Subsidies/Tax Cuts

Table of Contents

US plays spoilsport, to nix India's wheat export plan 2

On textile subsidy cuts, govt readies WTO defence 4

US must fall in line on cotton subsidy 6

Bid to bridge widening export-import gap; exports sops may come back 9

Chinese, Indian Subsidies 11

Special treatment to telecom equipment companies violation of WTO rules: Commerce Ministry 12

India’s anti-subsidy plan to hit China 14

India to review subsidy list to pacify US 15

India goes to WTO against US dubbing export schemes as subsidies 17

New telecom policy to have reservation for local manufacturers 19

US Snubbed for Fabricating 'Hidden Subsidies' Issue 20

US plays spoilsport, to nix India's wheat export plan

Amiti Sen, Economic times

New Delhi, July 2, 2012: The United States has put a spoke in India's attempts to export wheat even before the government can get its act together on the proposal to ship two million metric tonne of wheat.
Washington has indicated that it will oppose the grain exports by India if they are sold below cost, as export subsidies are not permitted by the World Trade Organisation.

In a recent meeting of the agriculture committee of the WTO, the US asked India about the exports. "The US asked us detailed questions on the minimum support price paid to procure food grain and the price at which it could be sold in the overseas market," a government official told ET.

The government has over 50 million tonne of wheat in the central pool as on June 1 against the buffer norm of 32 million tonne on July 1. Much of the grain is stored in the open, exposed to elements and is at high risk of loss.

It is keen to export some of the stock at $228 a tonne(Rs.12,500) against the overall cost of about $300 a tonne (Rs. 16,500) to clear the way for the new crop as without the subsidy it will not find takers in the world market.

However, commerce department officials are apprehensive that once India starts exports at a subsidised rate, the US may create a greater noise at the multilateral forum against the move.

India may be able to defend the exports claiming that subsidies would be given only for a short period, but the US concern reflects a growing global glare on India's food export policy that the government needs to be weary of, a commerce department official told ET.

"India's flip-flop on cotton exports has already been criticised by a number of nations and discussed at length at the WTO. Now the focus is shifting to export subsidies. We need to be careful," the official said. Even in forums such as the G-20, there has been criticism of domestic policies that affect international prices of food grain.

"Although India need not fear action against it at the WTO for its proposed subsidised wheat exports as these would be withdrawn by the time a dispute is launched, we need to ensure that it does not get projected as a country that distorts world food prices," a Delhi-based trade expert told ET.

Interestingly, even the finance ministry in India is reportedly against the food ministry's proposal of selling wheat at $228 per tonne as it will add to the subsidy burden that the government is desperately trying to reduce.

However, since the export price was arrived at after a bidding process and the global prices of wheat are also ruling low, the food ministry is of the view that exports cannot happen if it is not heavily subsidised. The issue is likely to discussed at a meeting of the Union Cabinet scheduled on July 2.

The country could have got a much better price if it had exported some months earlier when global prices were higher, but the decision to export wheat is always a sensitive one because of food security issues and the government often takes long to decide.

[Back to Top]

On textile subsidy cuts, govt readies WTO defence

Neeraj Thakur, DNA

June 12, 2012 Mumbai: Indian negotiators are busy weaving their strategy ahead of the upcoming meeting of the committee on subsidies and countervailing measures (SCM) of the World Trade Organisation (WTO) in October.

At stake is the $77 billion textiles industry that employs 3.5 crore workers directly and about 4.7 crore indirectly.

The United States, the single largest importer of India's textiles products, accounting for around $10 billion trade, has moved the committee against India's policy of subsidising its textiles exports.

According to WTO's SCM rules, a developing country like India can provide export subsidies to its exporters till the time it reaches export competitiveness threshold.

This threshold is reached when a country achieves a share of 3.25% of world trade in two consecutive years.

India has long crossed that threshold, according to WTO data.In 2008, 2009 and 2010, the country's share in world textile trade was 3.5%, 4% and 4%, respectively. Figures for 2011 are expected in a few weeks.
So, what's the gameplan?

"There is ambiguity over the definition of a product in the WTO rule book. It does not clearly define the product," an Indian negotiator at the WTO told *DNA*.

In the WTO rule book, article 27.6 of ASCM defines a product as "section heading" of the harmonised system (HS) nomenclature.

But there is no such term in the products category. "Section and heading are two different categories," said the negotiator.

The WTO rule book classifies traded products through HS of customs classification, which includes section (Roman 2 digit), chapter (numerical 2 digit), heading (2 digits) and subheading
(2 digit).

While textiles as a sector are covered under Section XI of the HS system, different products are defined under 14 chapters (50-63). These products are further classified under headings and subheadings.

“While we have surpassed the export competitiveness threshold on section-based calculations, if we calculate on the basis of the 14 chapters, then only seven of our products fall in the competitive category,” said the official.

The US has asked India to withdraw schemes like Technology Upgradation Fund Scheme (TUFS) and Technology Mission on Cotton (TMC).

India isn’t willing to oblige. “Schemes like TUFS and TMC are not provided to only exporters. These schemes are extended to the domestic sector as well,” said the official.

Indian negotiators are depending on Article 3 of ASCM, which talks about “subsidies contingent, in law or in fact, whether solely or as one of the several conditions, upon export performance”.

“Duty Entitlement Pass Book, which was essentially a subsidy scheme, has already been withdrawn by us in October 2011,” said the negotiator.

India runs many other schemes, such as special economic zones, export oriented units and focus market schemes, which may be interpreted as prohibited export subsidies.

“Even if the Indian government has to withdraw its subsidies for the textiles sector, the Indian government should follow the example of quota phase-out by the USA and EU under the provisions on agreement on textiles and clothing. Subsidies of low impact can be withdrawn first and those with serious implications can be withdrawn at the end of the phase out period that India would be entitled to,” said DK Nair, secretary general, Confederation of Indian Textiles Industry.

[Back to Top]

US must fall in line on cotton subsidy

Ritesh Kumar Singh/Prerna Sharma, Hindu Business Line

25 May, 2012: With WTO's Doha Round negotiations stalled till the new US President assumes office, all hopes of a reduction in US cotton subsidy rest on the upcoming revision of current farm support legislation that expires on September 30, 2012.

Though the issue has not received much media attention in India, it has long-term implications for India's cotton and manmade fibre producers already suffering from unsold stocks and slowing demand.

The US Senate Committee of Agriculture has cleared the new farm bill, called 'Agriculture Reform, Food and Jobs Act 2012'. The bill seeks to eliminate direct and counter cyclical payments to the farm sector.

However, it proposes increase in support to crop insurance, extension, and horticulture which can become contentious. Although cotton would be one among the list of commodities that would see the largest subsidy cut, there are indications that a subsidy cut on cotton would not be sufficient to completely remove trade distortions.

Among countries that should be watching the US farm bill deliberations is Brazil, which is embroiled in a long-drawn battle over US cotton subsidy at the WTO.

Another Grouping that is closely watching the developments are Cotton-4 (a consortium of four cotton producing African countries Benin, Burkina Faso, Chad and Mali). They had already submitted a proposal to the WTO calling for a global agreement to end all production-related support for cotton in all WTO member nations, but have not met with much success. It would be pertinent to revisit the Brazil-US WTO cotton subsidy dispute.

DISPUTE WITH BRAZIL

The origin of the dispute can be traced back to September 2002 when Brazil first took the US to the WTO over latter's trade-distorting subsidies for cotton. Later, Argentina, Australia, Benin, Canada, Chad, China, Chinese Taipei, European Union, India, New Zealand, Pakistan, Paraguay, Venezuela, Japan and Thailand joined the dispute as third parties.

After losing at WTO, the US made some changes in its cotton programme. For example, it abolished payments to induce purchase of relatively high priced US upland cotton ('Step 2'), export credit guarantee programme ('GSM-103'), the fee cap on another export credit guarantee programme ('GSM-102') and supplier credit guarantee programme (SCGP). However, the US introduced some new subsidy schemes in its 2008 Farm Bill, such as countercyclical payments and provisions for marketing loans. Unhappy with the US actions, Brazil asked for a WTO compliance panel, which found that the US has not fully complied with the WTO rulings.

Subsequently, on March 3, 2009, Brazil claimed the right to take retaliatory trade measures. Disagreement over the nature and extent of the retaliation led to both parties requesting for an

arbitration panel. The panel permitted Brazil to use countermeasures with respect to trade in goods. It also allowed relaxation in Brazil's commitment under TRIPS and GATS. This forced the US to come to the negotiating table.
As a result, Brazil agreed to postpone the retaliatory actions till the revision of US farm legislation, in return for an annual payment of $147.3 million in technical assistance and capacity-building aid to the Brazilian Cotton Institute.

EFFECTS OF US SUBSIDY

Thus, Brazil has somewhat been compensated, but other cotton producing countries have been left in cold. Such countries too can challenge the US cotton subsidy, but that could be expensive and time-consuming.

As per a recent estimate by the Congressional Research Service (CRS) between 1994-2008, US cotton subsidy averaged $5 billion and accounted for roughly one-fourth of its total farm support. Though the US is the third-largest producer of cotton, next to China and India, it is the largest cotton exporter and accounts for 30-40 per cent of the world export of cotton, despite being a relatively inefficient producer. Of late, the US has been exporting an increasing share of its annual cotton production mainly because of the declining demand of domestic mills. Its exports of cotton as a share of total production have averaged 67 per cent since 2001, up from a 40 per cent average during the early 1990s. To be fair to the US, many other countries such as China or European Union also provide farm subsidies including that for cotton. India is no exception either; however, its subsidy is well within its WTO commitments.

High US subsidy on cotton keeps the international price of the cotton artificially low. This adversely affects the export competiveness of competing cotton-exporting countries, including India, which accounts for roughly 20 per cent of the world export of cotton, or Australia with 7 per cent, Brazil (6 per cent) and West Africa including C-4 countries (5 per cent). For C-4 countries cotton is the key export item. The low international price of cotton (on account of US subsidy) also depresses the demand for and price of other manmade fibres, in particular of viscose staple fibre which is blended with cotton to make yarn, fabric and garments.

When India is faced with a burgeoning trade deficit, every exportable item counts. However, continuing US subsidy on cotton, despite a series of adverse rulings by WTO, hurts India's exports of cotton as well as those of blending materials like viscose staple fibre, or in some cases, synthetic fibres. As if India's export curbs and policy flip flops are not enough, artificially suppressed price of cotton on account of US subsidy deprives the producers of cotton and manmade fibres from getting remunerative prices for their products.

Such market-distorting policies lead to sub-optimal allocation of resources and adversely affect the prospect of the cotton (and manmade fibres) sector that provides livelihood support to millions in India and other poor developing countries in Africa.

In the long run, it will also lead to less acreage being allocated to cotton farming that will jeopardise the steady supply of raw material to India's textile sector, and expose the sector to the fluctuations in international markets. It's time India engaged with US policymakers to get trade-distorting US cotton support substantially reduced or completely removed in this farm bill revision.

It should be noted that 80 per cent of the US cotton subsidy is appropriated by 10 per cent of the farms, hence there's not much justification for its continuance.

The US, being the staunchest proponent of free trade, needs to bring its farm support policy in compliance with its WTO commitments and strengthen the global trade regime.

(*Ritesh Kumar Singh is an international trade expert for a corporate house. Prerna Sharma is a research analyst — agri commodities. The views are personal.)*

[Back to Top]

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

Amiti Sen & Vinay Pandey, Economic Times

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

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

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

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

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

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

Situation Has Worsened

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

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

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

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

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

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

The government is looking at re-introducing the interest subvention scheme for small and medium size exporters, as well as some vulnerable sectors, such as handicraft and handloom, that expired last fiscal. Banks give loans to eligible exporters at a 2% discounted rate under the scheme and are later reimbursed by the government.

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

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

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

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

ET View: Be Competitive

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

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

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

[Back to Top]

Chinese, Indian Subsidies

Washington Trade Daily

April 27, 2012, Geneva – China and India yesterday fought back against US charges that they have repeatedly failed to notify the World Trade Organization of their subsidy programs – especially those granted by their sub-central entities, WTD has learned.

At a regular meeting of the WTO committee on subsidies and countervailing measures, the United States said it is concerned about the absence of notification by China of its sub-central programs. Despite submitting a list of about 200 subsidy programs during the committee's last meeting, China has yet to notify another 190, a US official informed the committee, according to participants familiar with the meeting.

The European Union, Canada, Japan, Norway and Turkey joined in the US criticism of China. China claimed there is lot of misunderstanding about its economic programs. A Chinese official said it had not only notified all the programs, but is ready to exchange information about the technical aspects of the contested programs.

On India, the United States charged that its recent subsidy notifications also did not include sub-central subsidy schemes. The US official complained that some 50 sub-central subsidy programs were not notified.

An Indian official said New Delhi notified all programs to the committee. He said India is not required to notify many of the alleged subsidy programs because they are not specific subsidies. The official stated that programs meant for industrial infrastructure development in backward areas, the steel development fund and leather investment fund were not specific subsidies subject to WTO disciplines.

The United States and Turkey also complained that India continues to provide export subsidies to its textile and apparel sector despite attaining export competitiveness in 2007. India has a 3.5-percent share of the global market for textiles and apparel products, according to a WTO report.

Instead of phasing out export subsidies, the United States said India and China have gone in the opposite direction. Turkey said India's textile and apparel export subsidies pose difficulties for its exporters.

On a separate issue concerning the US preliminary countervailing duty determinations on imports of its circular carbon welded pipes, India expressed sharp concern over what it called a highly unreasonably duty of 285 percent.

[Back to Top]

Special treatment to telecom equipment companies violation of WTO rules: Commerce Ministry

Joji Thomas Philip, ET Bureau

Mar 20, 2012: The commerce ministry has warned that India's plans to give preferential access and tax cuts to indigenously manufactured telecoms equipment, and also mandate that mobile phone companies buy a bulk of the networks hardware from domestic companies, violates multilateral agreements and international commitments made by the country.

It has said that plans to give preferential market access to domestically manufactured products was against the provisions of the Trade Related Investment Measures (TRIMs) agreement under the World Trade Organization trade treaty, of which India was a signatory. The commerce ministry has further said that providing subsidies to use domestically manufactured equipment was against the principles of the Agreement of Subsidies and Countervailing Measures (ASCM).

Trade Related Investment Measures, the rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets, is amongst the four principal legal agreements of the World Trade Organization trade treaty. Subsidies are also not prohibited under WTO unless there is evidence of injury or damage to the importing country. The Agreement on Subsidies and Countervailing Measures is aimed at preventing countries from giving their firms an unfair competitive advantage through trade distorting subsidies.

The telecoms department (DoT) has already approved sector regulator's recommendations that mobile phone companies be mandated to source 80% of their network equipment and other related infrastructure from domestic manufacturers by 2020. But this also includes network and other hardware produced by the manufacturing units of foreign vendors located in India. Trai had also recommended that companies owned by Indians and located here get 65% of all telecom network orders by 2020. Put simply, the regulator had sought that manufacturing arms of international vendors such as Ericsson, Alcatel-Lucent, Nokia Siemens, Huawei and ZTE mongst others to account for only 15% of all equipment orders by 2020. These new rules, aimed at making the country a mobile equipment manufacturing hub, will be part of the new telecoms policy that is set to be unveiled in April. The DoT has also agreed to Trai's proposal that the new rules be implemented in phased manner. For instance, by 2015, mobile phone companies be mandated to source 45% of all telecoms equipment domestically, and Indian companies must account for 25% of this.

"To suggest that domestically manufacturing 35% or even 80% of the telecoms equipment, security concerns like protection from malwares , denial of service software can be achieved, is an argument that may be difficult to sustain. Clearly, the purpose of Trai's recommendations, stands out as promoting domestic manufacture and not security," the commerce ministry communication (dated March 12) to telecoms secretary R Chandrasekhar added.

The commerce ministry has also suggested that the telecoms department refer this issue back to Trai, 'pointing out the potential violation of international commitments if these proposals were converted into law'.

The proposed new rules also states that mobile phone companies that fail to secure network related hardware domestically will be subject to financial penalties equivalent to certain percent of their imports.

Domestic telecom equipment makers are also slated to get loans for five-year period on subsidized terms in addition to a 10-year income tax holiday and concessions on excise duty and VAT. The government also plans to set up a Rs 10,000crore telecom R&D fund and a Rs 3,000crore mobile equipment manufacturing fund to support local hardware manufacturers.

The European Union, Japan and US has already raised concerns on the proposed policy and has objected to clauses that mandate sourcing from Indian-owned companies. ET had recently reported that US Assistant Trade Representative (south & central Asia) Michael J Delaney in a communication to the telecoms department had said that it was not pragmatic to create the entire supply chain of telecom gear in India, given the globalised nature of the industry.

"With the growing scale of a globally distributed and complex supply chain with interconnected sets of organisations, people, processes, services, products and components, it is not practical to assume the eventual establishment of an entire supply chain of ICT products in India," the US trade envoy wrote in an internal note to the department's security wing chief Ram Narain.

[Back to Top]

India’s anti-subsidy plan to hit China

Sidhartha, TNN

Jan 24, 2012, NEW DELHI: The government is ready with a plan to act against countries that provide subsidy to local producers and make exports more competitive. Although anti-subsidy action is a trade defence measure, permitted by the World Trade Organisation (WTO), the move is expected to hit China the most.

Commerce department officials told TOI that the government is setting up a Directorate General of Trade Remedies (DGTR) over the next few weeks, which will deal with anti-subsidy and countervailing action. The new directorate will also deal with anti-dumping action, which is initiated against foreign manufacturers who sell in India below-cost and impact domestic products. The third trade defence tool - safeguard duty - is initiated in case of a surge in imports and will remain with the revenue department. In all three cases, the WTO provides for imposition of duty to prevent any surge.

Countervailing duty can be imposed only after the authorities have determined that there is a specific subsidy, relating to export performance. Besides, it has to push for the use of domestic goods over imported products that are used on manufacturing an export article. Further, the country that initiates anti-subsidy action has to prove that the subsidy is given to a limited number of persons or units involved in manufacturing or exporting the product.

Trade experts, however, warned that proving subsidies and taking countervailing is most difficult among the three as information is difficult to obtain. Under WTO's Agreement on Subsidies & Countervailing Measures, only those subsidies that are not in the banned category face duty. In case of prohibited list, members have to move WTO. Sources said that the commerce department has also roped in WTO to help train manpower for anti-subsidy action. "We should be in a position to initiate anti-subsidy action in two months or so," said a senior officer in the commerce department. Official are studying action that has been initiated in various countries to prepare a potential list of products on which anti-subsidy action can be initiated.

Trade economists said that the move will hit China the most as it has attracted maximum attention globally. "It will create level-playing field with Chinese imports. In any case the government is preparing a plan to counter the threat from across the border," said an expert. Officials, however, countered this by saying that the thrust was aimed at boosting exports to China and making the domestic industry more competitive.

India is the biggest user of anti-dumping measure with Chinese goods leading the list on which action has been initiated over the last few years. In fact, India is yet to grant "market economy" status, a pending grouse of authorities across the border.

[Back to Top]

India to review subsidy list to pacify US

Amiti Sen,ET Bureau

27 Dec, 2011 NEW DELHI: India will review all the subsidies that Washington claims New Delhi has "hidden'' from the World Trade Organization (WTO) in a bid to counter the US accusations.

The US has listed about 50 subsidies that India provides as being against the WTO rules.

Some of these do not exist anymore, but the commerce department will see if there are any that need to be notified at the WTO, a government official told ET.

US trade representative Ron Kirk had in October accused India of hiding about 50 central and state government subsidy programmes from the world trade body in violation of WTO's free trade rules. He had said the situation was intolerable.

The WTO requires member countries to notify specific subsidies that are directed towards items from a certain geographic location or given to a particular industry or sector. The requirement is aimed at ensuring transparency in subsidy regime of the countries.

"We are very sure that most subsidies out of the 50 identified do not need to be listed. If there are a handful that we think should be notified, we will go ahead and do so," the official said.

The subsidies agreement of the WTO prohibits subsidies for import substitution and exports. It allows all other subsidies which become actionable if they are specific i.e. limited to a firm, industry or group of industries and found to cause adverse trade effects, such as material injury to a domestic industry.

Non-specific subsides that are not directed towards a special group, like the duty drawback scheme for input tax reimbursement, are non-actionable.

Merely notifying a subsidy does not make a difference to legal characterisation of a subsidy in terms of whether it is actionable or non-actionable, points out Abhijit Das, head, Centre for WTO Studies, Indian Institute of Foreign Trade. "The US has in the past imposed countervailing duties on subsidies such as DEPB despite the fact that it was not notified," Das said. So, there is no question of India trying to hide its subsidies by not notifying them at the WTO, he added.

Many of the subsidies on the US list do not exist anymore such as the DEPB or the tax incentives to software technology parks of India. Some are subsidies to neutralise input taxes that is allowed by the WTO and need not be listed. Subsidies for providing infrastructure are also not notifiable.

"Even if there are some subsidies that India ought to notify to the WTO, these are very small in amount, and nothing compared to the bailout packages that the US is giving to its industry," a trade expert from a Delhi-based research body told ET.

The US has also complained against India's solar energy generation programme, the Jawaharlal Nehru National Solar Mission, stating that its 30% local sourcing requirement violated multilateral trade rules.

[Back to Top]

India goes to WTO against US dubbing export schemes as subsidies

Anindita Dey, Business Standard

Mumbai December 02, 2011**:** India has moved the World Trade Organisation (WTO) over a recent US decision to categorise 50-odd export promotion schemes as subsidies.

Washington's decision will come into effect from next year on all Indian exports as notified by the United States to WTO, government sources said on Thursday.

"Before that," informed a commerce ministry official, "the government has sought consultations with the US under the framework of trade diplomacy of WTO. Therein, we would discuss the issues for clarification," he told Business Standard.

American's move, he said, was "absurd". For, it has dubbed every export scheme as subsidy. "This can attract double duty -- of anti-dumping (AD) as well as CVD (countervailing duty)," he pointed out.

Another official explained that such a move could have a "devastating impact" on the Indian trade with the US. The recessionary trend in Europe has already pulled exports down. US is an important trade partner of India. So, even if the government extends market-focused schemes for Indian exporters to tap new markets in Africa and Asia.

India is the 12th largest goods-trading partner of the US. The goods trade was worth $48.8 billion (two ways) last year. America's goods-trade deficit with India was $10.3 billion in 2010, with goods exports at $19.2 billion and goods imports at $29.5 billion. In 2009, the trade in services with India (exports and imports) totalled $22.3 billion.

Officials say the problem lies with the US government's "extremely broad" definition of CVD. It includes all export incentives given by the central or any state governments under any scheme, the Special Economic Zones Act and any rule on procurement from public sector units or loans from public sector banks.

For negotiations, the government is banking heavily on the judgement of the WTO Appellate Body (WAB) issued early this year.

It favoured China in a case where the US had imposed CVD on certain exports to that East Asian nation, on the ground that direct loans from state-owned commercial banks and organisations implied controlled pricing.

The WAB judgement stated that a government control on pricing could be assumed only if the entity was vested with necessary governmental authority; it isn't sufficient to be merely owned or controlled by government.

Similarly, the US had aggressively used CVD on Indian steel some time ago. In addition to the AD, a 21.95 per cent CVD was put on Essar Steel's products since 2008. Then, in January this year, after a review of US steel imports from India, a whopping 586.43 per cent CVD was put on exports of Tata Steel.

In this case, commerce ministry officials argued that NMDC was an independent entity, where the government had no role in fixing the price.

The imposition of CVD and AD would “substantially accelerate” the costs for the American importer of Indian goods in his country, the ministry official said.

CVD is primarily used to counter the impact of subsidies given by exporting countries to their exporters.

It is permissible for use, as protection under WTO rules, as is the imposition of AD, used by a country to counter the impact of imports on domestic producers of a particular commodity.

Dumping is selling in its own home market a commodity at a price higher than that of its import.

[Back to Top]

New telecom policy to have reservation for local manufacturers

The Economic Times

10 December 2011: ET had reported last month that India has decided to give preferences, including tax cuts, to indigenously manufactured telecoms equipment, despite concerns raised by the United States and the European Union, which had said that such concessions would violate WTO commitments.

Last month, the department (DoT) committee, examining the issue, had concluded that these concessions as well as reservations for local mobile equipment manufacturers were necessary from a national security perspective. This committee has cleared the proposal that mandates domestic operators to source 65% of their annual hardware and network-related equipment from Indian companies by 2020.

The reservations for domestically-manufactured equipment will be part of the new telecoms policy 2011,that is scheduled to be unveiled by December this year.

Earlier this year, sector regulator Trai had proposed that mobile phone companies be mandated to source 80% of their network equipment and other related infrastructure from domestic manufacturers by 2020. But this also includes network and other hardware produced by the manufacturing units of foreign vendors located in India.

Trai had also recommended that companies owned by Indians and located here get 65% of all telecom network orders by 2020. Put simply, the regulator had sought that manufacturing arms of international vendors such as Ericsson, Huawei, Nokia, Siemens and Alcatel-Lucent amongst others to account for only 15% of all equipment orders by 2020.

Trai also sought that these proposals be implemented in a phased manner. For instance , it had said that by 2015, mobile phone companies be mandated to source 45% of all telecoms equipment domestically. Off this, Trai wants Indian companies to account for 25%.

In addition to recommending that domestically manufactured products be given preferential market access, it had also proposed a slew of incentives to kick-start telecoms equipment manufacturing in India.

The five-member DoT committee has endorsed Trai's proposals.

[Back to Top]

US Snubbed for Fabricating 'Hidden Subsidies' Issue

Amiti Sen, The Economic Times

NEW DELHI, 3 November 2011 The government has rebuffed US' attempts to bring the Indian subsidy programme under the scrutiny of the World Trade Organisation, saying the "undisclosed subsidies" identified by Washington had either expired or were not subsidies at all.

US trade representative Ron Kirk had in October accused India of hiding about 50 central and state government subsidy programmes from the world trade body in violation of WTO's free trade rules.

Terming the situation "intolerable", Kirk had said that India filed its first notification in almost 10 years and, even then, notified "only three of the many subsidy programmes we know to exist." Kirk's office had also identified nearly 200 subsidy schemes in China that it said have not been notified."Just because the US thinks it is a subsidy does not make it a subsidy," commerce secretary Rahul Khullar told ET."The US has picked up schemes, such as the Duty Entitlement Pass Book, where benefits have already expired.

And there are other programmes, such as advance licences and related schemes, where the exporters are being reimbursed input taxes." At a recent meeting of the committee on subsidies and countervailing measures, the US had demanded that India should notify these schemes, besides phasing out subsidies on textiles and apparel.

Countervailing duties are levies imposed on imports to counter the effects of subsidies given by an exporting country to its industry.

Khullar, however, said India had no obligation to notify these schemes."The US' understanding of the matter is very poor," he said, adding that India planned to do nothing about the allegations as the US had not officially moved the WTO on the issue.

Notifying export schemes as subsidies at WTO will give other countries an opportunity to target India and levy countervailing duties on Indian merchandise, said Ajay Sahai, director general & CEO of Federation of Indian Export Organisations.

Most of the schemes identified by the US as subsidies are compatible with WTO rules, Sahai said, adding that an exporter in India ends up paying more taxes than what is reimbursed to him as the Centre does not compensate for state levies such as octroi, electricity cess and sales tax.

[Back to Top]