INDIA'S TRADE NEWS AND VIEWS

26 September to 10 October 2013

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Exports up 11.1% in Sept; trade gap at 30-month low
ENS Economic Bureau

New Delhi, 10 October 2013: Amid a policy-enabled sharp fall in inward shipments of gold and silver, India's merchandise trade deficit crashed to a 30-month low of $6.76 billion in September. The trade gap is the lowest since March 2011, when it stood at $3.8 billion.

The sharp fall in trade deficit could help curb the burgeoning current account deficit in Q2, and subsequently stabilise the rupee, which depreciated to as much as over 68 against the dollar this year. While exports jumped 11.1 per cent (YoY) to $27.68 billion in September, partly aided by a weak rupee, imports dipped 18.1 per cent to $34.4 billion. "I am confident that import-containment measures put in place for non-essential imports are playing out extremely well and we need to continue this so that our rupee becomes stronger," SR Rao, commerce secretary, said.

Gold and silver imports declined sharply by 82 per cent during September at $0.8 billion as against $4.6 billion during the year-ago period, thanks to the hike in import duty on the metals to 10 per cent in August, the third revision this year, and the Reserve Bank norm that at least a fifth of gold bought from abroad must be used for re-exports. During the first half of this fiscal, gold and silver imports rose 8.7 per cent to $23.1 billion. Import of petroleum and oil products declined 5.9 per cent during the month at $13.2 billion.

During the first half of the fiscal, exports grew by 5.14 per cent to $152.11 billion while imports declined by 1.8 per cent to $232.23 billion. The trade deficit for the April-September period stood at $80.12 billion.

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'Trade and IIP data point to subdued economy'
Business Standard

New Delhi, 8 October 2013: Even as the government is celebrating a fall in imports for its positive impact on the current account deficit, Moody's Analytics, the research wing of Moody's Group, on Monday said it reflected subdued economic performance. It added industrial production numbers for July snapped two months of contraction trend, but still signalled lacklustre economic performance.

The Index of Industrial Production (IIP) data for August is slated to come later this week, while merchandise trade numbers are scheduled to be released early next week. Moody's Analytics predicted IIP to grow by one per cent in August, sharply lower than 2.6 per cent in July. "Production rebounded in July following two months in negative territory, but the underlying trend for India's manufacturing sector remains weak," the research firm said.

Demand is still soft and the supply side remains constrained by weak infrastructure and complicated taxes and regulations, it said. "Industrial output will not recover until confidence returns,"Moody's Analytics said.

On trade numbers, Moody's research arm said while exports had begun to rise in recent months, helped by the weaker rupee and the steady improvement in the European and US economies, imports remain weak, reflecting the soft domestic economy.

"This has helped narrow the trade deficit, but it still suggests that the Indian economy is under performing," Moody's Analytics said. Industrial production grew at a four-month-high rate of 2.6 per cent in July, but much of the expansion was on account of the capital goods sector, boosted to the extent of 1.6 per cent by high growth seen in electrical equipment.

The numbers come as a relief also because this expansion has been after two straight months of contraction. The country's gross domestic product growth had slipped to a four-year low of 4.4 per cent in the first quarter of 2013-14.

Merchandise exports grew 13 per cent to $26.1 billion in August compared with $23.1 billion in the same month last year. Month-on-month, this is a second straight month that exports saw double-digit growth, due to improved demand in the US, Europe, Africa and the Asia-Pacific.Imports in August contracted 0.7 per cent to $37.1 billion from $37.3 billion in August 2012. Trade deficit, which is part of the wider current account deficit (CAD), declined almost 23 per cent at $10.91 billion in August against $14.17 billion in the corresponding year-ago month. Moody's Analytics pegged trade deficit at $15 billion for September.
Commerce and industry minister Anand Sharma had said the import contraction was due to a number of steps taken to curb gold import. The government had, among other things, raised the tariff on gold to 10 per cent in August from the earlier eight per cent. Gold import in August came down to $0.65 billion compared to $2.2 billion in July this year.

However, the country's import bill remained under pressure on account of a rise in crude oil by 17.9 per cent to $15.1 billion in August against $12.8 billion in the same month in FY13. Total oil import during April-August rose to $69.7 billion, up 5.6 per cent from $66 billion in the corresponding period of 2012-13.

Total export during April-August was $124.4 billion against $119.8 billion earlier, up 3.9 per cent. Total import rose 1.7 per cent to $197.8 billion over the $194.4 billion during the corresponding period of FY1. As such, trade deficit narrowed marginally to $73.4 billion in the first five months of the current financial year from $74.6 billion in the corresponding period of previous fiscal. Current account deficit, which includes trade deficit, rose to 4.8 per cent of GDP in the first quarter of the current financial year against four per cent in the corresponding period of the previous financial year.

However, the remaining quarters of the year are expected to narrow current account deficit which would help government meet its target of cutting it to $70 billion in FY '14 (estimated 3.7% of GDP) against $88 billion (4.8 % of GDP) in the previous financial year.

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FM backs priority sector tag for exports
Times of India

Mumbai, 28 September 2013: Finance minister P Chidambaram has said that his ministry supported the demand for including exports under priority sector finance and will take up the matter with the Reserve Bank of India.

Priority sector refers to the business activity identified by the regulator with mandatory lending targets. Banks not meeting the targets have to invest in low-yielding government funds for that sector.

Addressing a gathering organized by the Federation of Indian Export Organisations on Friday, the finance minister said, "One community that cannot complain about the movement of the rupee are exporters . The rupee has to find its own level, whatever that level is. We feel that 59-60 is the right level for the rupee," he said.

But even as he promised to discuss priority sector status for exports, Chidambaram said such a categorization would raise issues as it would result in dilution of weightage of those already classified as

priority sector. On interest rates, however , the finance minister said that businesses cannot ask for same rates as China as the Indian economy was completely different and interest rates were a 'factor cost' . He also said that businesses can't expect globally competitive rates as these were decided depending on RBI's monetary policy and cost of funds for banks.

The FM also promised exporters to look into their demand for interest income on export earner's foreign currency (EEFC) account. The EEFC account enables exporters to retain funds in foreign currency so that they can use it for funding imports that are used as inputs. The FM also said that the government would allow the Export Credit and Guarantee Corporation of India to increase its automatic cover to exporters to Rs 1 crore from Rs 50 lakh. The rupee fell on Friday, closing 62.50 per dollar — down 42 paise from Thursday's close of 62.08. Dealers said that the rupee weakened partially due to month-end demand for dollars and also because dealers had turned cautious as they await current account deficit numbers for the June-quarter due on Monday.

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The rupee alone can't resurrect our manufacturing exports
Arun Bruce & Anirban Mukherjee, Business Standard

29 September 2013: As a nation, we possess a refined ability to see the silver lining despite the gloom. Collectively, as we battle inflation, a falling rupee, weakening domestic demand, and a sluggish policy environment, we hope of a bright long term, including hope of an export boom. As the currency has depreciated by over 15 per cent since April (it had lost more than 25 per cent a few weeks ago before bouncing back), voices abound on the kind of export boom this could trigger.

Sadly, this prophecy is not entirely true - at least definitely not for manufactured products.

First, 70 per cent to 90 per cent of the cost base of manufactured products is "exchange rate neutral", thanks to the tightly linked world we live in. Most manufactured products (for instance, auto components, appliances) have a commodity cost base of between 70 per cent and 90 per cent - and most commodities are priced at parity to equivalent international options. Copper is available in the domestic market only at London Metal Exchange prices (which are dollar denominated). Domestic steel manufacturers price their steel on par with steel imports - and are currently in the process of raising prices - thereby nullifying any advantage a weak rupee may provide. Domestic plastics and chemicals are also constantly priced on par with equivalent international imports.

Any big benefit that is currently being perceived is transient, and largely due to inputs purchased at a lower dollar (say, when the rupee was 54), and demand fulfilled when the dollar is stronger (say, when the rupee was 58 to 60). A large part of the third-quarter surge in export order books that many companies are experiencing is precisely due to this factor.

Second, even an advantage in the remaining 20 per cent to 30 per cent of the cost base is lower than what a mere currency rate difference would suggest, because of our dependence on oil imports that tends to impact logistics cost of allied materials and cost of living (and hence domestic inflation) over a period of time. The net advantage that remains for the exporter can still be substantial, but not large enough to boost exports considerably.

The true upside in exports will only emerge when the competitiveness of an industry improves to a fundamental and sustainable level. Take the US for example. The country has been experiencing what you would call an export boom. Consider this: the very country who's currency has strengthened against the rupee, has been and is experiencing a boom. A close look will reveal that US manufacturing competitiveness has steadily increased over the last decade in comparison with key peers. The US' productivity-adjusted labour cost is now 15 per cent to 40 per cent lower than that of several advanced

economies (Japan, Germany, the UK, Italy) and its labour laws are considered far more flexible than several advanced economies (No 3 in index developed by the Fraser Institute that measures labour regulations, vis-à-vis No 112 position occupied by Germany). Energy prices are also more favourable in the US. Natural gas is 40 per cent of the price prevailing in Japan/US, industrial electricity is 50 per cent to 70 per cent cheaper than Italy/Japan/France. How is that for a sustainable source of advantage? And the advantage is showing. While the share of global exports by Western Europe and Japan decreased between 2005 and 2010, US exports have held steady at 11 per cent and grown at an overall rate of 8 per ent a year (despite the slowdown in 2008/09).

How does India perform on fundamental manufacturing competitiveness? India has one of the lowest costs of labour and "on paper" a competitive price of power. In reality though, labour productivity is very low and power is unavailable for up to two shifts a day in many industrial clusters - forcing them to use inefficient diesel generator sets - that nullify any factor cost advantage. India's road and port infrastructure are still far from ideal. Our port turnaround times are upwards of 80 hours - roughly five times that of Sri Lanka. The average truck speed in India is 35 to 40 km per hour roughly half of that in China.

To drive exports, we need to fix competitiveness in manufacturing. We will need to build many more efficient clusters - either by resurrecting "dying" special economic zones or by ensuring land acquisition for National Investment and Manufacturing Zones. We will need to increase power generation capacity, at the rate of 25 Gw per year. We will need to proceed aggressively with port infrastructure enhancement, and accelerate the projects on the anvil. We will need to actively focus on workforce skilling and automation. We will also need to place our bets as a country in the right sectors and countries. For example, Africa is a growing consumer with fast growing imports - what is our strategy as a country to address this demand?

None of these measures are really new, but then our challenge has always been our ability to execute well. The day we fix that, we needn't be exuberant anymore about a weakening currency. Until then, cheers to a weak rupee.

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Study lists why India’s special economic zones policy didn’t work
Asit Ranjan Mishra, Mint

New Delhi, 3 October 2013: They were supposed to be Chinese-style, self-contained industrial enclaves aimed at turning India into a powerhouse of manufacturing for exports, but things haven’t quite gone according to plan.

In its initial findings, a study commissioned by the commerce ministry now proffers two reasons why the Special Economic Zones (SEZs) didn’t work. Incentives offered under the foreign trade policy to exporters outside of the zones and disincentives arising out of free-trade agreements (FTA) snagged the SEZ policy, the study has found.

The commerce ministry commissioned the think tank Indian Council for Research on International Economic Relations (ICRIER) to do the comprehensive cost-benefit analysis of the SEZ policy.

Arpita Mukherjee, a professor at ICRIER who is heading the study team, said the implementation of the foreign trade policy in 2009, through which a slew of export incentives were given to exporters outside SEZs, acted as a disincentive to invest in SEZs.

“In a way, you created zones to promote exports and disincentivized such activity by giving more export benefits to units outside such zones,” she said.

The commerce ministry provides incentives to exporters outside SEZs through the duty drawback scheme, and focus market and focus product schemes, among others.

The duty drawback scheme allows manufacturers to seek a refund of duty paid on imported materials used in the manufacture of goods which are exported; the focus market and focus product schemes incentivize exports to specific geographical regions and specific products.

Mukherjee said ideally such benefits should also have been extended to SEZs to ensure a level playing field.

“The situation further aggravated with the global economic downturn of 2008-09 when demand for Indian goods fell drastically and duty-free sale of SEZ products within the country was not allowed,” she said. Since the SEZ policy was announced in 2000, 576 formal approvals have been granted for setting up of such enclaves, out of which 392 SEZs have been notified. Only 170 are operational.

One of the most common refrains against the SEZs has been that they failed to achieve their intended objective of encouraging manufacturing exports from India and instead became attractive centres for information technology firms to avail of tax incentives by shifting to the zones from domestic tariff areas. To be sure, SEZs have access to duty-free imports of manufacturing inputs because technically they are considered to be outside of the country’s domestic tariff area. But, with India signing free-trade agreements with countries where duties on many products are eliminated or reduced substantially, the advantage accruing to SEZs was negated, Mukherjee said.

“Such a situation does not arise in other countries since their differential tariff rates are much lower than India,” she said.

India has free-trade agreements with countries such as Sri Lanka, Japan, South Korea and the Association of South-East Asian Nations, which groups Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

The ICRIER study was commissioned in April this year against the backdrop of declining interest in SEZs after the government imposed a minimum alternative tax on SEZ units in April 2012 and to examine many negative perceptions about the industrial zones.

The commerce ministry also asked ICRIER to examine the impact of foreign trade policy and the regulatory framework as well as analyse incentives provided under free-trade agreements signed by India with other countries and their effect on the SEZs.

Mukherjee pointed to a difference between the models followed by China and India— while China created a limited number of large, self-sustainable, confined enclaves near port facilities to boost exports, India opted to license a large number of SEZs without ensuring proper infrastructure outside the zones. There is another hurdle that SEZs face. Tax incentives granted to SEZs are seen as breaching World Trade Organization rules that bar financial contributions by a government or public body.

Units in SEZs still enjoy income-tax benefits. Mukherjee said countries impose countervailing duties to negate direct tax subsidies, which reduces the competitiveness of exports from such enclaves. So far, 33 countervailing duty measures have been slapped on against India, second only behind China (42).

“We have to substitute such tax incentives to SEZ units by subsidies on inputs, which are used in production of exports material and are not considered subsidy under WTO rules,” Mukherjee said.

Looking at SEZs only from the incentives perspective is a narrow approach to the problem, said Biswajit Dhar, director general, Research and Information System for Developing Countries, a think tank under the external affairs ministry.

“SEZs were supposed to be areas where government provides state-of-the-art technology and infrastructure facility. However, later they were left to private developers. We should go back to the original idea and develop such zones as pockets of excellence,” he said.

SEZs should provide better infrastructure facilities, which in turn will reduce the cost of operations and act as an incentive for exports, said Ajay Sahai, director general of the Federation of Indian Export Organisations.

“When it comes to allowing SEZs to sell in domestic market, one has to take into consideration the concerns of the domestic manufacturers,” he said.

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India-Pakistan trade potential needs to be tapped: Envoy
PTI

Islamabad, 7 October 2013: Amid uncertainty over Pakistan granting the most favoured nation (MFN)-status to India, Indian High Commissioner to the neighbouring country T C A Raghavan said bilateral trade was "sizeable", though there was a great potential that needs to be tapped.

Raghavan made the remarks when he called on Pakistan's Finance Minister Ishaq Dar, who underlined the need for early resumption of the composite dialogue process.

Indian diplomatic sources said the meeting yesterday was a courtesy call.

Raghavan was quoted by state-run APP news agency as saying that though the volume of trade between the two sides was sizeable, there was a great potential that needs to be tapped.

The trend of shopping by Indians visiting Pakistan reflects the demand for Pakistani goods in India, he was quoted as saying.

Raghavan hoped the relaxation in visa restrictions for businesspersons of the two countries will help increase trade.

He further said there is appreciation in India for Prime Minister Nawaz Sharif's views on bilateral relations and a large number of people in both countries want better ties.

Dar said Pakistan wants good relations with India and early resumption of the composite dialogue to address outstanding issues.

"The government wants an early beginning of the composite dialogue process so that progress on all issues can be made between the two countries," Dar said.

Dar described the recent meeting between the Prime Ministers of two countries on the margins of the UN General Assembly as good.

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Pakistan-India trade will be a positive sum game
Sujay Mehdudia, The Hindu

6 October 2013: Informally known as the leader of the Pakistani business community, and fondly referred to as 'Bhai Jaan', *S. M. Muneer*, President of India-Pakistan Chambers of Commerce and Industry, is a strong proponent of enhanced trade and economic engagement between the two countries. He also heads the successful Din Group of companies, which has large interests in textiles, chemicals, leather, construction, banking and real estate in Pakistan and across many countries. In an interview with The Hindu in Karachi, Mr. Muneer outlines the future of Pakistan-India trade, and details the benefits of stronger trader elations.

Edited excerpts:

What is your opinion on India receiving MFN (most favoured nation) status? How long could it take for the newly-elected Pakistani government to announce this?
Grant of MFN status is very crucial issue, and such a step would give immense benefits to Pakistan. The newly-elected government will now take a call on this matter very soon. The MFN status is delayed currently due to some reservations and objections from some sections. In reality, MFN status only means that competitive opportunities for Pakistani and Indian manufacturers in each other's market would be equal to that enjoyed by all other trading partners. In the era of globalisation, regional trade and integration is the only way for Pakistan and India to increase prosperity. This trade will be positive sum game, which has been proven by different research studies . Pakistan will get a market of 1.2 billion people and good exposure, which will improve our global competitiveness. The experience of Pakistani businessmen, who have visited India to explore the market, has been generally very positive. If there are any industries that may be impacted adversely for genuine reasons such as pharmaceuticals, automobiles, agriculture, then the government may place them in a negative list instead of keeping the entire matter on hold. The Pakistan government is expected to take a decision on this issue soon as a majority of the hurdles have been removed and concerns of the stakeholders have been addressed.

How do you see the recent political setbacks between the two countries?
Despite the recent political setbacks, we should not forget that the only way forward for India and Pakistan is peace, friendship and economic prosperity. We need to learn from history and especially from European nations such as France, Germany and England, who fought till around six decades ago and now stand united in an alliance. Trade is one of the important dividends from the prevailing peace. The recent unfortunate incidents along the line of control (LoC) have certainly given a setback. But trade has progressed without any hindrance and businessmen are now getting multi-city and one-year long visas on both sides, which is a big positive. We need to cash in on this, and further boost the trade relationship to give peace a chance. Both the countries have the option of either fighting like fools or prospering together like wise people.

How do you view India's decision to reduce tariff lines on 264 items for the SAFTA (South Asian Free Trade Agreement) sensitive list?
India has reduced tariff lines on 264 items for non-least developed countries, which includes Pakistan as well. It is meant for strengthening trade relations between the two. India has performed a positive role in harmonising the SAFTA framework, and ensuring that we move towards a vibrant economic community. This is also a move towards normalisation of trade relations with Pakistan.

What are the measures that India should take to give a boost to trade and economic engagement with Pakistan?
We have suggested to the Indian government that it develop a trade facilitation mechanism as well as infrastructure for liberalisation. We have suggested opening of other land routes such as the Khokharapur-Munabhao route and the Karachi-Hyderabad route.

It will not only increase bilateral trade but will also create opportunities for people of both countries to interact more intensely. India has built an ICP post at Wagah-Attari border, and Pakistan needs to build the same infrastructure and ensure quick customs clearance.

The agreement on opening of brand branches of Indian banks in Pakistan and Pakistani banks in India has not been implemented. State Bank of Pakistan has given its go ahead to Indian banks to open its branches in our country but the Reserve Bank of India (RBI) is still to take a decision on allowing Pakistan banks to open branches in India.

This needs to be speeded up. Also, telecommunication links between the two countries, particularly mobile connections, needs to be upgraded and both countries should allow mobile connectivity across the border. Similarly, as part of the liberal visa regime for businessmen, visas should be valid for whole country and not for 10 cities, as this will be a great help for the businessman to increase business and also help boost tourism.

How do you see trade between India and Pakistan progressing in the future?
I have a desire to drive my own car from Lahore and go to Delhi or Mumbai, and I wish that Indians could do the same for Lahore and other cities. India is already the 'Asian Tiger'. Pakistan also has immense potential to emerge as a strong economic force. Pakistan is a country with huge potential, and it can also become an Asian Tiger provided all of us think of Pakistan as our own. The balance of trade in favour of India should not be source of worry but a reflection of the relative economic size.

The liberalization of trade will increase the GDP of Pakistan. India and Pakistan both need to provide a level-playing field instead of showing reluctance and hesitation. Let us progress like China, South Korea and Malaysia and reap the dividends of enhanced trade and economic engagement.

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India-Asean trade, services pact may be inked this year
Business Line (The Hindu)

New Delhi, 7 October 2013: The Free Trade Agreement (FTA) in trade and services between India and the 10-member Association of South-East Asian Nations (Asean) is expected to be signed in calendar 2013, a senior official in the Ministry of External Affairs said on Monday.

"All issues covering the free trade agreement in trade and services investments have been sorted out. The legal study has been completed. There were certain observations by the Philippines and Thailand, which have been addressed. Now, the respective countries are taking their internal approvals. We believe the signing will take place in calendar year 2013. This depends on internal procedures in member countries. But we are optimistic (it will be) this year," Secretary, East, Ashok Kantha, said.

Kantha was briefing newspersons on the forthcoming visit of Prime Minister Manmohan Singh to Brunei for the XIth India-Asean Summit and the 8th East Asia Summit and the bilateral visit to Indonesia, which begins on October 9.

He said Singh would also meet the newly-elected Australian Prime Minister Tony Abbott on the sidelines of the summit meetings. On the issue of sale of Australian uranium to India, Kantha said the third round of negotiations between the two countries could take place in December.

"There is a firm desire on both sides to try and bring these negotiations to a successful conclusion at an early date," he said.

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India wants early trade pact with African nations
Economic Times

Johannesburg, 2 October 2013: India has pitched for early conclusion of the preferential trade pact with African nations, which is expected to help enhance business ties between India and minerals rich countries of the continent. Commerce and industry minister Anand Sharma urged his South African counterpart Rob Davies to expedite the much delayed India-SACU preferential trade pact that will reduce tariffs on several key products.

Sharma is in Johannesburg for the third Indo-Africa Trade ministers meet. The Southern African Customs Union (SACU) consists of Botswana, Lesotho, Namibia, South Africa and Swaziland.

India has been waiting for the response from the African side on its proposal of an average margin of preference of 70%. This means imports from SACU will be subject to a tariff 70% lower than the most favoured nation rate.

The bilateral trade target of $100 billion by 2015 and $200 billion by 2020 is a modest one and is certainly achievable, Sharma said. Air connectivity and visa related issues were the two other concerns raised at the second India-Africa Business Council (IABC) meet here, co-chaired by Bharti group chairman Sunil Mittal. Indian business chamber FICCI is the institutional partner of the council. Sharma assured that the air connectivity issue has been taken up at the highest level and that Air India will resume its flights to Africa from 2014 onwards.

"The issue of air connectivity has to be addressed. The matter has been looked into at the prime ministers' level, and at my level. You will soon see resumption of flights by Indian carriers both Indian private and public", Sharma said addressing the council. On liberalisation of visa regime, Sharma said that both sides can identify the apex industry chambers that can help in this process.

He also strongly took up the case of Indian pharmaceuticals industry saying that India is a supplier of quality low-cost generics drug.

"There is a concerted campaign by vested interest groups and multinational cartels to confuse the discourse which questions the credibility and efficacy of Indian generics. We must remain vigilant against such voices," he said. India exports low-cost generic drugs to over 230 countries in the world and 1/5th of them are directed towards Africa.

Industry leaders collectively identified pharma, agri, minerals and mines and oil as priority sectors of private investment and integration and presented a report to the trade ministers.

India also sought support from the African nations ahead of the ninth WTO ministerial in Bali in December to safeguard interest of the developing nations. India has been pushing for the food security proposal of the G-33 nations, which wants the subsidies that are a part of the procurement for public stockholding from poor and marginal farmers not to be regarded as a prohibited subsidy by the WTO.

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India to seek market access for mangoes, bovine meat from South Africa
PTI

Johannesburg, 29 September 2013: India is expected to seek from South Africa market access for mangoes, grapes and bovine meat in order to increase the country's exports.

The issue is likely to be raised by Commerce and Industry Minister Anand Sharma during his meeting with South African Trade and Industry Minister Rob Davies on Tuesday here. Sharma is here for the 3rd India-Africa Trade Ministers meeting.

The South African authorities are in the process of conducting a Pest Risk Analysis (PRA) for import of mangoes and grapes from India.

"The Minister would ask his counterpart to expedite the PRA and consider granting market access to Indian mangoes and grapes, as our request of market access is pending for a long time now," an official told PTI.

Sharma would also express his concerns over the temporary suspension placed by the South African authorities on frozen boneless buffalo meat imports from India.

South Africa had put a temporary suspension on imports of frozen boneless buffalo meat from India in 2011.

"The minister would request that the matter may be looked into as the Indian meat conforms to the highest international norms and standards," the official said.

Both the sides are also expected to discuss the proposed Bilateral Investment Promotion and Protection Agreement.

Further, the official added that both the ministers would review the progress of the talks on India and Southern African Customs Union (SACU) preferential trade agreement. Under such a pact, countries provide duty concessions to each other on few products.

India has proposed an average Margin of preference (MOP) of 70 per cent in the agreement. MOP is expressed as percentage of tariff concession offered. 20 per cent MOP would mean that imports will be charged 20 per cent less than the prevailing duty.

SACU includes Botswana, Lesotho, Namibia, South Africa and Swaziland. The last round of negotiations was held in New Delhi in October, 2010.

India is one of the largest importers of South African coal.

"There existed tremendous scope for co-operation and joint ventures between public sector undertakings of the two countries in this sector and India was also be keen on investing in the energy market of South Africa," the official said.

For January-July period, the bilateral trade between India and South Africa stood at USD 8.75 billion. It was USD 13.58 billion in 2012, a decline from USD 14.48 billion in 2011.

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Coffee exports fall 5.3% on low demand from US, EU
Mahesh Kulkarni, Business Standard

Bangalore, 30 September 2013: India's coffee exports fell 5.34 per cent to 2,99,266 tonnes in the year ended September 30, as demand from the US and the European Union (EU) remained subdued. In the previous coffee year (October 2011 to September 2012), India had exported 3,16,164 tonnes.

"The decline in exports was mainly due to weak demand from European nations such as Italy, Spain, Greece and Portugal, as buyers were looking for cheaper coffees," exporters said. Realisation from exports declined 1.3 per cent to Rs 1,51,379 a tonne between October 2012 and September 26, 2013, against Rs 1,49,459 a tonne in the previous coffee year. In value terms, total coffee exports fell 4.1 per cent to Rs 3,530 crore, against Rs 4,725 crore in the previous year, according to the Coffee Board.

A sharp drop in the prices of the arabica variety last financial year contributed to the decline in exports, as a large number of farmers withdrew sales, exporters said. Arabica prices declined 20-25 per cent.

"Arabica coffee prices ended within a cent of a more than a four-year low on Thursday, as big supplies of the beans and tepid demand encouraged selling. Prices were down about 20 per cent for the year; roasters appear to be waiting for even lower prices due to large supplies, particularly from Brazil. LIFFE robusta coffee futures hit an almost three-year low last Thursday, as expectations of a large crop from top grower Vietnam weigh on prices. LIFFE robusta coffee futures for November delivery settled $43 lower at $1,663 a tonne," the Coffee Board said. India primarily exports coffee to Italy, Germany, Russia, Belgium and Spain.

The outlook for exports in 2013-14 isn't very promising. The Coffee Board has said in 2013-14, production would be at least 10 per cent lower than post-blossom estimates. In its post-blossom estimates earlier this year, it said production would stand at 3,47,000 tonnes. In 2012-13, production stood at 3,18,200 tonnes.

"Based on the conditions in February and March, when the growing regions received good blossom showers, we had estimated we would record 3,47,000 tonnes. However, due to a drought in the two subsequent months and the heavy rains in June, July and August, we anticipate a drop of about 10 per cent against the post-blossom estimates," Coffee Board Chairman Jawaid Akhtar had told Business Standard earlier this month.

This means for 2013-14, India's bean production could be about 3,12,000 tonnes. However, growers estimate it at 70,000-2,90,000 tonnes. Exporters said low production would hit exports in the next crop year, too.

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Darjeeling tea brews 10% jump in exports on new market push
Mithun Dasgupta, Financial Express

Kolkata, 8 October 2013: Amid fears of a severe impact of the Gorkhaland stir on the Darjeeling tea industry, there is some good news for the exporters of the world-famous aromatic tea.

Export of Darjeeling tea this year is expected to increase by 10% on the back of rising demands from two new markets — China and East European countries. UK, Germany and Japan have been the traditional markets for this premium brew with the US being the recent entrant. But China and East European countries are expected to provide Darjeeling tea exports a big boost this year.

According to Darjeeling Tea Association chairman S S Bagaria, export of the brew to China alone is likely to soar to 1 lakh kg this year from 40,000 kg last year.

"We have started to export Darjeeling tea to China from 2010. Consumptions of this beverage are increasing at a very encouraging rate there. We sold 40,000 kg in China during 2012. But this year exports till September stood at 60,000 kg. So, total export to the country during 2013 is expected to touch 1 lakh kg on the back of huge consumptions," Bagaria told FE.

He said the demand for the brew was also increasing in East European countries, the other new market for the exporters. “We are exporting to the East European countries for the last two years. Last year, the total volume of export to these countries was 20,000 kg and this year it should increase,” he stressed.

Bagaria said Darjeeling tea producers were instrumental in creating awareness about the world-famous brew as well as popularising the premium beverage in China and East European countries. Indian Tea Association (ITA) chairman A N Singh, who is also managing director of Goodricke Group, seconded Bagaria, saying export prospect for this year was 'pretty good'.

“With black tea consumptions growing in China, definitely there are good demands for Darjeeling tea in that country,” Singh said, adding Goodricke was also trying to explore this new market.

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Textiles Ministry for restoring incentives for cotton, cotton yarn exports
The Hindu

New Delhi, 9 October 2013: The Union Textiles Minister, K. S. Rao, on Wednesday, said he would soon take up with the Commerce Ministry the issue of restoration of export incentives under the Focus Market Scheme (FMS) given to cotton and cotton yarn exporters.

“I will be writing to the Commerce Ministry in this regard. It withdrew FMS, which was given to cotton and cotton yarn exporters, and it was based on the belief that we have already got surplus production in this country. So, they must have thought that it is not necessary,’’ Mr. Rao told reporters at the end of the meeting of State Ministers of Textiles.

The Directorate-General of Foreign Trade (DGFT) was of the view that these products were availing export incentives under FMS. Nevertheless, there were curbs on their exports, he pointed out.
He felt that to deal with the issue of current account deficit (CAD), the Commerce Ministry should encourage textiles exports. The objective of the FMS was to offset the high freight cost and other disabilities to select international markets with a view to enhancing export competitiveness. It allowed a duty credit of 2.5 per cent of free-on-board value of exports to countries that are identified as focus markets by the government. The duty credit may be used for import of inputs or goods, including capital goods. The government has imposed quantitative restrictions on the exports of cotton and cotton yarn.

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Nilambur teak to get geographical indication tag soon
T P Nijish, Times of India

Malappuram, 30 September 2013: Nilambur teak will soon become the first forest resource from India to get GI (geographical indication) tag of World Trade Organisation (WTO).

The Kerala Agricultural University (KAU) has initiated the steps for the registration of the Nilambur variety of Teak or Malabar Teak, which is known for log dimensions and desired wood figure.

As part of the initiative the KAU organized a state-level workshop on 'GI tag for Nilambur Teak: Opportunities and legal paths', at Nilambur on Saturday. It was organized in support of the GI Registry Chennai. The College of Forestry and Intellectual Property Right (IPR) cell of KAU had jointly organized another workshop recently to discuss the potential of getting a GI registration for wood products manufactured using Nilambur teakwood.

A GI is a name or sign used on certain products, which corresponds to a specific geographical location or origin. The GI tag ensures that none other than those registered as authorised users are allowed to use the popular product name

At present 18 indigenous products from Kerala are in the GI list of India. They are Aranmula kannadi, Alleppey coir, Navara rice, Palakkadan matta Rice, Malabar pepper, Alleppey green cardamom, maddalam of Palakkad, Screw Pine craft, cocunut Shell crafts, Pokkali rice, Cannanore home furnishings, Kuthampully sari, Kasargod sari, Wayanadan rice, Vazhakkulam pineapple, Payyannur pavithra ring, Central Travancore jaggery and Chendamangalam dhoties.

The head of the department of silviculture and agro forest of KAU, Dr T K Kunhamu, said that the representative of the office of GI registry at Chennai, who visited Nilambur a couple of days ago was satisfied and convinced of the importance of the wood item. He hoped that the prestigious status would be accorded to Nilambur teak soon. "We will be provided with a logo, which can be used for the trade of teak items, across the world," he said.

The KAU had helped secure GI registration for Wayanadan rice, Payyannur Pavithra Ring, Central Travancore jaggery, Pokkali rice, Aranmula mirror and Kuthampully sarees.

The vice-chancellor of KAU, Dr P Rajendran said that it was very appropriate and befitting that the Nilambur teak becomes the first forest product to get GI tag from India and it would help establish legal rights of Nilambur teak.

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Leather exports up 15%, to touch $5.75 bn this fiscal
T E Narasimhan, Business Standard

Chennai, 29 September 2013: Leather exports from India is expected to touch $5.75 during the current fiscal, though it is an increase of around 15% it is the original target which set by the industry. Exporters from this industry, which is among the top 10 foreign exchange earners, said they are now looking at new markets including Africa and South America as part of de-risking strategy.

M Rafeeque Ahmed, president, All India Skin and Hide Tanners and Merchants Association said that export of leather and leather products exports are expected to touch around $5.75 billion during the current fiscal, although the target is $6 billion.

Earlier, in his presidential address at the 96th Annual General Body Meeting of Association, Ahmed said that leather exports in 2012-13 rose by around 3% to touch around $5 billion, while originally it was expected to touch by $5.4 billion.

“Though I am not happy at the shortfall, I feel despite the turbulence in the global finance, we have done reasonably well on the export front,” he said.

Exports to the traditional markets like Germany, Italy, Spain and Russia have recorded more than 10% decline. However USA and Denmark have reported an increase of around 20% with UK coming next with 10%.

Ahmed said, the industry would look at East and African and South American countries for a huge push in exports as those countries have great potential. He added, domestic market is also encouraging and entrepreneurs are paying more attention the domestic market.

Speaking about the Rupee depreciation, during June to August 2013, the currency depreciated from a value of Rs 50 plus to an extent of Rs 68 against the US Dollar and Rs 100 against the British Pound. These are the industry's main markets. The depreciation may have benefited a few exporters for a short period but it is an ominous sign.

He further said, raw material shortage is a nagging problem facing the industry as large quantities of semi-finished leather are being exported to China and Italy. The recent decision of the Government of India accepting the views for Leather Exports (CLE), making certification by Central Leather Research Institute (CLRI) mandatory for leather exports so as to conform to the regulatory policies of the Government will prevent clandestine exports and Ahmed hoped that as a result make more raw hides and skins available for tanneries.

While stressing about revisit strategies with countries where Free Trade Agreement (FTA)/ Comprehensive Economic Partnership (CEPA) have been signed, Ahmed said, the idea of FTA is to boost exports by taking advantage of tariff concessions. Exports to countries with which India has trade pacts have naturally declined as seen from the India Exports to Association of Southeast Asian Nations which went down to $14.66 billion in the first six months of 2012-13, compared with $36.74 billion in the same period in 2011-12.

He suggested that such countries in the region should be put under the Focus Market Scheme to dovetail exports, conscious attempts should also be made by exporters to avail of the tax concession benefits and step up exports substantially.

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Gold supply policy for jewellery exporters liberalised
Dilip Kumar Jha, Business Standard

Mumbai, 28 September 2013: With the relaxation in gold supply norms, jewellery exports from India are set to rebound in the coming months.

On Friday, the Directorate General of Foreign Trade (DGFT) agreed to all the suggestions of the Gems & Jewellery Export Promotion Council (GJEPC) for smooth supply of gold to exporters.

In the April-August 2013 period, gold jewellery exports from India fell 57.12 per cent to Rs 15,609.54 crore from Rs 36,404.17 crore in the corresponding period last year, primarily due to unavailability of gold for exporters. The unavailability had resulted from import restrictions by the government, aimed at containing the country's current account deficit.

Now, jewellery exporters would have easy access to gold, and this would help increase exports. Since the supply restrictions were implemented on July 22, a huge quantity of imported gold has been held at ports. Importers continued to pay demurrages; a number of export orders were cancelled, leading to huge losses for jewellers. This led to losses of at least Rs 25,000 for jewellery exporters for every Rs 1 crore of exports. The loss multiplied for diamond jewellery exporters, owing to higher costs of manufacturing.

"The gold export business will come on track now, with the fresh clarifications issued by DGFT. We will be able to receive gold smoothly, as all hazards have been cleared," said Pankaj Parekh, vice-chairman of GJEPC. A recent Reserve Bank of India (RBI) circular mandates the supply of 20 per cent imported gold to exporters. Jewellery exporters were afraid a higher quantity would be denied to them. And, banks were keen to supply only 20 per cent under the central bank's 20:80 formula. But now, jewellers would be able to secure higher quantities if they needed to, Parekh said.

Another major issue was documentary evidence proving inward remittance of foreign receivables of

jewellery exports, showing the use of the first lot of gold procured from banks. This was required to secure a third lot of gold for jewellery exports, irrespective of the quantity. GJEPC argued exporters would have to wait for at least 280 days from the date the first lot was secured; this included 90 days of jewellery making, 180 days of inward remittance and 10 days of procedural delays. This would not only make business unviable; also, exporters would have to opt for new business. Now, DGFT has clarified a proof of exports would suffice and make jewellers eligible for a third lot.

"Another big hurdle was the supply of gold from bonded warehouses. Since the record is maintained both by customs and banks, the onus of the proof of gold supply should not lie on customers. With the undertaking given by customers, banks will now be able to supply gold without seeking clearances from multiple authorities every time," said Vipul Shah, chairman, GJEPC.

Now, the ex-bond bill of entry wouldn't have to be filed every time, as mandated by the Customs earlier; a one time receipt would suffice, said Shah. With these clarifications, both gold and diamond jewellery exports were expected to pick up soon, Parekh said.

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India may ease visa regime to boost tourism
Sanjeeb Mukherjee, Business Standard

New Delhi, 8 October 2013: In a bid to give a fillip to the tourism sector, the government on Monday initiated the process to offer the visa-on-arrival facility to a number of countries.

Also on the cards are online applications from visa applicants and a proposal to provide Schengen-like convenience to Indian visa seekers.

“We have made a set of recommendations to the home ministry to liberalise the visa regime, which will not be looked into from a security point of view before coming at a conclusion,” Planning Commission Deputy Chairman Montek Singh Ahluwalia told Business Standard after a high-level meeting with officials from tourism department, home ministry, intelligence bureau and National Security Advisor Shiv Shanker Menon.

According to another senior Planning Commission official, there was a broad consensus in the meeting on liberalising the overall visa regime.

The visa-on-arrival facility is proposed to be extended the US, the UK, Canada, Brazil, Australia, United Arab Emirates, Saudi Arabia, Germany, France, Italy, Sweden, the Netherlands, Switzerland, Spain, Belgium, Austria, Denmark, Poland, Norway and Ireland, among others.

India already offers visa-on-arrival to Japan, Finland, Singapore, Indonesia, Luxembourg, New Zealand, Cambodia, Vietnam, the Philippines, Laos and Myanmar.

One of the recommendations is to bring down the number of categories of visa from the existing 16 to just three. “There should be just three categories of visa - employment visa, business visa (for people who travel frequently) and visitor visa (which will cover all other types of visa requirements),” said an official.

He added that while the home ministry has agreed that visa-on-arrival can include more countries, it is of the view that there’s a shortage of staff.

“The tourism ministry has offered to share its budget with the home ministry so that more officers can be inducted to man immigration counters, which will facilitate visa-on-arrival,” said Ahluwalia.

In the meeting, the Planning Commission proposed that India's tourism offices across the world be closed down. Giving a boost to the tourism at this point will help the government, which is battling a widening current account deficit (CAD), officials said.

The CAD is the difference between inflow and outflow of foreign exchange. During 2012-13, CAD was at an all-time high of 4.8 per cent of the GDP or $88.2 billion. The government proposes to bring it down to $70 billion or 3.8 per cent of the GDP.

In 2012, India received 6.58 million foreign tourists, up 4.3 per cent over the previous year. But this was lower than the 9.2 per cent growth in 2011. India's foreign exchange earnings in 2012 from tourists were $17.74 billion, an increase of 7.1 per cent, year-on-year.

Foreign exchange earnings from tourism from January to August 2013 were $12.025 billion with a growth of 6.7 per cent, compared with $11.273 billion year-on-year.

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No major impact seen on travel, IT firms; exports may take a hit
Busienss Line (The Hindu)

New Delhi/Kolkata, 1 October 2013: Even as the US Government began the partial shutdown process on Tuesday, travel and infotech companies here said they did not anticipate any major impact. But industry bodies pointed out that exports to the US could take a hit.

Rana Kapoor, President of Associated Chambers of Commerce and Industry of India, in a statement said, "The shutdown of the US Government will certainly hit Indian exports because of crippling of trade facilities at the ports and airports."

Visa Issue

Tour operators said the shutdown was not likely to have any major impact on travellers. Karan Anand, head-relationships, Cox & Kings Ltd, said obtaining a US visa would not be a problem as consular services at US embassies and consulates around the world were largely funded by application fees not annual appropriations.

"Visa applications filed by foreigners wanting to enter the US will continue to be processed. Flight operations across all airlines to the US will not be affected," he said.

But, if leisure tourists have any of the 401 national park service sites, including the iconic Statue of Liberty, on their itinerary, it will have to be changed, as all national parks and such sites will remain shut. However, Anand said, "Indian customers prefer going to theme parks such as Universal Studios, Disney World in Los Angeles or indulge in shopping. They do not prefer national parks."

Tour operators also said that this was not a big season for Indian leisure tourists to travel to long-haul destinations such as the US.

Subhash Goyal, Chairman, STIC Travel, said, "Most leisure tourists do their long-haul travel during summers. Usually honeymooners are looking to book trips to the US in this season and some are opting for other options." For corporate travellers, it's going to be business as usual.

IT industry body Nasscom, said, "A majority of the business that our industry has is with the private sector, and is not directly dependent on federal spending. Hence, we do not see an immediate economic

impact. If the shutdown continues for an extended period, there will be an overall macroeconomic impact that may affect the industry.”

It added that some services such as visa processing time that depend on federal budgets are expected to see delays.

Engineering Exports

The US Federal Government shutdown may hit Indian engineering exports to that country, Anupam Shah, Chairman, EEPC India, an engineering export promotion body, said in Kolkata on Tuesday.

The US consumed nearly one-tenth (11 per cent) of India’s $57-billion engineering exports last year. Exports to the US were down 12.3 per cent during April-August this fiscal.

According to Shah, the shutdown — which was announced by the US Government after the two houses of Congress failed to agree on a new budget — would substantially reduce the demand. “As the US economy closes down, our export might slow down as well. The consumers will be spending less and individuals will be left without pay, (resulting in a sharp decline in demand),” Shah said at a press conference here.

According him, delay in port services in the US would also impact export operations, if the shutdown issue was not resolved immediately. “Commercial ports do not come under emergency service category. So, there will be delay in port services like clearing of goods from ports owing to staff shortage. This may result in huge demurrage for exporters,” he said.

Growth and Benefits

Meanwhile, Shah said exporters were upset with the Finance Ministry’s decision to cut back duty-drawback benefits on some engineering products.

The reduction in duty drawback, neutralised the benefits of devaluation of Rupee against US dollar. EEPC has lowered its growth expectations to 10 per cent (from 15-20 per cent) this fiscal, Shah pointed out.

The engineering export promotion body has sought a financial support worth around Rs 500 crore to upgrade technology in the engineering products sector to boost export growth.

According to a PTI report, “The Indian pharma industry is not selling drugs to the US Government. It is selling mostly private. So, the US government shutdown will not have any impact on the India pharma industry,” said the Indian Pharmaceutical Alliance Secretary General D.G. Shah.

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India's IPR regime - Moving beyond the myths of US pharma
Hemant Krishan Singh & Aman Raj Khanna

3 October 2013: It is time for the Indian government to address the growing trust deficit with foreign pharmaceutical manufacturers on the question of IPRs and improve the enforcement of patent protection The meeting between Prime Minister Manmohan Singh and US President Barack Obama on September 27, 2013, saw reaffirmations of what the leaders described as an "outstanding" and "indispensable" partnership, and of the US' support for the emergence of a "strong India". Implicit in their approach was the recognition that beyond the domestic political gridlock that currently preoccupies both leaders, India and the US also face daunting economic challenges. Understandably, the primacy of economic issues and

invigorating economic growth was in the forefront of the Obama-Singh meeting agenda.

At this juncture, it is important for India and the US to rise above transactional bickering and realign their sights towards the vast potential of bilateral economic ties. This necessitates a constructive engagement on economic issues that the leaders apparently achieved but evidently continues to elude powerful interests among the US business lobbies and Congress.

It would appear from a spate of recent "opinion" pieces in US business journals that the tirade against India's allegedly discriminatory business practices has only continued to escalate. Lobbyists for US' pharmaceutical industry are demanding action by the Congress and the administration against India's so-called "mercantilism", including through retaliatory measures designed to halt India's "misappropriation" of intellectual capital.

Such blatant propaganda is both unsustainable and unproductive, and only serves to further deteriorate the business climate between India and the US. It is also unusual.

As noted economist Arvind Subramanian of the Peterson Institute observed in his article "The curious case of the protectionist dog that has not barked" (Financial Times, July 10, 2013), the huge structural trade shock from an unprecedented surge of Chinese exports in recent years did not elicit a significant US response, or anything more than a whimper of demands for protectionist actions.

India-US business interactions are hardly based on head-to-head competition, except marginally in the case of information technology services and generic medicines. India can be blamed for shackling its economy but hardly of rampant mercantilism. It would be reasonable to conclude that the drumbeat of complaints against India that have already led to the launch of an investigation of India's trade practices by the US Federal Trade Commission are basically motivated by business rivalries.

It is well recognised by Indian policymakers that urgent steps are necessary to improve India's investment climate and revive economic growth. These must include, inter alia, strengthening the enforcement of intellectual property rights (IPRs).

That said, there is no truth to the argument that Indian laws and regulations single out the US for discriminatory treatment, or exact punishment on US businesses and workers.

Between April 2010 and March 2013 alone, India's Controller General of Patents, Designs and Trade Marks awarded as many as 1001 pharmaceutical patents, of which 771 (a staggering 77 per cent) were granted to foreign firms, largely from the US and Europe. In fact, the two greatest beneficiaries during this period were US-based pharma giants Eli Lilly and Pfizer, who between them secured a total of 68 patents.

India has made tremendous progress on IPR protection since acceding to the WTO in 1995 and introducing its new patent system in 2005. India's patent laws and policies have remained well within the rights and obligations accorded by the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The provisions of India's Patent Act of 2005 are fully TRIPS-compliant, including with regard to necessary safeguards for the protection of public interest, national security, bio-diversity and traditional knowledge.

Decisions taken by the Indian courts on patent cases are in keeping with the enforcement of Indian law that imposes tough standards on the patentability of incremental innovation, while rewarding "true innovation". In its landmark judgement against Myriad Genetics on June 13, 2013, the US Supreme Court ruled that naturally occurring genes cannot be patented. This reinforces the precedent that countries such as Brazil and India have set in challenging patent proliferation and evergreening that is prevalent in advanced economies such as the US, in the interest of providing affordable health care products for their

citizens.

In finding a way forward, it is time for the Indian government to address the growing trust deficit with foreign pharmaceutical manufacturers on the question of IPRs. Within the broad framework of the existing law, the concerned Indian authorities must try to improve the enforcement of patent protection, including through swift action against infringements, facilitating effective recall mechanisms and punishing violators. India needs to ensure a balanced and predictable IPR regime, where unwarranted interpretations of the law or arbitrary enforcement of compulsory licences are minimised.

On its part, the US - and the international - pharmaceutical industry needs to revisit its approach to doing business in India, particularly its pricing of life-saving drugs. It must accept that practices developed primarily for the excessively high-cost US health care market, dominated by insurance exchanges and restrictively high pricing, are neither feasible nor likely to find traction in the public interest in India, or elsewhere among emerging economies, for that matter.

On several other areas of concern to US business, there are signs of forward movement. India has already taken action to review the provisions of its preferential market access policy. Hopefully, the coming months will also see improvements on taxation and transfer pricing issues.

India, meanwhile, awaits redressal by the US of its concerns over the free movement of highly-skilled workers under the proposed US immigration Bill, and progress on the totalisation of social security contributions paid by Indian H1B workers.

Placing the India-US economic relationship on an accelerated trajectory requires serious bilateral engagement under the US-India Trade Policy Forum as well as fast-tracked progress on a bilateral investment treaty. Hopefully, the reassuring outcomes of the recently concluded Singh-Obama meeting will help restore a more reasoned discourse on trade and investment issues that will prove far more beneficial than laundry lists of recrimination and demands for retaliation.

H K Singh holds the Wadhwani US Chair at ICRIER, New Delhi. Aman R Khanna is research associate with the Chair

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U.S. Declines to Counter India Claims Of Illegal Subsidies for Energy Programs
Daniel Pruzin, WTO Reporter

4 October 2013: The U.S. has declined to counter claims made by India that a number of U.S. state and municipal authorities may be providing subsidies for promoting renewable energies that are illegal under global trade rules.

Last April India asked the U.S. to explain how local content requirements under the state of Michigan's 2008 Clean, Renewable, and Efficient Energy Act (Public Act 295) and solar energy programs offered by the city of Austin, Texas, complied with Article 2 of the World Trade Organization's Agreement on Trade-Related Investment Measures (TRIMs).

Article 2 prohibits investment measures that are in violation of the national treatment principle established under Article III of the General Agreement on Tariffs and Trade (GATT). Article III:4 in particular requires WTO members to provide imported goods the same treatment afforded domestically produced goods with respect to all laws, regulations and requirements affecting their internal sale.

In a communication forwarded to WTO members Oct. 4, the U.S. provided India with information on how Michigan's program works, including an acknowledgment that any energy system containing a

threshold level of 50 percent Michigan-made equipment will earn incentive credits that go toward meeting the state's requirement that at least 10 percent of a state electric provider's retail supply portfolio include renewable energy by 2015.

However, the U.S. did not respond to India's request for an explanation of how the local content requirements comply with Article 2 of the TRIMs Agreement. The U.S. did note that the incentive credits in question accounted for only 0.0021 percent of all renewable energy credits granted by Michigan in 2012.

In regards to the Commercial Solar Photovoltaic Performance-Based Incentive Program offered by Austin Energy, a publicly owned power company and a department of the city of Austin, the U.S. said a previously mentioned incentive for use of equipment manufactured or assembled in the Austin Energy service area has been removed from the guidelines for qualification for the rebates.

The U.S. did not address India's concerns regarding a second program, Austin Energy's Residential Solar PV Rebate Program. India said both Austin programs offer higher rebates and higher payments for solar power generated from equipment which is at least 60 percent manufactured or assembled in Austin Energy's service area.

Local Content

The U.S. has yet to address India's questions raised last April regarding similar local content requirements in the Los Angeles Department of Water and Power's Solar Photovoltaic Incentive Program, the state of California's Self Generation Incentive Program (SGIP) and solar energy incentive programs in the states of Delaware, Minnesota, Massachusetts and Connecticut. Water utilities in South Carolina, Pennsylvania, West Virginia and several New England states have been mandating domestic content for equipment use in water projects, India charges.

The matter was also raised at a meeting of the WTO's TRIMs Committee Oct. 4. U.S. officials told the meeting that they were in discussion with the Los Angeles Department of Water and Power about its program and would provide more information at a later date. The officials also said they were still awaiting further clarification from India regarding its questions on the state water utilities programs.

India posed its questions regarding the U.S. state and municipal programs after the U.S. announced Feb. 6 that it was initiating WTO dispute settlement proceedings to address what it said were illegal domestic content requirements in India's national solar energy program, the Jawaharlal Nehru National Solar Mission (JNNSM).

According to the Office of the U.S. Trade Representative (USTR), India initially required that developers of solar photovoltaic projects employing crystalline silicon technology use solar modules manufactured in India. India later expanded the domestic sourcing requirement to cover crystalline silicon solar cells as well.

India has also drafted new provisions that might expand the scope of the domestic content requirements to include solar thin film technologies, which comprise the majority of U.S. solar exports to India, USTR charged. India also offers solar energy developers participating in the JNNSM a guarantee that the government will purchase a certain amount of solar power at a highly subsidized tariff rate, provided they use domestically manufactured solar equipment instead of imports.

Local content requirements have become a growing concern for WTO members. In addition to India's complaint regarding the U.S. state and municipal programs, the TRIMs committee also heard complaints from the U.S., Japan and the European Union regarding local content provisions in Brazil's telecommunications and automotive sectors, Indonesia's telecommunications and energy sectors, Nigeria's

oil and gas industry, Russia's auto investment program, Ukraine's electric power sector and Uruguay's wind power projects.

Electronic Products

On a positive note, the U.S., Japan and the EU said they were pleased with recent indications that India was preparing to remove domestic content requirements in government procurement for electronic products. India's Department of Information Technology issued a policy notice in February 2012 requiring that procured electronic products having national security implications contain at least 30 percent domestic content.

Last year a WTO dispute panel struck down local content requirements in the Canadian province of Ontario's green energy program (88 WTO, 5/7/13). The panel backed complaints from Japan and the EU that the minimum domestic content provisions in Ontario's Ontario's Feed-In-Tariff (FIT) violated Article III:4 of GATT by affording less favorable treatment to imported equipment and components for renewable energy generation facilities than that given to like products originating in Ontario.

According to a report issued Sept. 25 by the Information Technology & Innovation Foundation (ITIF), a Washington-based think tank, local content requirements reduce global trade in goods and services by almost $100 billion per year. In particular, the ITIF argued, a rapidly growing number of countries, including Argentina, Brazil, China and India, "have come to embrace a new kind of mercantilist trade policy that seeks to pressure foreign enterprises to 'localize' economic activity so that these countries can create domestic jobs."

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Slow Progress on WTO Food Stockholding Talks
Bridges Weekly Trade News Digest, Volume 17, Number 32

3 October 2013: Trade negotiators have made slow progress in informal talks on amending WTO rules on food stockholding ahead of the global trade body's upcoming ninth ministerial conference in Bali, Indonesia, this December.

Delegates moved closer to agreement over how best to make information on subsidised food purchases for stockholding programmes more transparent to other WTO members, sources told Bridges.
The transparency conditions would apply to countries benefiting from an "interim mechanism" to provide greater flexibility to countries whose subsidised purchases for stockholding programmes could put them at risk of breaching current ceilings on trade-distorting support. The mechanism could take the form of a "peace clause" that would temporarily shield developing country subsidy programmes from legal challenge, sources said.

Developing countries in the G-33 coalition have sought greater flexibility to subsidise food purchases when building public stocks or providing domestic food aid. Large countries in the coalition, such as India, have argued that current rules on calculating trade-distorting subsidies fail to take due account of how price inflation has affected markets since the rules were first devised.

While developed countries fear that the proposed changes could open a loophole for developing countries to provide unlimited amounts of trade-distorting support through their public stockholding programmes, other developing countries are also uneasy about the potential impact of the proposals on their own poor producers.

Notifying farm support to the WTO

Informal talks convened by the chair of the agriculture negotiations, New Zealand ambassador John Adank, have led to convergence on possible transparency conditions, trade sources said.

"Members could easily reach consensus on transparency," one developing country delegate told Bridges. A developed country official concurred. However, discussions over the scope of products to be covered by the arrangement and on possible safeguards to prevent trade-distorting effects were moving more slowly, the sources said.

Strengthening requirements for WTO members to submit their regular subsidy notifications to the Committee on Agriculture was one option under consideration, trade sources said. Countries' notifications to the committee have often been significantly delayed in recent years.

Another possibility would be for countries to use as a template a questionnaire prepared by the chair of the agriculture talks earlier this year.

Product coverage, safeguards: slower progress

Negotiators were still further apart in discussions over the scope of products that would be covered by the interim mechanism, one source said.

While some countries had proposed that the mechanism would cover a limited number of staple foods, such as rice and wheat, others argued that a broader basket of products should be covered.

"Different nations have different crops as staple foods," one trade official observed.

Negotiators are also still trying to define what safeguards could be agreed to limit the trade-distorting effects of subsidised food purchases for stockholding programmes. While some suggested that countries should be required not to export stockpiled food that had been purchased at administered prices, others argued that this was neither practicable nor desirable.

Opponents of the idea said that existing safeguards, such as the WTO's Agreement on Subsidies and Countervailing Measures, should instead prevent countries from causing domestic injury to producers in other countries.

Excessive inflation: what is "due consideration"?

A separate informal discussion last week on the margins of the WTO's regular Committee on Agriculture also looked at how excessive inflation should be given due consideration when the committee reviews how countries are implementing their commitments under the organisation's rules on farm trade.

Article 18.4 of the WTO's Agreement on Agriculture, which was agreed almost two decades ago at the end of the Uruguay Round, requires countries to give due consideration to inflation, but does not specify in detail how this should be done.

An informal "room document" circulated by Canada observed that Iceland, Tunisia, and Ukraine had all noted the impact of inflation rates when reporting their farm subsidies to the committee. The paper suggested that information on national inflation rates, and an explanation of how these may have affected countries' ability to abide by its commitments, could improve the functioning of the review process. However, trade officials familiar with the talks told Bridges that developing countries were reluctant to engage in a discussion on the issue, while related negotiations were going on elsewhere.

"There was a refusal to discuss this," one trade official said.

A separate informal submission from the US, aimed at improving transparency on agricultural export restrictions, was also given a cool reception, sources said.

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WTO head meets Anand Sharma, industry lobbies
Asit Ranjan Mishra, Mint

New Delhi, 7 October 2013: India should recognize the willingness of rich nations to talk about a so-called 'peace clause' on food security as a step towards striking a multilateral trade deal in December, as failure to do so may prolong a current deadlock in negotiations, World Trade Organization (WTO) director-general Roberto Azevedo said on Monday.

Azevedo, who has previously served as Brazil's ambassador to WTO, was in India for the first time as WTO head to enlist support for a trade deal at a meeting of ministers in Bali, Indonesia, on 3-6 December. He met trade minister Anand Sharma and also spoke to industry lobbies to garner larger support for a deal.

He said developed countries earlier were unwilling to renegotiate the food security clause, holding it to be a backtracking on commitments made at earlier, so-called Uruguay round of trade talks.

"India should see that as a very big step. Now they (developed countries) are not only willing to talk, they are willing to establish a peace clause which says they need to give time to conversations to evolve in order to find a long-term solution (on food security). This is a big major step forward. If it is not recognised as such, we will fail at Bali," he cautioned.

A peace clause gives legal security to member-countries and protects them from being challenged under other WTO agreements.

Abhijit Das, head and professor at the Centre for WTO Studies under the Indian Institute of Foreign Trade, however, said the current G-33 proposal on food security already commanded a significant consensus in 2008.

"When the last version of negotiating text was issued by the chairman of the special session in December 2008, there were no square brackets, implying no disagreement on the basic proposal on food security," he said.

The Bali meeting is important because in the absence of a broad-based agreement on the Doha round of trade talks that started in 2001, member-countries are making a last-ditch attempt to work out areas where consensus can be reached for laying down the rules of global trade.

India holds the key to a deal at Bali because it has high stakes on an agreement on food security. Through the newly-enacted food security law, the government is committed to providing subsidized foodgrain to two-thirds of the country's population, thus putting an additional subsidy burden on the government.

If the ceiling for food subsidy under WTO rules is not increased, then at its present level, India may cross it within three to four years.

Rich nations have shown support for a 'peace clause' that would agree to developing countries' demands on food security for a period of two-three years. But developing nations, represented by the G-33 group, are demanding a protection period of 9-10 years, Mint reported on 25 September.

Trade minister Sharma expressed satisfaction at the intensification of discussions on the G33 proposal but voiced concern over the hardening of positions among some members who are now proposing stringent conditions to be satisfied before an interim mechanism can be made available. “These conditions will make it difficult, if not impossible, to use,” Sharma said.

Sharma assured Azevedo that India would remain fully engaged with all key stakeholders from developed and developing countries in its search for a fair and balanced outcome in Bali. “Though Bali is not the end of the road, it is to be seen as a stepping stone to the conclusion of the Doha Round. The success of this round is critical for multilateralism,” he added.

On the issue of trade facilitation, developed countries that are expected to largely benefit from an agreement are reluctant to commit to any kind of financial assistance to developing countries to upgrade their systems, while demanding legally binding commitments from developing and least developed countries.

For instance, developed countries want India’s proposal on customs cooperation to be accepted on a ‘best endeavour’ basis, while their proposals are to be accepted by developing countries on a binding and justiciable basis.

Developing countries think the proposal on the table at present on trade facilitation only increases the burden on developing countries by forcing them to upgrade their export infrastructure without any reciprocal commitment on the part of developed countries for financial assistance or technology transfer. Sharma told Azevedo that it is important to honour the provisions of the mandate relating to special and differential treatment of developing countries, including least developed countries, and provide support to such countries.

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WTO chief seeks support for Bali ministerial meet
ENS Economic Bureau

New Delhi, 8 October 2013: Seeking India's support for a multilateral trade deal in the Bali ministerial scheduled in December, World Trade Organization (WTO) director-general Roberto Azevedo on Monday said the country should work out a strategy on its food security law, which envisages providing food to two-third of the population as a right, ahead of the meeting.

Azevedo, who replaced Pascal Lamy in September, said that India should consider the 'Peace Clause'. Under the Agriculture Agreement, the Peace Clause protects subsidies awarded by countries who comply with the agreement, from being challenged under other WTO agreements.

Although it expired in 2003, some countries want it extended, while others want agriculture to be brought under general WTO discipline that deals with a state's ability to act against subsidies.

"Food security is a squarable circle. The line between price support and food security is very flimsy and not easily drawn. It is going to be a complex task. What we have agreed in Geneva is we are going to be working on a Peace Clause... which allows negotiators to find a more permanent solution for the long term," he while addressing members of industry chamber CII.

Negotiations for a deal at the Bali meet are stuck over the tenure of an interim resolution on the demand by G-33 developing countries on food security. While the G-33 is demanding the tenure of the peace clause to be 10 years, developed countries such as the US are ready to accept only a 2-3 year period.

Azevedo, who is visiting India for the first time after taking over from Lamy, met commerce and industry minister Anand Sharma to garner support from India for the Bali ministerial.

Sharma urged Azevedo to persuade all parties to discuss the food security proposal constructively even as he underscored the importance of trade facilitation and upgrading infrastructure at borders.

Addressing the press after the meeting, the Sharma said that there is "appreciation of the legitimacy of food security and associated concerns in India and other developing countries and poor countries".

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For food security law, India may stoop to conquer at WTO
Business Line (The Hindu)

New Delhi, 7 October 2013: India seems ready to settle for a short-term solution to the problem surrounding its food security legislation that breaches the permissible subsidy levels set by the World Trade Organisation (WTO). The country may agree to a 'peace clause' which provides a temporary reprieve from penalties in the event that the subsidy level is breached.

In what will be a further softening of stance, India may also agree to the demand of developed countries for a pact to facilitate movement of goods across borders.

But Commerce Minister Anand Sharma does not see these concessions as a dilution of India's earlier stand. It is about finding a middle ground that is acceptable to all, he said.

At a joint press conference with WTO Director-General Roberto Azevedo here on Monday, Sharma said, "You don't do negotiations with a tight list and say this is the final list. I don't want any ambiguity on food security. Its legitimacy has been appreciated, and the negotiators will find an acceptable solution to that."

At the WTO, the developed countries are willing to offer a 'peace clause' that will allow developing nations, such as India, legal protection against action by other members for breaching food subsidy limits prescribed under the agriculture pact. This would be offered for a two/three-year period within which time the members hope to find a long-term solution to the issue.

WTO members are trying to arrive at an agreement on a small package of issues, which includes Trade Facilitation and Food Security, at the forthcoming Ministerial meeting in Bali, Indonesia.

"There is appreciation of the legitimacy of food security concerns in India and other developing countries. Work is going on intensely to find a solution, which will probably include a 'peace clause'. Conversation for a long-term solution will happen very meaningfully after Bali," said the WTO Director-General, who is in India to seek the country's support for making the Ministerial a success.

Sharma said that India too favours a Trade Facilitation pact as long as it is balanced and serves the interests of both developed and developing countries.

Azevedo, who also addressed industrialists at meets organised by the CII and the FICCI, said that the Bali Ministerial was not the end of the road for the Doha Round. "It is one first step towards an agenda that we have to define for the WTO that delivers on areas of interest in developing and developed countries alike," he said.

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The pot calling the kettle black
Martin Khor, Financial Express

5 October 2013: A fight taking place in the WTO negotiations towards the Bali Ministerial shows how the rules on agriculture allow developed countries to continue huge subsidies whilst penalising developing countries' farmers. Food security is one of the key issues now being negotiated at the WTO as part of its preparation for the Ministerial meeting in Bali in December. For developing countries, food security and the livelihood and incomes of small farmers are important priorities. Especially for the poor, food is the main item in the household budget. Agriculture also employs the most people in most developing countries. Ensuring farmers have enough income is key to development and social stability.

Increasing food self-reliance is a goal in many countries. Food security became a high priority after global food prices shot up to record highs in 2008, and there was a near-scramble for supplies of some food items including rice because of potential shortages. Also, reducing and eventually eliminating hunger worldwide is one of the key Millenium Development Goals adopted by governments at the United Nations. In the present negotiations on formulating Sustainable Development Goals in the UN in New York, food security, nutrition and agriculture are one of the key clusters of issues.

Against this background, there is a remarkable discussion now taking place at the World Trade Organisation, as part of preparations for its Ministerial Conference in Bali in December. Developing countries grouped under the G33 are asking that their governments be allowed to buy food from their farmers, stock the food and distribute it to poor households, without this being limited by the WTO's rules on agricultural subsidies. However their proposal is facing resistance, mainly from some major developed countries, especially the United States, whose Ambassador told the WTO earlier this year that such a move would "create a massive new loophole for potentially unlimited trade-distorting subsidies". This clash is outstanding example of the how the agriculture rules of the WTO favour the rich countries whist punishing the developing countries, including their poorest people.

It is well known that the greatest distortions in the trading system lie in agriculture. This is because the rich countries asked for and obtained a waiver in the 1950s from the liberalisation rules of the GATT, the predecessor of the WTO. They were allowed to give huge subsidies to their farm owners, some of who do not even carry out farm activities, and to have very high tariffs.

When the WTO was set up, it had a new agriculture agreement that basically allowed this high farm protection to continue. The rich countries were obliged only to reduce their "trade distorting subsidies" by 20% and could change the nature of their subsidies and put them into a "Green Box" containing subsidies that are termed "non trade-distorting or minimally trade-distorting." There is no limit to the Green Box subsidies. So the strategy of major developed countries has been to move most of their subsidies to the Green Box, including subsidies that are not directly linked to production, or that are tied to environmental protection. But studies have shown that many of the Green Box subsidies are in fact trade-distorting as well.

With this shifting around, the rich world's subsidies have been maintained or actually soared. WTO data show that the total domestic support of the United States grew from $61 billion in 1995 (when the WTO started) to $130 billion in 2010. The European Union's domestic support went down from 90 billion euro in 1995 to 75 billion euro in 2002 and then went up again to 90 billion in 2006 and 79 billion in 2009. A broader measure of farm protection, known as total support estimate, which is used by the OECD in its reports on agricultural subsidies, shows the OECD countries' agriculture subsidies soared from $350 billion in 1996 to $406 billion in 2011.

The effects of continuing developed-country subsidies have been devastating to developing countries. Food products selling at below production costs are still flooding into the poorer countries, often eating

into the small farmers' from incomes and livelihoods. Ironically the developing countries, already the victims of the rich world's subsidies, are themselves not allowed to have the same huge subsidies, even if they can afford it.

The reason is that the agriculture rules say that all countries have to cut their distorting subsidies. So if a developing country has not given subsidies before, it is not allowed to give any, except for a small minimal amount (10% of total production value) known as de minimis support. In other words, if a country has given $100 billion subsidy in the trade-distorting categories, it has to bring it down to $80 billion and it can also transfer the remainder (or more) to the Green Box. But if a country has been too poor in the past to provide subsidies, or its subsidies are low, it cannot increase the level, except for the minimum allowed.

This is where the present WTO controversy comes in. The developing countries under the G33 are asking that food bought from poor farmers and given to poor consumers should be considered part of the Green Box without conditions.

The present rule sets an unfair condition. Although governmental stockholding programmes for food security purposes in developing countries are placed under the Green Box, there is however a provision that the subsidy element in any such national purchase scheme should be accounted for in the country's AMS (aggregate measure of support), which is the main category of subsidies considered to be trade-distorting, and which for most developing countries is limited to the de minimis amount (10% of production value). Other Green Box subsidies, including those that developed countries mostly use, do not carry such a condition. The developing countries seek to remove this unfair condition that in effect prevents them from adequately helping their poor to get sufficient food.

The unfairness of this condition is worsened by the way the subsidy element is calculated in the Agriculture Agreement. It is defined as the difference between the acquisition price and the external reference price. The problem is that the acquisition price (i.e. the price which the government pays for the farm produce) is the current price level, whilst the 'external reference price' is defined as the average world price level in 1986-88 (during a period when the Uruguay Round that led to the WTO was being negotiated).

Since 1986-88, global and local prices of food items have increased tremendously. The 1986-88 price is thus obsolete and much too low to be used to determine if a developing-country government is subsidising its farmers. Using this, rather than a more rational yardstick, such as the global price level of the food item most recent year or three years, grossly exaggerates the extent of subsidy the government is providing. It thus unfairly adds to the amount of subsidy that presently has to be counted towards the country's AMS.

At such unfair rates mandated by the WTO rules, a developing country will have its AMS maximum level exceeded fairly easily even if it pays the farmer the present world price (since the reference price is the 1986-88 world price and not the present price).

Countries that are in danger of exceeding its AMS or de minimis maximum level include India. Its parliament has just passed a food bill that entitles the poor (two-thirds of the population) to obtain food from a government scheme that buys the food from small farmers. But the estimated $20 billion-plus the government will spend annually may exceed the allowed AMS and de minimis levels, because India was not a big subsidiser before the WTO rules came into force. Other developing countries that provide subsidies to their farmers and consumers, such as China, Indonesia, Thailand, and Malaysia may also one day find themselves the targets of complaints.

For rich countries who are subsidising a total of $407 billion a year (in the OECD's broad measure of agricultural support) to disallow poor countries from subsidising their small farmers and poor consumers,

is really a specially bad form of discrimination and hypocrisy. An outstanding case of the pot calling the kettle black!

Whether this controversy can be settled fairly before the WTO's Bali Ministerial remains to be seen.

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