan and Malaysia. Besides the European Union, it is negotiating similar pacts with Australia, New Zealand, Canada and Indonesia.

Customary international law requires foreign investors to sue governments in domestic courts for any claims, or at the World Trade Organization dispute panel.

However, many bilateral agreements on investment allow foreign investors to seek legal action at international arbitration bodies such as the United Nations Commission on International Trade Law or at the World Bank-affiliated International Centre for Settlement of Investment Dispute for alleged breaches of treaty obligations.

India was first sued in an international tribunal in 2002. White Industries Australia Ltd, a mining firm, dragged the Indian government into arbitration quoting the bilateral investment treaty signed between the two countries on a dispute with state-owned Coal India Ltd. The case is currently at the Supreme Court of India.

The contentious clause is part of the bilateral investment promotion and protection agreements (BIPAs) that India has signed with 82 countries. Out of these, 72 have come into force and the remaining pacts are in the process of being enforced.

Whenever a CEPA is signed with a country or region, the BIPA is weaved into the investment chapter of the trade agreement.

While CEPAs are the turf of the commerce and industry ministry, BIPAs are signed by the finance ministry. The DIPP official said the department also wants to review this particular clause in all the existing BIPAs.

However, a finance ministry official said BIPAs help Indian companies more than the foreign firms. “With the growing clout of Indian companies investing in countries around the world, including the less stable countries in the African and South American regions, they need the protection of the local governments ” the finance ministry official said on condition of anonymity. “So, we are not in favour of reviewing this clause.”

The DIPP official said irrespective of the finance ministry’s move, his department would like to review the clause in the existing CEPAs.

“When there is an international obligation, you cannot change it unilaterally” the DIPP official said. “At the time of review of such pacts, which is a routine affair, we will definitely want to correct it.”

Given the controversy surrounding this clause and its implications in terms of a regulatory freeze that it sometimes leads to, a cautious approach may be advisable, according to Anuradha R.V., partner at Clarus Law Associates.

“It is not that the absence of such a clause will be a death knell for justifiable action in case of failure by the state to protect foreign investment or violation of commitments made by a state in an international agreement” Anuradha said. “There are in-built dispute resolution mechanisms in the CEPAs.”

A balance has to be maintained to meet both objectives, said Krishnan Venugopal, Supreme Court advocate.

“Foreign investors often complain they do not have proper recourse in disputes. The danger of the government passing a law that impacts the value of their business is there” Venugopal said. “However, if there is a genuine concern on the part of the government, you cannot take away the sovereign right of a state to legislate.”

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Deficit-battling government not to offer more sops to exporters

Amiti Sen, ET Bureau

Jan 21, 2012, NEW DELHI: The government is unlikely to offer more incentives to exporters in its annual trade policy review.

Commerce ministry officials said government finances were under stress because of the rising fiscal deficit so a weaker rupee should act as a sufficient incentive for the moment.

"There won't be many more incentives simply because there is no money," commerce secretary Rahul Khullar told ET. Moreover, with fiscal deficit going off-track, the finance ministry is expected to tighten its purse strings in the coming fiscal.

Some officials said the annual review of the Foreign Trade Policy, expected in April, would most likely focus on simplifying procedures and cutting transaction time and costs.

There are chances some of the sops that are to expire at fiscal end will not be extended, another official said. For instance, the duty credit of 2% on apparel exports to the US and the EU and a six-month special bonus benefit scheme for some 50 products. "Such benefits may just run out once their term expires," the official said.

The steady depreciation of the rupee against the dollar since August last year has given the government reasons to hope that exports would get more competitive and hence rise in the last quarter. Exports rose sharply in the first four months of the fiscal but declined month on month till November.

Khullar had earlier this week attributed the rise in exports in December to the depreciating rupee. But exporters said they require support as the global market is still unstable and demand shaky.

"We definitely need more incentives. In fact, we could have got more had the government not erroneously showed higher export figures for the first seven months of the fiscal which wrongly painted a rosy picture," said S P Agarwal, president, Delhi Exporters Association.

The country's exports were adjusted downwards by \$9 billion for the April-October 2011 period. The commerce department is still hopeful of achieving the \$300 billion export target in 2011-12 as \$217.6 billion in exports has already been realized in the first three quarters.

"I think, even if incentives are not enhanced, it should be okay if at least they continue. Exporters also know that it is difficult to get more incentives this year," said K T Chacko, director, Indian Institute of Foreign Trade. With rising cost of credit, it is important that the 2% interest rate subvention announced for just a handful of sectors should be expanded to more sectors, Chacko said.

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Doubling exports by 2014 possible: Khullar

Asit Ranjan Mishra, Livemint

Dec 23, 2011: Despite the slowdown in exports growth and an adverse external environment, the Union commerce ministry still believes it can achieve its target of doubling India's exports to \$450 billion by the end of fiscal 2013-14.

"With a bit of luck we can achieve the \$300 billion export target this year" commerce secretary Rahul Khullar said on Thursday, while speaking at a seminar organised by the Associated Chambers of Commerce and Industry of India. "From there to achieve \$450 billion export target by 2013-14, exports have to grow at around 25%. This is still within the realm of possibility."

The commerce ministry in a strategy paper earlier this year aimed at doubling India's exports in the next three years.

There is no reason to believe that the target cannot be achieved, Khullar said, adding that both the government and the exporters will need to have to put in more effort to make it happen.

"Exporters need to diversify to new virgin markets such as Latin America and Africa and government needs to reduce cost of doing business."

Achieving the export targets under the current circumstances is a "difficult task" said Indranil Pan, chief economist at Kotak Mahindra Bank. "Europe is likely to enter into a recessionary phase. The upward bias in growth in the US may fade out when the stimulus is withdrawn" Pan said. "In such a scenario, achieving the export targets looks difficult even with a depreciating rupee."

The \$300 billion export target for this fiscal is —still achievable even if exports slow down in the last four months,|| Madan Sabnavis, chief economist at CARE Ratings. However, projecting beyond the current year could be a —tricky task|| as it would depend on the economic situation in our primary export markets, the euro zone and the US, he said.

India's exports growth plummeted 4.2% to \$22.3 billion in November in the wake of a difficult global environment, even as imports were up 29.1% to \$35.9 billion. In the April to November period, cumulative exports grew 33.2% to \$192.7 billion, while imports rose 30.2% to \$309.5 billion, leaving a trade deficit of \$116.8 billion.

"External demand conditions are not going to be conducive for exports" Khullar said. "If you want your exports to grow, you have to figure out what you are doing wrong domestically because you cannot fix global problems. Things like reducing cost of doing business in India will help in gaining competitiveness by exporters" he said.

With imports outstripping exports, India is confronted with a "serious" balance of trade position, the commerce minister said. "Should such a situation of balance of trade arise, the easiest thing to ask would be to put curbs on imports. But that would be the most unfortunate thing. That's why we want exports to double quickly" he said.

The depreciating rupee will provide necessary incentive to exporters, he said ruling out any government sops given the stretched fiscal situation. The rupee has depreciated by about 17% against the US dollar in the last four years.

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Focus on exports necessary, says RBI

Business Standard

Mumbai, November 2: RBI's deputy governor concerned about current account deficit. Calling the widening current account deficit a —major concern, the Reserve Bank of India's Deputy Governor, H R Khan today asked for a focus to drive up exports.

India is among the countries having a current account deficit (CAD). It is an area of concern, he said, addressing a late night award function of Engineering Export Promotion Council here. Being a country where balance of payments is under stress, India has to promote exports to see this does not go out of hand, he added.

The country's CAD hit 3.1 per cent of gross domestic product (GDP) mark at the end of the first quarter ended June. The Prime Ministers' Economic Advisory Council has pegged CAD at 2.7 per cent for this financial year. Last year, it was 2.6 per cent of the GDP. It rose to \$14.5 billion from \$12 billion in the same quarter of 2010-11, due to an increase in trade deficit and continued net outflow on investment income.

RBI, in its macroeconomic and monetary development report, said the country's external situation was expected to remain manageable. But overall the balance of payments outlook for 2011-12, although stable, warrants close monitoring, RBI said.

Khan also termed the \$300 billion foreign exchange reserves as borrowed money kept for times of extreme distress. Improving the exports, he added, would allow a greater flexibility to imports as well, which would in turn give access to the best of goods and services. Units have flexibility to import quality material, machinery and things which would smoothen bottlenecks in the system. This has implications for the entire economy, he noted.

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Stimulus package for exporters soon

Business Standard

New Delhi September 30, 2011, 0:34 IST: The government is expected to soon unveil yet another stimulus package for exporters, specifically in the labour-intensive sectors by the end of October which will include interest subvention and other incentives to push through their products in the tough global economic conditions.

The government is expected to undertake another review of the export-oriented sectors to undermine the problem areas. It had conducted a similar review earlier this fiscal.

“We will be announcing the incentives definitely by the end of October or first week of November” Minister of Commerce and Industry and Textiles Anand Sharma told reporters on the sidelines of a meeting with the Indian industry leaders.

Exporters had been complaining about high interest rates and rise in the prices of commodities for a long time. Export credit has already crossed over 11.5 per cent and many banks are charging as high as 13.25 per cent.

The interest subvention is expected to be around two to three per cent. The incentive of two per cent interest subvention was withdrawn on March 31, as a result of which cost of export finance that was seven per cent last year has gone up to a level of 11-11.50 per cent.

The minister also said the ministry of finance has accepted the proposal and the Reserve Bank of India has been asked to notify the rates soon. Sharma also expressed serious concerns over the high cost of credit and the stance by Reserve Bank of India (RBI) in hiking the policy rates, which might affect the competitiveness of Indian industry.

“In my view, there has to be a rollback when it comes to cost of credit for the manufacturing industry. I have raised the issue with the finance minister. The cost of credit is making the Indian manufacturing expensive and globally uncompetitive. It would also affect in the long run our exports. These concerns have been fully registered” he said.

Earlier in the week, Commerce Secretary Rahul Khullar had said the new package for exporters would look at all the issues concerning hike in interest rates and access to foreign currency denominated credit.

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Rupee to have a bigger play in global trade

Anindita Dey, Business Standard

Mumbai Mar 13, 2012: In a move that could help make the rupee an international currency, the Directorate General of Foreign Trade (DGFT) has proposed to allow export benefits to any exporter who gets receivables in rupees from its international counterpart.

This decision is based on the precedent in the case of Iran where DGFT last week allowed export proceeds realised even in Indian rupees to be made eligible for export benefits and incentives under India's foreign trade policy (FTP). However, there is one rider: It will not be allowed in the case of neighbouring countries with whom India maintains porous borders.

Currently, even if Nepal and Bhutan can transact with India in Indian rupees, exporters with rupee receivables from there are not entitled to export benefits from the government.

This decision will require an amendment in the FTP, which stipulates that all export contracts and invoices shall be denominated either in freely convertible currency or in Indian rupees but export proceeds must be realised in the former. Only then would such exporters be eligible for export incentives and benefits.

"The move, if it fructifies, will be to make the rupee at par with other freely convertible currencies. Second, Indian exporters need not depend on payments in international currencies if the country importing from India is ready to make rupee payments" said an official source.

Added other sources India has trade partners in Asean, Far East Asian countries, African and Middle East countries, and is trying to diversify more into these, as much as to the United States or European countries. Rupee payments may take care of some part of the Indo-Asian/Middle East trade. If problems like Iran continue, this mechanism will be helpful even if Iran is importing much less than exports said official sources.

They explained if, for example, Iran is receiving rupee payments, then it could pay these to another country from which is importing goods. That country in turn could make the rupee payments to India, if it is an importer of Indian goods.

Thus, rupee payments could take care of such trade without entering into the international settlement system, thus, not violating any international payment sanctions, official sources add.

Last week's decision in Iran's case was taken under current uncertainties in the case of oil payments after sanctions imposed by the US, EU and now the United Nations. These sanctions have made clearing through international payment systems impossible. Iran runs a favourable trade balance with India, where exports of crude oil to India far surpass the imports from India. To partly solve the payment problem, it was settled that Iran may use the receivables to pay for the commodities it could buy from India. These receivables would be maintained in an account of an Indian bank and invested in Government of India securities.

Indian exporters have been facing trouble in getting payments cleared from Iran on their rice exports. Officials say exporters can get their receivables in rupees and still be eligible for export benefits.

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Govt must do a lot more to diversify export basket

Hindu Businessline

New Delhi, March 15, 2012: The Economic Survey 2011-12 has asked the Government to do —a lot more— on diversification of India's export basket as its export presence is limited in the top items of world trade.

“While India has made new forays in skill-and capital-intensive exports like information technology (IT), gems and jewellery, and engineering goods, it is losing steam in its traditional area of strength, that is in the labour-intensive exports like textiles, leather and leather manufactures, handicrafts, and carpets” it pointed out.

It added that while India has made major strides in its diversification of export markets, —a lot needs to be done to not only diversify the export basket but also have a perceptible share in the top items of world trade. The Survey said an internal study of India's exports of the world's top import items using the latest UN comtrade data shows that in the top 100 imports of the world, India has only 6 items with a share of 5 per cent or more in 2010.

Also, in the top 100 imports of the world in 2010, India has only 15 items with a share of 2 per cent and above, it said, adding that of these only 3 items are in the top 25 and 4 in the top 30. It said delays and high costs due to procedural and documentation factors, besides infrastructure bottlenecks are major challenges.

Citing the World Bank and International Finance Corporation (IFC) publication Doing Business 2012, the Survey said: Time taken to export is 16 days for India, 21 for China, and 5 for Denmark; Cost to export is \$1,095 per container for India, compared to \$500 in China and \$450 in Malaysia.

Time to import is 20 days in India, 24 in China, and 4 in Singapore. Cost to import is \$1,070 per container in India, \$545 in China, and \$439 in Singapore. Thus a lot needs to be done on the trade facilitation front, the Survey said.

Services

On the services front, the Survey said while India has achieved a fair amount of stability in software services exports, there is less stability in business services exports.

—Despite the rhetoric in India on the potential of tourism services exports, results on the ground could improve further, it added.

The Survey also said “While there are no signs of any meaningful conclusion of WTO negotiations in the near horizon, India's push towards regional and bilateral agreements should result in meaningful and result-oriented free trade agreements.”

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Kher: Move from FTA to product-based negotiations

Asit Ranjan Mishra, Mint

New Delhi: India should move from free trade agreement (FTA)-based negotiations towards product based-trade negotiations, commerce ministry additional secretary Rajeev Kher said on Tuesday, indicating a shifting of stance in bilateral trade negotiations.

—The focus should now move on from a typical and conventional free trade or preferential trade agreement-based approach to a product-based approach,|| Kher said at an event organized by the Confederation of Indian Industry lobby group.

—You identify a bilateral trading partner and you identify a particular product which has potential in that particular territory. There is a strong case for us to negotiate a non-trade regime around that product,|| he added. Kher said such non-tariff barriers could be in areas such as in phytosanitary measures, technical barriers to trade or in import-licensing procedures.

However, Kher added that trade negotiations with various countries and regions should reach their logical conclusion. —But I think we should move towards identified product-based diplomacy and the non-tariff regime around it,|| he added.

Kher said this has also become necessary as free-trade agreements have become too controversial. —FTAs have a price; as you know they are essentially trade-off agreements. We trade-off something to gain something. Therefore, they become controversial at times,|| he added.

In a survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) last year, Impact of India-Asean FTA on Indian Industry, the industry body said duty reduction on imports from the Association of Southeast Asian Nations (Asean) region had hit India's domestic market.

According to the survey, sectors where imports were found to be increasing at a substantial pace included engineering products, processed food, textiles, garments, plantation crops and auto parts. Kerala had opposed signing of the agreement holding that the state will see millions of job losses if sectors such as rubber, fishery products, tea and edible oil were opened up for trade.

Biswajit Dhar, director general at Research and Information System for Developing Countries, said that the commerce ministry has perhaps realized India is paying a heavy price by signing so many free trade agreements and now it should be selective in its approach.

However, Dhar said it will not be possible for India to negotiate only the tariff or non-tariff regime of a product with another trading partner.

—This will be against the most-favoured nation status granted to all countries under World Trade Organisation (WTO) regulations. WTO will only allow free trade agreements that substantially cover all trade among trading partners. But two countries cannot liberalize tariff or non-tariff regime for a particular product,|| he said.

Speaking at the same event, junior commerce minister Jyotiraditya Scindia said India has so far signed 10 FTAs and five preferential trade agreements (PTAs) and is negotiating 16 PTAs and seven FTAs. “When completed, such agreements would cover over a hundred countries spread across five continents” he said.

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