Contents

You may have to pay just 10% duty on Porsche and BMW

Amiti Sen, Economic Times

New Delhi, July 30, 2012: Cars manufactured in the European Union, including luxury makes such as Porsche and BMW, could be available in India at prices only marginally higher than in Europe as the government is likely to agree to a 10% duty on a fixed quota of cars imported from the EU as part of a free-trade agreement being negotiated between the two sides.

India is considering allowing imports of 2.5 lakh cars on which only a 10% tariff will be levied, compared to the normal rate of 60%, marking the first significant challenge the heavily protected Indian automobile industry has had to face from imports. The imports will be spread over five years, starting with 40,000 cars in the first year and rising by 5,000 units every year thereafter.

"We may bring down tariff to a low level of 10% for a fixed quota of cars every year for five years. We think our industry can deal with this," a government official told ET.

New Delhi is also considering reducing import tariffs by half from 60% to 30% for cars outside the quota once the proposed India-EU free trade agreement is implemented.

The European Union is keen that India commit itself to extending the liberalized import regime for the quota of 2.5 lakh cars beyond five years, but New Delhi has said that it will review the situation after five years.

"We want to keep some room for maneuver if the need arises,' the official said. Greater market access for automobiles, wines & whiskies is on top of the EU's wish list for the FTA, formally called the bilateral trade and investment agreement.

In exchange, India expects to get more visas for its professionals, a relaxation of EU norms that require manufacturers keep elaborate database on chemicals used in their products.

India's wishlist also includes recognition as a data secure country for carrying out off-shore operations, a quality certificate for its herbal products and lower duties on labour intensive products such as leather and textiles.

The concessions on automobiles and alcohol, if they form part of the final agreement, will be unique as they are absent in similar agreements it has entered so far with countries like Singapore, Japan, Malaysia, South Korea, Sri Lanka and the ten-member Asean.

The Indian automobile industry has criticized the government's move to liberalise imports. SIAM has warned that imports will deter investments as foreign car makers would prefer to export their cars to India rather than set up manufacturing facilities.

French carmaker Peugeot has put off its plans to invest in India, reportedly, in the hope of reaping benefits of lower duties once the India-EU FTA gets implemented.

[Back to top]

Indian car exports face excise duty hurdle in Sri Lanka

Amrit Raj & Elizabeth Roche , Livemint

New Delhi, 10 December 2012: Indian auto companies, facing the prospect of a slowdown in their home market, are also seeing an export market that accounts for around 13% of their exports dry up after Sri Lanka effected a steep increase in indirect levies that will make it all but impossible for them to remain competitive.

The move, which dates back to early November but is just coming to light, doesn't single Indian firms out, but affects them the most because they account for 95% of the auto market in the island nation.

Through 2012, Sri Lanka has made it difficult for Indian auto exporters, first by increasing import duty significantly in April, and following up with the increase in excise duty. Sri Lanka has increased excise duty on utility vehicles to 173% from 100% previously. Total duty on cars less than 1,000cc increased from 120% to 200%, including a 47% increase in excise. The excise on three-wheelers was raised from 45% to 100%, and on two-wheelers from 61% to 100%. Colombo has also imposed an absolute levy of Sri Lankan rupees 109,000 on commercial vehicles, besides a 12% excise duty. The new structure came into effect on 9 November.

"We are still trying to evaluate the impact of the development. The impact of it has been negative and exports of vehicles to Sri Lanka has completely stopped," said Vishnu Mathur, director general, Society of Indian Automobile Manufacturers, or Siam, an industry lobby group. Domestic sales of cars declined 8% in November, in a month when they were expected to rise.

New Delhi has taken note of the developments in Sri Lanka.

"We believe the very substantial rise in import tariff in Sri Lanka is going to adversely affect our car exports to Sri Lanka, so we are concerned about it," Rajiv Kher, additional secretary, ministry of commerce, said in New Delhi on Monday.

According to Siam, Sri Lanka is the largest export market for Indian automobiles. In 2011-12, out of India's $6 billion worth of auto exports, Sri Lanka accounted for $800 million.

The relationship between the two countries has been testy in recent times over the issue of the treatment of Sri Lankan Tamils and also after some fishermen from Tamil Nadu were captured by the Sri Lankan coast guard for allegedly straying across the maritime boundary.

Mint reported on 12 October that state-run power utility NTPC Ltd's plan to build a 500 megawatts (MW) plant in Sri Lanka has been indefinitely delayed, in part because of the protests by Tamil Nadu against the Sri Lankan government.

The $500 million power project to be set up as an equal joint venture between NTPC and Sri Lanka's Ceylon Electricity Board (CEB) is an integral part of India's attempt to engage Sri Lanka politically and economically at a time when China is becoming increasingly influential in that country. The changes in import and excise duty have already affected India's exports to Sri Lanka, said a senior Siam official who spoke on condition of anonymity.

"In the current fiscal, two-wheeler export to the country has declined by 70% and cars and utility vehicles by 90%. The new duty structure seems to be targeted at us more than anybody else," this person added.

The industry lobby and India's department of heavy industries are discussing a possible solution with Colombo. Meanwhile, Siam has also put on hold a January auto show in Sri Lanka, the official added. He said second-hand cars "coming in from Japan and Singapore" are not affected by the incremental levies. Sri Lanka doesn't have local car makers.

Prasad Kariyawasam, Sri Lanka's high commissioner to India, said the increases in excise duty are not targeted at any one country. "Duties on cars have been increased across the board so it's not only cars from India but across the world. The increases are on certain types of cars," Kariyawasam added.

The Sunday Times (not to be confused with the UK paper), a weekly newspaper in Sri Lanka, termed the duties as "prohibitive" and said it "may edge out Indian vehicles from Sri Lanka's market while the exemptions to those coming from Japan will give them an added advantage in the market".

Another Sri Lankan newspaper, *Business Times*, said the government had "controversially reduced duties on racing cars while increasing excise duty on small cars with engine capacity of less than 1,000cc." The newspaper said "this has shattered the dream of Sri Lanka's middle income earners in owning a small vehicle with the Maruti 800, said to be the cheapest small car (in Sri Lanka), going up by at least Rs200,000 (Sri Lankan rupees).

Quoting an anonymous Sri Lankan customs official, *The Sunday Times* said the "technicality placed imports of cars from Japan at an advantage. While 90% of cars imported into Sri Lanka are from India and under 1,000cc engine capacity, no such vehicles are brought from Japan".

[Back to top]

France asks India to further liberalise services, auto sector

PTI

New Delhi, 14 February 2013: France today asked India to further open its market for foreign companies in sectors like services and automobile under the India-EU free trade agreement.

"We are negotiating an FTA but we are still facing problems...from our side we still have few questions on liberalisation of services sector on Indian part...some difficulties in automobile sector," French Minister for Foreign Trade Nicole Bricq said.

India and the 27-nation bloc European Union are negotiating the Bilateral Trade and Investment Agreement (BTIA) since June 2007 and have missed several deadlines to conclude the talks due to differences among the two sides on the level of opening up of the markets.

"...if we can rebalance our trade exchanges, it will be favourable (for the free trade agreement)," she said.

However, Bricq said that both the sides have increased the meeting at all levels including at the technical level to fast-track the talks.

A ministerial level talk is expected on the pact by end of this month, she added.

Speaking at the occasion, Commerce and Industry Minister Anand Sharma expressed hope that the negotiations would be finalised by this summer.

On visa issue, Bricq said that France is working to further liberalise visa regime for both businessmen and young research students. "...there are some issues on visa. I have discussed the issue with my home minister. We are working towards making it more liberal," she said adding there is also a need to remove all trade and non-trade barriers to boot two-way commerce.

The visiting French President Francois Hollande said that huge opportunities are present in both the countries to strengthen economic relationship between the countries.

"There is no sector that cannot be covered by both the countries. We have many areas where great deal of potential is there for cooperation like in energy, transport, audio-visual and retail," Hollande said.

Inviting investments from India, the President said that France would further open its market. "Our companies have technology advantage and we are ready to share that advantage with you...there is a need to establish personal links so that our companies can find room for expansion," he added.

Trade between India and France was valued at USD 8.89 billion in 2011-12.

The French President said that small, medium and large companies should have access in each others market. "It is not easy to set up companies. But let us try to remove obstacles to enhance trade and investments," Hollande said.

The French Foreign Trade Minister said that there is a need to increase meetings between business community of both the countries as it would help MSMEs to consider India as a possible market for investment.

Bricq said that in the next G-20 meeting, which is expected in September in Russia, both the nations would oppose protectionist measures. Welcoming recent policy announcements by India, she said now French companies would explore business opportunities in retail.

France can also help India in urban development issues like water and waste management and creating other infrastructure."We have excellent companies involved in this field," she added.

Further Sharma said that both the countries can increase cooperation in areas like energy, urbanisation, infrastructure, pharmaceuticals, food processing and life sciences.

He said that with the government liberalising FDI policy in civil aviation and retail and "now the French companies have freedom to come and work with Indian partners in multi-brand retail sector".

[Back to top]

FTA would allow European carmakers to export their surplus to India: SIAM

Chanchal Pal Chauha, The Economic Times

New Delhi, 10 April 2013: Indian automakers fear that a proposed free-trade agreement (FTA) between the European Union and India could end up benefiting European carmakers at their expense, Society of Indian Automobile Manufacturers (SIAM) says. "We are of the opinion that a free trade agreement with EU would allow a one-sided advantage and allow the European auto industry to export their overcapacity to India," says SIAM president S Sandilya.

The current talks with EU centre on a 50 per cent reduction of tariff of all cars from 60 per cent import duty to 30 per cent. Additionally, a quota of big cars of over 1500cc is also being negotiated that may allow EU to export these vehicles at 10-15 per cent duty to India. The industry is concerned that free import under reduced tariff may allow India to become a big lucrative market of cars made in the EU.

In 2011-12, the Indian automobile industry achieved a turnover of Rs 2,64,000 crore, of which vehicle exports revenue was around Rs 32,000 crore. Automotive trade already favours the EU. In 2010-11, EU exported $3.4 billion worth automotive products to India including $400 million worth of completely built units (CBU) of car. According to government data, the rest were completely knocked down cars (CKD), unassembled cars classified as auto components that are tooled in small factories into fully built cars. In the same year, India exported cars worth $1.7 billion to the EU. A majority of these were hatchbacks. It did not export any CKDs.

The difference between the two countries is that India's exports to the EU are limited to small cars with an average price of 6,000-7,000 euro each, while the cars being exported by the EU are large luxury sedans and SUVs, each costing 20,000 euro and above.

Analysts tracking the sector say this difference loads the trade hugely in favour of the EU even without the FTA being operational. "If duties on car CBUs are reduced under the FTA, this trade imbalance in favour of EU will be further enhanced at the cost of domestic production and value addition," says Deepesh Rathore, India MD of Delhi-based automotive thinktank IHS Global Insight.

The auto industry accounts for 4 per cent of the country's GDP and employed 13 million people in 2005. The government's 10-year Automotive Mission Plan aims to bring this up to 10 per cent of the GDP and 25 million additional jobs by 2016. In comparison, Germany has 22 per cent of GDP coming from its auto industry.

Automakers fear the ongoing FTA negotiation may impact future investment and employment generation. Already French carmaker Peugeot Citroen has pulled off its Rs 4,000-crore investment from India looking to directly import cars under the FTA route. Currently each locally manufactured car in the country generates employment for 13-15 people, while CKD operations where components are assembled into a vehicle, employ 4-5 people.

Employment in logistics, sales and service of these vehicles is additional to these figures. "If we follow this local manufacturing that has made India today the sixth largest car manufacturer of the world, we have the potential to become the third largest car manufacturer by 2020 and the world leader in small cars by then. This could become a distant dream if lower tariffs shift our core manufacturing out of India," Sandilya warned.

SIAM, which represents 40 automotive vehicle and engine manufacturers in India, wants all CBU and engines to be kept in India's negative list as was the case in earlier FTAs with Japan, ASEAN and South Korea.

[Back to top]