Trade & Industry have high hopes from Budget 2013-14

By:
Dr. H.K. Sehgal

Trade & Industry have high hopes from Budget 2013-14

By: Dr. H.K. Sehgal

(Views expresses in this article are the personal opinion of the author.)

The present global scenario and economic environment prevailing in the country are a matter of serious concern. The situation is particularly bad in export sector. Notwithstanding the posturing that the Government of India had been making, the fact of the matter is that there is a realization on the part of the Government that our export target of $360 billion would be near-impossible to achieve.

An internal note of the Commerce Ministry pegs exports in 2012-13 at $291 billion. Even if the global market conditions start improving dramatically from now, merchandise exports at best could be $300-320 billion, the note added. India had recorded the highest ever export of $307 billion in the last fiscal. During April-October 2012, the exports were estimated at $166.92 billion, down 6.2 per cent from a year ago period. In the last fiscal, shipments aggregated at $304 billion. The latest projection of the Commerce Ministry reveals further worsening of the outlook for India's current account deficit (CAD), that had touched a 30-year high of 4.2 per cent of the GDP or $78 billion in 2011-12. Meanwhile, the Commerce Ministry has indicated that it may provide incentives to exporters in order to achieve the $360 billion exports target for the current financial year. "We need special efforts that could be in nature of incentives, additional markets and making more efforts on market promotions," Commerce and Industry Additional Secretary Rajeev Kher said.

Nearer home, the exports of garment have been even less cheerful. It is rare, if at all, that the garment exports have been sliding down; and were, in fact, lower than the previous year, month after month after month, for full nine months in a row. This must start ringing of alarm bells among all stake holders, more particularly the Government and the exporters, who are most immediately concerned with this worsening situation.
The forthcoming Budget exercise, now in full swing, is important, even crucial, as this could help promote exports, if the Government wills. This will also be the last full-fledged Budget that UPA II will be submitting, which has also to provide lollypops to large sections of voters, the under-privileged poor and therefore could contain populist measures, too. There is a growing, in fact yawning, gap in resources, which have refused to go along the Budget provisions for the current fiscal.

A number of trade bodies, both national and sectoral, have made their presentations or memoranda to the Finance to consider their recommendations and suggestions, to help promote the exports in general and garment exports in particular.

Here is what they have commended for the consideration of the Government:

Confederation of Indian Textile Industries (CITI)

CITI President, S.V. Arumugam says that the optional duty regime in Excise Duty for textile products may be continued. However, the duty on manmade fibres and their raw materials may be reduced to 8 percent from the current 12 percent, which will help this segment to expand the exports. CITI has, however, not recommended any imposition of Excise duty on natural fibres. However, the reduction in the duty for raw materials such as PTA, MEG and DMT is necessary to avoid an inverted duty structure once the duty on fibres is reduced. He also says that the mandatory duty of 12 percent on branded garments and made ups may be converted to 8 percent optional duty.

CUSTOMS Duty and SAD on manmade fibres may be abolished and accumulated SAD may be refunded.

Exemption limit for Service Tax may be increased from the current Rs.10 lakh to Rs.15 lakh and the rate of service tax may be reduced to 10 percent from the current 12 percent in order to reduce the tax burden on the industry. On Exports, he added that the textile industry suffers disadvantages in the areas of infrastructure and input costs when compared with its competitors. Affordable export credit will assist in handling these problems partly.

Dr. A. Sakhtivel, Chairman, AEPC feels that since the garment industry is susceptible to frequent technological changes, the rate of depreciation of machinery should be increased to 25%. The weighted deduction on expenditure incurred in export promotion, as allowed under Export Market Development Allowance (Section 35B), allowed on April 1, 1968, but withdrawn in 1987, should be restored to compensate for export related expenses and transaction cost.

The special machinery intended to manufacture synthetic garments and also processing of fibres have to be permitted to import under Zero Percent Duty, so that more entrepreneurs make investment to manufacture synthetic garments, which has a major global market. All import licenses should be registered automatically since data are available with Customs online in real time. Bond/Bank Guarantees for all licenses should be redeemed automatically by Customs within 5 working days on the basis of Redemption letter issued by DGFT.

Customs clearance both export and import cargo should be allowed 24x7 for all exporters and for all types of cargo, as 72 hours free period for imports is not adequate to register and clear the cargo leading to delay and demurrage. For Status Holders, all export and import shipments should be cleared on self-declaration basis (though green channel). No manual registration should be insisted upon.

In the previous Budget, branded clothes were subjected to 12% Excise duty. However, with duty-free entry of garments from Bangladesh in India has rendered Indian branded garments in a disadvantageous position. The 12% Excise on Indian branded garments should be repealed to provide a level playing field.

Goods and Service Tax (GST) should be introduced in the forthcoming Budget. Bank credit rate for the exporters should be fixed at 7.5%, as the interest rates prevailing in the competing countries are lower than our bank rates. Exporting units in all categories should be given foreign currency credit, which is not given by the banks at present. The Government should provide 5% incentive under Market Linked Focus Product Scheme for the exports made to markets other than traditional markets.

GEA President, Rakesh Vaid wants duty drawback rates hiked by 5 per cent by increasing the scope and coverage of duty drawback scheme so as to ensure full reimbursement of excise duties, custom duties, education cess and various state level taxes. He wants restoration of 100% exemption to export earnings under Section 80 HHC of Income Tax Act to boost the efforts being made by exporters to overcome the present serious crisis. He wants to encourage captive power generation by providing diesel at International prices and exempted from Excise Duty and Local Levies.

He has also recommended abolition of the Custom duty on import of textiles machinery, accessories and fabrics allowing free import at nil rates. The special machinery intended to manufacture synthetic garments and also processing of fibres have to be permitted to import under Zero Percent Duty so that more entrepreneurs make investment to manufacture synthetic garments, which has a major market globally. There is an apparent need to revise upward the all industry Service Tax rates from the present 0.15 percent to 0.50 percent on the FOB Value of exports and to extend the Restructured Technology Upgradation Fund Scheme with enhanced allocation for the year 2013-2014 to encourage up-gradation of technology with modernized equipments to increase production and improve productivity of the textile industry.

He has also recommended operationalisation of GST (Goods & Service Tax), to simplify the present tax structure, at the earliest. Import duty on manmade fibres to be reduced to zero, so that the garment exporters can get cheaper man made fabrics available in the country for manufacture and export garments at more competitive prices. Further, the Government should also arrange refund of State Levies on exports, amounting to 6% of f.o.b. value. He says arrangements need to be made to provide adequate and need-based funds to exporters at reasonable rates of Interest which should not exceed 7 per cent as applicable to agriculture sector and increase Interest rate subvention from 2% to 4% on export credit.

With the shrinking export orders from the European Union, he says, we need to sign the long pending FTA with the European Union. Very highly volatility of Indian rupee had serious unsettling effect on exports. The volatility has become sharp, leaving the

exporters in a quandary as to what price they should quote for their exports. In fact, exporters tend to lose in either of appreciation or depreciation of Indian Rupee. GEA recommends that the value of US dollar vis-a-vis Indian Rupee should be fixed for exporters, so that they do not suffer on account of volatility of Indian rupee, on which exporters have no control. Finally, he has recommended abolition of Excise duty on branded garments of 12%, to provide level playing field with Bangladeshi garments, which are allowed duty-free export to India.

According to **ASSOCHAM President,** there is a need to rationalize Excise Duty rate on synthetic fibres in consonance with the National Fibre Policy. It is recommended that the Excise Duty on polyester fibre/yarn should be reduced to 4%. As per the Notification No. 5/2011-CE (NT) dated 1.3.2011, the delayed payment of Excise Duty attracted an interest of 18%, there is a valid case to reduce the interest on delayed payment of Excise Duty to 12%; more particularly when the market interest rate is varying from 10-12%. He has also recommended that credit of capital goods should be permitted to be taken immediately on receipt of goods without requiring its 50% deferment to the next financial year.

The Central Excise Tax, Sub-section 2A of Section 5A empowers the officers to clarify the applicability of a Notification by inserting an “explanation” in the Notification within one year of its issue and provides that such “explanation” shall have effect from the date of original Notification. This is tantamount to application of “explanation” with retrospective effect. This needs to be withdrawn. Assocham has also recommended that the Excise rules should be amended to remove the requirement of pre-deposit of disputed duties, or restrict it to no more than 5% of the disputed taxes. It would be only fair if the appellate authorities are not drawn from the same department.

In some cases, the Customs Duty imposed on raw materials and components is more than the same on the finished product. This anomaly needs to be removed, since we should encourage import of raw materials and components in preference to finished items so as to promote value addition within our own country.

The Government should announce schemes to provide incentives either in the shape of refund of indirect taxes, or provide subsidies or income tax exemptions to industries promoting eco-friendly manufacturing and also provide concessional import duties on capital goods used to manufacture packing materials out of waste. The Chamber has also recommended that apart from rationalization of structure of specific duties applicable to the goods covered, clear instructions should be given to the field formations to accept test reports of any accredited test. It has recommended that the Government should allow industry to avail of 100% Cenvat credit, instead of 50% in the current financial year and the remaining 50% in next financial year, in view of mounting financial problems of manufacturers.

The depreciation on plant and machinery was 25% under the Income Tax Act 1961 upto 2005-06 which was in fact a scaled down version of 33% allowed earlier. From 2006-07, depreciation has been reduced to 15%. In view of fast developing new technologies, the Government needs to revert back to 25% depreciation, if not 30%.

In the meanwhile, global economic prospects announced by the U.N. in its report showed a downward revision. It added that with existing policies and growth trends, it may take at least another five years for Europe and the United States to make up for the job losses caused by the 2008-2009 recession and a worsening of the euro area crisis, the `fiscal cliff' in the United States and a hard landing in China could cause a new global recession" and ``each of these risks could cause global output losses of between 1 and 3 %''.Further, according to the report, the economic woes in Europe, the U.S. and Japan, where deflationary conditions continue to prevail, are spilling over to developing countries which are seeing weaker demand for their exports and heightened volatility in commodity price and the flow of capital.

M Rafeeque, President, FIEO said that the levy of CST should be abolished as promised earlier during the Lok Sabha proceedings. It's a promise which has not been implemented as yet. To incentivize entrepreneurs investing in towns of excellence identified by the FTP, investment linked incentives for setting up of common facilities/infrastructure/effluent plants as in the case of leather sector in Agra testing facilities may be provided. Alternatively, since Town of Excellence are skill based clusters weighted deduction of 150% for expenditure incurred (excluding cost of land or building) as available since 2012-13 may be extended to these clusters.

FIEO said that exports are burdened with the incidence of State and local levies. These levies are making our exports more uncompetitive. Therefore, State Taxes like VAT, Sales Tax on Petroleum products; Purchase Tax, Turnover Tax, Octroi, Electricity Duty, etc. should be refunded. This will provide 2% to 3% benefit to exporters. On GST, FIEO strongly recommends that all taxes including VAT/Sales Tax, electricity duty, tax on diesel and petroleum, purchase tax, turnover tax, Octroi, etc. should be integrated into GST. The State GST and Central GST be merged into single unified GST over a period of 5 years to ensure zero rebating of Exports. There is a need of creation of an Export Development Fund with a corpus of minimum 0.5% of preceding year's exports.

Our Views

Each of the trade bodies, both sectoral and national, have made their points of views known. There is not much of similarity between the viewpoints of different organizations, except on some of the issues like reduction, if not elimination of duty on manmade fibres and raw materials, increasing the rates of depreciation of machinery from the present 15% to 25%, enhancement of duty drawback, both of which have merit and justification, if the slowing Indian economy is to be revived which was held to be the most important by CII, which felt that it is the time for the Finance Minister to focus on

measures that can help in revival of growth momentum of the economy at the earliest. Several of other recommendations were also just and should be found acceptable; except for the reason that the Government is confronted with serious resource crunch. The latest projection of the Commerce Ministry may further worsen the outlook for India's current account deficit (CAD) that had touched a 30-year high of 4.2 per cent of the GDP or $78 billion in 2011-12. Meanwhile, the Commerce Ministry has indicated that it may provide incentives to exporters in order to achieve the $360 billion exports target for the current financial year. "We need special efforts that could be in nature of incentives, additional markets and making more efforts on market promotions," commerce and industry additional secretary Rajeev Kher said There is a growing, even galloping fiscal deficit, which together with equally frightening Current Account Deficit make a formidable combination - enough to dissuade the Government to undertake any major relief or bold step in granting what most of the associations have demanded.

What is the matter of more serious concern is that our exports are falling, month after month, with no hope of any reversal in this trend. The present thinking is that reeling under the impact of global slowdown; exporters are unlikely to get tax sops in the forthcoming Budget as the Government has little room for fiscal maneuvers. It is true that the Commerce Ministry has asked for some more relief for exporters which are hit hard by the global demand slowdown but the things do look difficult, if the knowledgeable circles are to be believed. Due to the demand slowdown and economic uncertainties in the India's traditional markets, the US and Europe, exports are in negative territory contracting since May last year, but the Finance Ministry has already expressed its intention to contain the fiscal deficit which is expected to go up to 5.3 per cent of the GDP in the current financial year as against the budget target of 5.1 per cent. The Government has already expressed its commitment to bringing down fiscal deficit to 4.8 per cent in line with recommendations of the Kelkar Committee on fiscal consolidation. There has been a shortfall in revenue receipts of the Government, requiring it to exercise strict control on any sops, including export sector. This is what makes the possibility of the Government extending any help to the export industry very difficult.

The Way Out

In view of difficult fiscal condition, the Government should go slow on what is called as social sector schemes, whose accrual of benefits have still not been accepted even by the policy makers themselves. There has been a huge increase both in number of schemes and the benefits being made available to the beneficiaries. Slowing down, leave aside cutting down, of these projects would lead huge political costs, which the UPA II Government can only ill afford. Will the Government be able to bite the bullet or not and what is its priority – return to economic recovery and growth or political populism. The solution of the present problem lies in the Government choosing which way it would like to go.