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Govt will take hard decisions to curb non-essential imports: FM

ENS Economic Bureau

New Delhi, 8 September 2013: The government plans to take some "hard decisions" to trim wasteful expenditure and curb the import of non-essential items to deal with the stressed economic situation, although there will be no hasty increase in petrol and diesel prices.

"We are going through a period of stress...We have to take some hard decisions. Many of these measures are being taken and many measures will be announced in the next few days and weeks. Some measures to curb import of inessential items will also be announced," Finance Minister P Chidambaram said while winding up a debate on the Appropriation Bill in the Rajya Sabha.

In a prelude to this move of tackling non-essential imports, the government last month slapped a 36 per cent duty on import of flat-screen televisions by air travellers.

The government is battling to contain the current account deficit at $70 billion or 4.8 per cent of the GDP and combat rupee volatility.

"When you are facing a gloomy situation, wasteful expenditure has to be curbed...You call it austerity measures, you call it cut in non-plan expenditure...while we must continue to spend and continue to find money for productive investment," he said.

The rupee has shown improvement in the past few days, Chidambaram said, but added that for the moment he is keeping his fingers crossed.

"We are fighting many unknown factors in the currency markets. Yes, the currency has appreciated in last 3-4 days. But I keep my fingers crossed."

Since April this year, the country's foreign currency assets have plunged by $12.32 billion to $247 billion, the biggest fall in recent times, as the central bank has been dipping into its foreign exchange reserves to defend the rupee that nearly breached the 69-mark to the dollar.

On the concerns expressed by members of Parliament on hiking fuel prices, Chidambaram said, "No decision has been taken. No decision would be taken hastily and certainly no decision will be taken without weighing the pros and cons of the larger public interest."

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No Takers for FTA Concessions, Says Commerce Ministry Official

The Hindu

Bangalore, 6 September 2013: Although India has concluded a clutch of Free Trade Agreements (FTAs) in the last decade, Indian exporters are not utilising concessions offered by these arrangements, said a senior Commerce Ministry official on Thursday.

At an interactive session on FTAs organised by the Karnataka chapter of the Confederation of Indian Industry, A.K. Tripathy, Joint Secretary, Union Ministry of Commerce and Industry, said: “With the Doha Round at the World Trade Organisation at a standstill, FTAs are the order of the day.”

Urging Indian exporters to take advantage of the tariff concessions in the ASEAN (Association of Southeast Asian Nations) region, with which India has signed an FTA, Mr. Tripathy said, “If Indian exporters do not take advantage (of FTAs), you will be priced out in these markets.”

Referring to the Comprehensive Economic Cooperation Agreement (CECA) between India and Japan, he pointed out that Japanese business entities were better at taking advantage of the treaty’s provisions than business entities in Karnataka. Japanese companies, Mr. Tripathy said, use the provisions of the CECA, which covers not just goods but services, investments and intellectual property protection, much more effectively than their Indian counterparts. He said a CECA with ASEAN was likely to be concluded this year.

Mr. Tripathy urged Indian companies to target markets in Southeast Asia more effectively because of the high non-tariff barriers in Western markets. “Technical standards such as phytosanitary restrictions, such as those on Indian mangoes, make it difficult to access Western markets,” he said.

Mr. Tripathy said India was engaged in a dialogue with Australia, ASEAN members, New Zealand, China, Japan and South Korea to establish a Regional Comprehensive Economic Partnership (RCEP). Ministers of these countries met in Brunei last month to initiate discussions to create one of the world’s biggest FTAs with a combined GDP of more than $21 trillion. “India does not have an FTA with China and the formation of such a trading bloc will imply that we have a virtual FTA with China,” he said.

Officials from the Commerce Ministry said the government was eliciting the views of exporters so that their suggestions could be incorporated when the FTAs come up for review.

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Currency swap: Do it, but cautiously

M. Rafeeque Ahmed, Business Line (The Hindu)

10 September 2013: The buzz word these days is “currency swap” which seems to be the only pill to treat volatility in the rupee. Ever since Commerce and Industry Minister Anand Sharma talked of the possibility of trading in local currencies during the Board of Trade meeting, more people have been wanting to know what it is all about and how it will impact India’s trade with such countries.

While many countries, in the past, have attempted trade in local currencies on a bilateral basis, no study is available in the public domain to evaluate the impact of such trading arrangement on the volume of trade between the two signatories. In such an agreement, two countries opt for currency swap in their local currencies for a specified tenure. The objective includes promotion of bilateral trade and facilitation of direct investment between the two countries in respective local currencies. Such arrangements give a positive signal to the market on the availability of liquidity of the other country’s currency in the onshore market.

Dollar Demand Will Dip

In actual practice, once currency swap is established, for instance, between India and another country, the exporter will borrow in the currency of importer, sell the currency against the rupee and utilise the rupee for its local operations.

On the due date of contract, the exporter will receive the currency of importer from the buyer and pay off the importing currency locally. Same concept will *mutatis-mutandis* apply to Indian importer.

Therefore, entering into a currency swap will definitely reduce the demand for dollars, particularly when such arrangements are worked out with countries with whom a large trade deficit exists. From that perspective, India can look for such arrangements with China, Saudi Arabia, Iraq, Indonesia, Kuwait, Qatar, Australia and Venezuela, etc., with whom we are running a trade deficit of $10 billion plus. Even in the case of these countries, we can give priority to those from whom investment is expected in India so that the swap could also be utilised for encouraging such investments as well.

However, one has to be careful to see that such swap agreements, if with many trading partners, terminate at sizable intervals so that no adverse impact is witnessed when they mature. One of the flaws of a local currency settlement mechanism is that it may accentuate trade deficit with a partner country if the domestic industry is not competitive.

Internationalisation

In most swap arrangements, the exchange rate is determined and a fixed exchange rate may provide impetus to imports, particularly when other currencies are depreciating.

However, whether the deficit increases the overall trade deficit or simply shifts imports from countries which are outside the swap mechanism to countries which are under the swap mechanism needs to be examined closely.

One cannot draw a parallel with the Rupee Trade Arrangement which we have worked out with Iran as that arrangement is in a specific situation and can be treated as a one-way swap. Its experience cannot be a guiding factor for bilateral swap arrangements.

The major benefit from direct convertibility of the currencies is the reduction in transaction and hedging costs it would facilitate by removing the necessity of involving a third currency, generally the US dollar, in foreign exchange transactions. Such mechanisms do provide a stable regime to importer and exporter helping them to concentrate on factors other than currency risk.

One distinct advantage of the swap is greater recognition of currencies involved in such transactions. Therefore, currency swap in the rupee with our counterparts will help in internationalisation of the rupee.

This has prompted China to enter into currency swap agreements with over 25 countries. China feels that these arrangements will not only help in internationalisation of the yuan but will also increase its clout in the region.

Since this would be a new mechanism where we hardly have any experience in the past, it is better that it is implemented in a gradual way, starting with one or two countries on a pilot basis and based on experience so gained, it may be later extended to other identified countries.

(The author is President, FIEO)

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Govt brings more items under duty drawback

PTI

New Delhi, 15 September 2013: The government on Saturday rationalised the duty drawback and brought more items under the scheme for tax refund to exporters to give a boost to overseas shipments.

The revised All Industry Rates of duty drawback, which have been notified, will come into effect from September 21, a finance ministry statement said.

"Apart from the rate changes, to assist exporters, a large number of rationalisation measures have also been undertaken to realign entries, provide rates on more items...," it said.

The rationalisation measures is to better differentiate all industry rates for export products with higher duty incidence and to address classification issues on export products, it added.

"With the revised rates, the central government will continue to support exporters with substantial total drawback," it said.

The government had taken into account the recommendations of the committee headed by Planning Commission Member Saumitra Chaudhuri. He is also a member of the Prime Minister's Economic Advisory Council.

Moreover, the statement said, for expeditiously addressing exporters concerns, the term of the Committee has been continued for another three months.

The panel was set up to promote exports with "fair and representative" rebate of the incidence of customs and central excise duties and service tax related with the manufacture of export goods.

India's exports rose to a two year high of 13 per cent in August on account of the improved global situation.

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Government weighs trade with some nations in local currencies

Asit Ranjan Mishra, Mint

New Delhi, 18 September 2013: In an attempt to contain a bloated current account deficit (CAD) that puts pressure on the rupee, the government is considering making it mandatory for trade with a few countries to take place in local currencies to reduce dependence on the dollar.

The commerce ministry constituted a task force in August to explore the possibility of India trading in local currencies with some key trading partners. The panel is expected to submit its report in the first week of October.

India's CAD touched a record high of 4.8% of gross domestic product (GDP) in 2012-13 and the finance minister has promised to limit it within 3.7% of GDP, or $70 billion, in the current fiscal.

The high deficit has led to an increase in demand for dollars, contributing to the rupee's 13% depreciation against the dollar since January—the most among all Asian currencies except the Indonesian rupiah. The rupee closed at 63.3750 to the dollar on Wednesday.

The finance ministry released norms for trade in local currencies in August last year, but this did not take off because it was voluntary. "Unless we make it mandatory, the proposal under discussion will face the same fate," a commerce ministry official said on condition of anonymity.

An expert in international finance who did not want to be identified said export lobbies will be against trading in rupees as they prefer receipts in dollars. "Demand for such arrangements should come from the industry. It will also be politically difficult to defend," he said.

India should enter into such arrangements only with countries with which it has a sizable trade deficit and if they are eager to invest in India, said Ajay Sahai, director general of the Federation of Indian Export Organisations (FIEO). "Otherwise, the remittances have to be in dollars," he said.

Sahai said FIEO will prefer such arrangements to be voluntary, but agreed that they may not yield the desired results if they are optional.

The task force set up by the commerce ministry has been assigned to examine various types of trade in goods in local currencies and their implication for India's trade and financial system to study the cost and benefit of such arrangements and to explore their possibility with trading partners.

The commerce ministry official said one meeting of the task force has been held and it has sought a response from stakeholders by 25 September. "We will finalize the draft by end of this month and the group will submit its report in the first week of October. After that, the cabinet has also to clear the proposal," the official said.

Unlike currency swap arrangements, trading in local currencies is not backed by central banks. However, to put such a system in place, both the trading partners should agree. To work, "it should lower the transaction cost and increase efficiency of the system; paperwork should not increase for traders which may delay the transaction process", the commerce ministry official added.

The official said the task force is currently exploring whether to seek trade in local currency with countries with which India has a deficit, surplus or balanced trade. “While the possible trading partners with whom India could seek such arrangements are yet to be finalized, countries like China and Japan have already shown interest,” he said.

For such trading, an exporter invoices in rupee and gets paid in rupees. “For example, if an exporter exports to China, the State Bank of India branch in China, which has rupees, will settle the payment in rupees through its Indian branch. Similarly, in the case of an Indian importer from China, a yuan account has to be maintained here from which the Chinese supplier will be paid in yuan,” the official explained.

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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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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 to set up separate ASEAN mission; FTA by year-end: PM

PTI

Brunei, 10 October 2013: Eyeing greater cooperation with South East Asian countries on economic and security issues, India today announced a separate Mission for ASEAN region to be set up in Jakarta with a full-time resident Ambassador.

Pact with ASEAN nations

Addressing the 11th ASEAN-India Summit here, Prime Minister Manmohan Singh also said that India was ready to sign a Free Trade Agreement (FTA) with ASEAN on services and investment to boost their bilateral trade to $100 billion by 2015 from $76 billion last year.

Singh said over the last two decades, India and ASEAN have established a comprehensive agenda of cooperation and a wide-ranging framework to pursue it. “Today, we stand on the threshold of the third decade of our engagement. In keeping with our substantial achievements, the recent elevation of our ties to a strategic partnership and the rich potential of our cooperation, I feel it would be appropriate for me to take this opportunity to announce that India will soon set up a separate Mission to the ASEAN in Jakarta with a full-time resident Ambassador,” he added.

The secretariat for ASEAN (Association of South East Asian Nations), a ten-member block of countries, including Brunei, Indonesia, Malaysia, Myanmar, Singapore, Thailand and Vietnam, is based in Jakarta.

Singh said that all the “countries have equal stakes in the security and prosperity of our shared Asian neighbourhood. The global economic crisis and turmoil in different parts of the world underscore the salience of our robust partnership. The scope of India’s engagement with East and Southeast Asia has grown steadily in the last two decades.”

“We seek to promote not only mutually beneficial bilateral relations, but also to work institutionally with regional partners and foster a climate that is conducive to stability, security and economic development in our region,” he added.

The Prime Minister said that ASEAN has paved the way for a great level of “cooperation and integration, not only among themselves, but also in the broader region.

“For India, it is an article of faith of our Look-East policy that ASEAN must remain central to the future evolution of regional mechanisms, which must be open and inclusive. We share your vision and aspirations for the region and we applaud your march towards an ASEAN Economic Community in 2015,” he added.

India-ASEAN relations

About progress on relations between India and ASEAN, Singh said that “India stands ready for the signature of the India-ASEAN Free Trade Agreement on Services and Investment by the end of this year and its early implementation.

“This will complement our Agreement on Goods and bolster our economic partnership,” he said, while adding that initiatives have also been taken by the Federation of Indian Chambers of Commerce and Industry (FICCI) to revitalise the ASEAN-India Business Council and to set up an ASEAN-India Trade and Investment Centre.

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RBI's re-export norm continues to impede gold imports

M. R. Subramani, Business Line (The Hindu)

Chennai, 17 October 2013: Gold imports continue to be affected as importers struggle to meet the Reserve Bank of India's mandatory norm of re-exporting 20 per cent of the precious metal brought into the country.

This, in turn, has resulted in domestic gold prices ruling seven per cent higher than global prices. "There is huge shortfall in gold supplies currently, even as festival buying is picking up. Lack of imported consignments is pushing up prices here," said Harmesh Arora, spokesman for the Bombay Bullion Association.

On July 22, the RBI issued a notification making it mandatory for those importing gold to re-export at least 20 per cent of the quantity imported into the country.

"Since then, hardly a couple of tonnes of gold have come into the country," said Arora.

The RBI had come up with the re-export norm as part of the Government's efforts to curb the rising current account deficit (CAD), which ballooned to $21.8 billion in the first quarter of the current fiscal. Gold imports are seen as a major reason for trade imbalance, resulting in CAD rising.

On Thursday, spot gold in the global market ruled at $1,318.35 for an ounce. Taking into consideration the global price (about Rs 26,000), the 10 per cent import duty (Rs 260) and other charges such as handling, the cost should be around Rs 29,000.

But in Mumbai, pure gold (99.9 per cent purity) closed at Rs 31,120 for 10 gm, a premium of over Rs 2,000.

"In fact, people are selling gold in the physical market and buying in the futures ," said Prithviraj Kothari, Director of RiddiSiddhi Bullions Ltd. "Though prices in the domestic futures are ruling higher than global prices, they are cheaper than spot prices," he said. On the Multi Commodity Exchange, gold contracts maturing in December ruled at Rs 29,946. "Gold in India is ruling higher only because imports have been totally hit," said Arora.

Initially, lack of clarity and Customs authorities not being sure on implementing the norm were blamed for imports coming to a standstill. On September 20, the Commerce Department officials said that gold imports would resume as the Government would help the Customs Department in interpreting the RBI notification correctly.

"It is impossible to fulfil the norm of re-exporting 20 per cent. Banks, which buy the precious metal on our behalf, are not willing to import," said Ba. Ramesh, Joint Managing Director of Thangamayil Jewellery Ltd.

Importers say that it will be difficult to meet the norm since re-exports accounted for hardly six per cent of total imports during the last two years.

“The problem has been compounded because Customs authorities want us to meet the stipulation for each consignment,” said Arora. The RBI notification said that fresh imports would be allowed only after an importer re-exports 20 per cent of the shipments brought into the country earlier. Banks also have to keep the gold meant for re-export in separate Customs bonded warehouses.

“It takes between 60 and 90 days for exports to take place. Until then, you can’t bring gold into the country,” said Kothari.

Currently, only gold that is meant to be re-exported is finding its way through the ports.

“Totally, imports in the last couple of months could have hardly been four tonnes,” Arora said.

During January-September this year, gold imports were a little short of 400 tonnes with the bulk coming in during April-June. Last year, gold imports totalled 860 tonnes, down from 969 tonnes in 2011.

“We don’t think that imports will rise drastically over the next couple of months due to the prohibitive policy,” said Ramesh.

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Commerce ministry pushes for steps to help small exporters

Asit Ranjan Mishra, Mint

New Delhi, 4 November 2013: To help small exporters, the commerce ministry has asked its export credit insurance arm to draw up a mechanism for these firms to be paid a significant part of their shipment dues while they await payments from their overseas buyers.

Typically, exporters ship their products after taking insurance from the state-owned Export Credit Guarantee Corp. of India Ltd (ECGC) and wait for the money to arrive. ECGC guarantees payment if the importers end up not paying their credit dues. But until then, the exporters, especially the small ones, are squeezed for working capital.

A committee headed by G. Padmanabhan, executive director at the Reserve Bank of India (RBI), set up by the central bank was the first to propose a process called “factoring” to make up for this lag and provide capital to small exporters in the meantime.

“The committee observed that ECGC issues various types of policies to the exporter, but these policies are not assigned or endorsed to any third party. Due to non-assignment, the Factoring Company does not have any control over the policy. In view of this, the Committee recommends that ECGC should design a policy for Factoring companies for post-shipment financing,” the committee noted in its report submitted in May.

“With the availability of ECGC cover to the Factoring Company, Exporter will also be benefited as both the facilities, such as financing and credit protection, will be made available under one single roof,” it said.

A factoring company is a bank or financial intermediary that advances most of the invoiced amount to an exporter immediately after a shipment and the balance upon receipt of funds from the importer.
ECGC is the fifth largest credit insurer in the world in terms of coverage of national exports, and provides export credit insurance facilities to exporters and banks in India to deal with payment defaults arising from political and commercial events.

The commerce ministry has asked ECGC to develop factoring as an option for the small and medium enterprises, or SME, sector, a ministry official said.

“It’s a way of increasing the working capital for exporters. What we are asking ECGC is to see if they can set up a system in conjunction with banks where once the exporter receives the receipt from the importer, he can discount that with a bank and get the value of the exports immediately. The banks can pay up to 85% of the bill receipt. After the importer pays the full bill amount, the bank will pay the rest of the bill to the exporter after deducting the initial paid amount along with interest charged,” the official said, declining to be identified.

“In a sense, what will happen is the exporter is free from the risk and the risk is shifted to the ECGC. The financing arm pays the exporter and takes the cover from ECGC. So the bank is covered, exporter gets its money,” he added. “The insurance cover may go up a little but it can be worked out in a way so that it is a win-win for everybody.”

N. Shankar, chairman and managing director, ECGC, said: “We are examining the matter and (will) revert in due course.”

V.K. Agarwal, president of the Federation of Indian Micro and Small and Medium Enterprises, a lobby group, said the ECGC needs to be proactive in providing such covers to small exporters. “ECGC has the market knowledge and information about the importers. Without ECGC cover, no factoring company will come forward,” he said. The federation has recommended a similar factoring mechanism for domestic suppliers to the ministry of micro, small and medium enterprises (MSME), he said.

The government has been pushing for measures to boost exports from the SME sector. As part of this, a committee headed by finance secretary R.S. Gujral recommended in July for a differential corporate tax regime and tax deduction for export turnover for the SME exporters for a limited period of five years. The government has also asked RBI to finalize certain modalities based on the recommendations of the Padmanabhan committee, such as to provide additional interest subsidies of 2% for exporters who repay in time; provide dollar credit at a cheaper rate; relax RBI’s external commercial borrowings limit for the MSME sector; and have banks aim for at least 40% export credit to MSMEs. The recommendations of the committee are currently going through inter-ministerial consultations.

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Despite concerns, FTA talks to continue

Times of India

New Delhi, 7 November 2013: The commerce ministry on Wednesday said it had got the green light to continue with negotiations for FTAs despite concerns being expressed over their adverse impacts.

Without getting into the specifics, the ministry said that at the Trade and Economic Relations Committee (TERC) meet on Monday "some concerns were expressed on adverse impact of FTAs on manufacturing sector as well as the trade balance and that imports from such countries had increased much faster compared to exports subsequent to signing such FTAs which had further worsened India's trade balance".

The candid acknowledgement comes a day after TOI reported that at the TERC meeting, chaired by PM Manmohan Singh, FM P Chidambaram had expressed reservations about signing FTAs in haste and argued for boosting local manufacturing.

At the meeting, the release said, commerce and industry minister Anand Sharma clarified that most of the regional and bilateral FTAs were either related to Saarc countries or to South East Asia and North East Asia. India has a $12 billion trade surplus under South Asian FTA, the statement said, adding that exports have more than doubled with Asean since the agreement on goods trade was signed in 2009. Without disclosing the extent of increase in either the imports or exports for Asean, the commerce ministry said that a significant part of the imports consisted of essential imports such as edible oils from Malaysia and Indonesia.

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Government likely to double export target to $1 trillion

Shubham Batra & Dilasha Seth, Economic Times

New Delhi, 12 November 2013: The government is expected to double the export target to $1 trillion in the next five-year foreign trade policy even though the current policy that runs until March 2014 is all set to miss the $500-billion target set for exports.

A senior commerce department official told ET that the government has begun work on the foreign trade policy for 2014-2019, which will aim at doubling India's share in global trade from the current 3%. The policy is, however, expected to be announced only after the new government assumes office after the general elections next year.

"After the very successful 2009-14 foreign trade policy, we have started working towards the policy for the next five years," the commerce department official said. "Consultation process has started for that. We want to focus on the high-value exports and import substitution, such as engineering, aeronautics, cars, where value addition is the highest."

The proposed 2014-19 policy would include measures to make the country's outbound shipments more competitive by boosting productivity and generating exportable surplus.

"It will require support from the government to provide support for marketing, export infrastructure including improved logistics, keeping in mind the current situation of CAD (current account deficit)," said an inter-ministerial note moved for consultation on the new policy.

People aware of the consultations said the government is likely to set the export target for the new policy at around $1,000 billion.The inter-ministerial note also explains the proposed policy would include a long term and a medium-term strategy to enhance trade competitiveness and overall growth of India's foreign trade.

Since 2009, India's exports have nearly doubled from $178 billion in 2009-10 to about $325 billion. The foreign trade policy for 2009-14 provided fiscal incentives to traditional sectors in the form of interest subvention and other duty neutralisation schemes to provide refund of indirect taxes and levies.

It focused on export promotion of capital goods and market diversification and product diversification. Incentives were provided under focus product and focus market schemes to encourage exporters to explore markets like Latin America and Africa.

The share of exports to Latin America has gone up from 2.9% in 2008-09 to 4.5% in 2012-13. India's rising current account deficit has prompted the government to promote import substitution through the new policy. India's CAD widened to a record high of 4.8% of the GDP in 2012-13 and 4.9% of the GDP in the first quarter of the fiscal.

After remaining muted for a year, India's exports grew in double-digits in the three months starting July, expanding by 11.2% in September.

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Govt to set up joint task force to develop services sector

Business Line (The Hindu)

New Delhi, 12 November 2013: The Government will set up a joint task force for the services sector together with the industry to prepare an action plan for the development of the sector and increase services exports, according to Commerce and Industry Minister Anand Sharma.

Agreeing to the industry's suggestion of setting up a National Services Competitive Council on the lines of National Manufacturing Competitive Council, Sharma said "We have to have a forum to address the varied needs of the sector and to identify training and other needs of each vertical."

He was speaking at the 'Services Conclave' jointly organised by CII and the Centre for WTO Studies. The two-day conclave focuses on ways to boost the domestic services industry and increase India's share in the $4-trillion global services trade from the present 3 per cent.

The Minister said the services sector exports, by and large, were from verticals such as IT, ITES and BPO sectors. There was a lot of scope to diversify in segments such as animation, media and entertainment, legal servicing, architecture, healthcare, tourism and medical tourism.

Sharma asked industry representatives to come forward and help the Government, to take up at various international forums the need for more liberal movement of skilled persons under Mode 4 of World Trade Organisation rules. Often movement of skilled persons is confused with immigration, though such movements are temporary in nature, he said

The Minister also asked the industry to explore new markets such as Africa to boost India's export of services.

"Even for services sector we need to look at other major markets. We have a strong presence in North America. Regions such as Africa have huge opportunities and there you can be more cost competitive," he said.

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Govt mulls offset policy for purchases from foreign firms

Amiti Sen, Business Line (The Hindu)

New Delhi, 18 November 2013**:** India is considering a national offset policy that would make it compulsory for foreign companies selling goods to the Government for sourcing part of their supplies from domestic producers.

The proposed move is expected to boost domestic manufacturing and also lead to technology transfer, a Commerce Ministry official told *Business Line*.

The offset policy, being framed by the Commerce Ministry, will be applicable only on Government procurement for non-commercial purposes estimated at over $100 billion annually, the official added. "We have to necessarily restrict the offset policy because the General Agreement on Tariff and Trade (now the World Trade Organization) does not allow such conditions to be imposed for commercial procurement," the official said. India already has an offset policy for the Defense sector where foreign suppliers have to buy at least 30 per cent of the total value of the supplies locally. Although an offset policy is absent for all other sectors, the Railways and Air India have been imposing sourcing conditions on some of their procurement orders.

"Only a handful of sectors, apart from defense, are engaged in some sort of offsetting against their purchases made from foreign companies. Our objective is to streamline the process and also ensure that the sectors that have not been benefiting from offset start doing so. That is why our policy also includes cross-sector offsetting," the official said.

In other words, if a particular Ministry or agency, for instance the Commerce Ministry, does not have anything to sell to offset a part of what it is purchasing, it could ask the foreign seller to buy something from another sector of equal value.

Discussion Paper

The Commerce Ministry has already circulated a discussion paper to various ministries inviting comments following which a Cabinet paper would be drafted. The Government is proposing to fix offset percentage at 20-30 per cent of the total procurement from a company, depending on the sector.

Although the WTO's Government Procurement Agreement (GPA) does not allow offsetting even for non-commercial purposes, it does not affect India as it is not part of the pact.

Before finalizing an offset policy across sectors, the Commerce Ministry has to be first sure about which sector it would actually benefit, a Delhi-based trade expert pointed out.

"In many sectors such as fertilizers and coal, India is more interested in importing the product than the seller. We have to see whether buyers will be ready to agree to our offset conditions," he said.

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Govt to Push for Exclusion of Electronics from FTAs

J Srikant, Economic Times

New Delhi, 13 November 2013: After refusing to participate in talks to allow more electronic merchandise to be traded dutyfree among WTO nations, India now wants to make sure no electronic hardware is included in future free trade agreements (FTAs) that the country signs.

The move forms part of a larger push by the government to encourage domestic manufacturing of electronic goods, which is slated to replace oil as the single biggest item on India's import bill by 2020."We will look at all future FTAs and push for the removal of all those electronic products which are not included in Information Technology Agreement list," said a senior government official.

The agreement that he referred to was first signed in 1996 allowing for certain preagreed list of electronic merchandise to be traded dutyfree between WTO member nations.

The US and Europe are now lobbying for expanding the list as they look to get better access to emerging markets like India."Allowing import of more electronic products under FTAs will be detrimental to domestic manufacturing and will defeat the whole purpose of India not joining the ITA expansion talks," he added.

India is currently engaged in some 22 trade negotiations including India-Australia Joint FTA, a Framework Agreement with Thailand, Comprehensive Economic Cooperation Agreement with Indonesia and a few other with countries such as Mongolia, Maldives and New Zealand.

The country has 19 trade agreements in place already.

Some industry associations in the country welcomed the government stand.

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Maximising exports key to reining in CAD: Chidambaram

Business Line (The Hindu)

Chennai, 23 November 2013: If exporters sustain the export growth observed in October for the rest of the year, India "will end the year on a good wicket," according to Finance Minister P. Chidambaram. The government will support exporters, "the goal is to maximise exports and now is the best time," he said.

Export growth doubled to 13.5 per cent in October as compared with the previous months. Growing export is key to containing the Current Account Deficit as there are limited options to cut down on imports.

Due to WTO imperatives and the needs of import-dependent industries, inflow cannot be curbed beyond a point, he said.

The trade balance as of October was about $90.7 billion against $190 billion for the whole of last year. If exports could be increased in the coming seven months it would be possible to contain the trade deficit at about $150-155 billion. India would still be on 'good ground,' he said addressing members of the Federation of Indian Export Organisations.

Faster Clearance

The second half of the year usually sees export growth and with the rupee depreciation now would be the best time to maximise exports, he said.

The government is introducing Risk Management System for export cargo to bring down the dwell time of goods in customs processing at the ports.

Over 70 per cent of the cargo will go through with minimal checking based on the track record of the exporter and the export station. This will bring down the dwell time to a few hours instead of days. The system is in vogue for imports and will be rolled out for export cargo, he said.

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Exim Bank looking to help exporters get orders too

K. Ram Kumar, Business Line (The Hindu)

Mumbai, 29 November 2013**:** The Export-Import Bank of India wants to not just finance exporters but also originate orders for them. Towards this end, the country's only dedicated export finance institution is putting together an export marketing team, which will try matchmaking Indian exporters and importers overseas so that the former gets orders.

According to T.C.A. Ranganathan, Chairman and Managing Director, Exim Bank, "If we can do that (matchmaking) then it will be a real USP (unique selling proposition) that we would have created. "Then we will be in a position where we can get the exporter an order (get him a buyer and help him in the negotiation process) and then finance the transaction."

The groundwork for origination of orders has already been laid and the data bank — of importers in various countries — has already been created. Further, reports of international rating services can also be leveraged.

"We are trying to create a market for exporters, whom I can then also support with financing (through buyers credit programme, line of credit programme, etc)."So, instead of being reactive, we are being proactive. We have done quite a few small end-to-end transactions," said Ranganathan.

The Exim Bank honcho observed that he wants his institution to be recognisably different (by originating as well as financing deals to make money on all sides of the transaction) from the competitors, who are only financiers and not deal originators.

The financial institution has also strengthened its research team so that the research reports are meaningful for exporters.

"Now name a country, say Peru or Israel, and my people can do an analysis on the country's trading partners, what it is importing/ exporting, where it is importing from/exporting to, how it can match with Indian trade.

"We have done these exercises on a number of countries in Africa, Latin America, Pakistan, Iran, Myanmar, China, France, the UK, Russia, etc. Wherever these reports have gone, they have got a huge response," said Ranganathan.

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For rupee boost, Govt draws up list of 23 countries for currency swap arrangement

Amiti Sen, Business Line (The Hindu)

New Delhi, 23 December 2013: The Commerce Ministry has finalised a list of 23 countries with which India can trade in local currencies to save precious foreign exchange and strengthen the rupee.

The list includes oil exporting nations such as Angola, Algeria, Nigeria, Oman, Iran, Iraq, Venezuela, Qatar, Yemen and Saudi Arabia.

Commerce Minister Anand Sharma is likely to approve shortly the report on currency swap finalised by a task-force headed by Special Secretary Rajiv Kher following which it will be discussed with the Finance Ministry, a Commerce Ministry official told *Business Line*.

A currency swap arrangement for trade basically involves trading in local currencies where countries pay for exports and imports with domestic currencies at pre-determined exchange rates instead of trading in US dollars.

Other countries on the list include Russia, Japan, Singapore, Australia, Indonesia, South Korea, Malaysia, Mexico, South Africa and Thailand.

"The 23 countries have been identified based on how feasible a currency swap arrangement for exports and imports would be with each. Our emphasis has been on countries with which India has a sizeable trade deficit so that we end up saving foreign exchange," the official said.

After the Finance Ministry's approval, the Commerce Ministry will hold bilateral talks with the identified countries. "A currency swap deal will work only if it is a win-win for both countries. The trading partner should have sufficient trade and investment interest in India," the official added.

A $10.7-billion depletion in India's foreign exchange reserve in the first half of the current fiscal due to a decline in net capital inflows is a cause of concern for the Government as lower reserves weaken the rupee, which in turn drives out foreign investments. While the country's current account deficit has narrowed to 3.1 per cent of GDP in the first half of the fiscal, compared to 4.5 per cent in the first half of the previous year, the Finance Ministry is keeping an eye on it. If India manages to trade in rupees even with a handful of countries, it will contribute significantly towards stabilising the country's balance of payments (BoP) position. At present, India has a rupee trading account with Iran, which was put in place to bypass the sanctions of the US and the EU against the country for its alleged nuclear activities.
In the case of Iran, where payments for 45 per cent of the oil purchased from the country are made in rupees, its success was driven by strategic factors. However, for other countries, the success of this system has to be judged purely on economic terms.

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India guarded against WTO services pact negotiations

Business Line (The Hindu)

24 December 2013: India should participate in the services pact being negotiated at the World Trade Organisation (WTO) by members such as the US, the EU and China as the cost of exclusion will be high, a senior official of the World Bank has warned.

The US-led Trade in Services Agreement (TISA), which focuses on opening up the global market in services further, is being currently negotiated between 21 members of the WTO that mostly includes developed nations.

Big Bait

“The agreement will result in regulatory cooperation that will deepen regulatory complimentarities. When China realised it would benefit from the agreement, is India so different? India should not be left out in the cold,” Aaditya Mattoo, World Bank, Research Manager (Trade and Integration) said at a seminar on increasing services exports organised by CII.

India, however, prefers to wait and watch. In response to Mattoo’s suggestion, Commerce Special Secretary Rajiv Kher said India was not averse to joining the negotiations but could not jump into it without analysing the pros and cons. If the country’s policy deficit is at a level where it can’t handle competition, it cannot just jump into negotiations for opening up the sector, Kher said.

Admitting that TISA could be an opportunity to reform the sector domestically, Kher said there was also a downside to it. “If the services sector doesn’t respond to reforms, then we are done in. Right now, we are not comfortable about the pace of reforms,” he said.

The Commerce Department has started the process of formulating an action blue print for the development of the services sector and exports in collaboration with the industry and experts.

The Government wants to take steps to reform the services sector at large and also have sector-specific policies to boost exports from identified areas such as animation, media and entertainment, legal servicing, architecture, healthcare, tourism and medical tourism. India wants its share in the global market for services to expand to 5 per cent from the present 3 per cent. The global services trade is valued at $4 trillion an annum.

‘If the country’s policy deficit is at a level where it can’t handle competition, it cannot just jump into negotiations for opening up the sector.’ — Commerce Special Secretary Rajiv Kher

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FinMin urged to expedite refunds of Rs 5,000 crore to exporters

Amiti Sen, Business Line (The Hindu)

New Delhi, 28 December 2013: The Commerce Ministry has decided to come to the aid of exporters struggling to get pending duty refund claims worth about Rs 5,000 crore from the Finance Ministry. The Directorate General of Foreign Trade (DGFT), which monitors trade activity, will discuss the matter with the Customs Department to find a solution to the problem, a DGFT official told *Business Line*. Exporters claim that duty drawback payments (refund for input duties paid) are not being made since October and the pending amount has risen to almost Rs 5,000 crore.

"This is a serious problem as it could affect the fund flow of exporters and they may not be in a position to meet orders," the official said.

Finance Ministry officials in charge of drawback payouts have told DGFT officials that the pending claims are part of normal work flow. Exporters, however, are unwilling to buy the argument.

"Normally, pending drawback payment does not exceed Rs 1,000 crore. In our case, it is over Rs 4,900 crore. This is not normal," said Ajay Sahai, Director-General, Federation of Indian Export Organisations . Commerce Ministry officials pointed out that Customs officials usually stop making drawback payments from February as they strive to meet revenue targets for the year. "Stopping of payments has never happened this early. This certainly needs to be sorted out," the official said.

No DEPB

Earlier, exporters also had the option of claiming refunds under the Duty Entitlement Pass Book (DEPB) scheme which was administered by the Commerce Ministry. However, the scheme was discontinued some time back and now all exporters have to compulsorily claim duty refunds under the drawback scheme administered by the Finance Ministry.

"One reason why a lot of exporters preferred the DEPB scheme was that the payments were quick. Now, we do not have any option and are at the mercy of the Customs Department," a Delhi-based exporter, who did not wish to be named , said.

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India needs FTAs, can't have wall around itself

PTI

New Delhi, 30 December 2013: Defending the policy of inking FTAs with different countries, Commerce and Industry Minister Anand Sharma has said India needs to connect and integrate with the world and can't have a "wall around" itself.

"When we look at our FTAs, we are a beneficiary, we are not a loser," Sharma told PTI in an interview.

He said that India's share in the global trade is low and to enhance the overall economic growth, the country has to increase its share by boosting exports.

"When we are talking of the larger economic integration of Asia and going right up to the Pacific... Can India keep itself out? India cannot insulate itself. You cannot grow by having a wall around ourselves. We live in a globalised world, we have to connect and integrate," he added.

The minister said several countries are integrating with each other to enhance trade and investments between them.

"Let's not forget what is happening in the world," he said, citing examples of North American Free Trade Agreement (NAFTA); Mercosur (an alliance of Argentina, Brazil, Uruguay and Paraguay); Trans-Pacific Partnership (TPP) (involving nine countries including Australia, New Zealand and the US); and the Transatlantic Trade and Investment Partnership (TTIP).

"We are neither Pacific nor Atlantic, we are an Indian ocean country, so we also have to look at how we have our own fair share or how we have regional mechanisms and arrangements for trade and investments," Sharma said.

Besides several experts, apex body of exporters, FIEO, has said that exports to several countries with which India had signed FTAs have shown a declining trend.

According to media reports, the finance ministry too had raised concerns over the impact of these pacts on the Indian economy.

However, Sharma said: "When it comes to trade agreements, there is always a balance and then there is an inbuilt review mechanism. Let's not forget that India's share in global trade is still very low. It is little over 2 per cent.

"We need to double it at the earliest, because of economy of India's size cannot grow unless and until our share in global trade, including exports, increases."

India has so far implemented FTAs with countries like Singapore, Korea, Japan, Malaysia and Asean. The country is negotiating similar pacts with several nations include Australia, Canada, European Union and New Zealand.

In 2012-13, India's exports to South Korea stood at USD 4.20 billion but imports have jumped to USD 13.10 billion, leaving a trade deficit of about USD 9 billion.

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Trade resolutions for the new year

T S Vishwanath , Business Standard

1 January 2014: The trade negotiations agenda for 2014 promises to be exciting. The success of the Bali Ministerial meeting of the World Trade Organisation (WTO) in the first week of December in 2013 will mean that in 2014 countries will identify areas for early conclusion so that within the next two years, the Doha Agenda of the WTO - which has remained in a limbo for long - can be concluded.

Second, some large bilateral and regional trade agreements, namely the Trans Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP) are slated to conclude this year.

Each of these bilateral agreements has the ability to throw up opportunities worth billions of dollars for business across the globe. It will, therefore, be important for industry in India to keep a close watch on the developments and identify new areas of opportunities that will emerge. Governments that are negotiating these agreements, at the same time, have to ensure that new types of protectionism do not replace some of the existing inward looking oriented rules and procedures that protect domestic industry.

If world trade is to be provided a boost and industry across the globe has to benefit from the creation of significant growth opportunities then negotiators will have to concentrate on a four-pronged strategy.

First, create genuine market access opportunities. The WTO negotiations and the bilateral agreements can help reduce tariffs in a big way on products of interest to businesses across the globe. There has to be a genuine effort on part of negotiators to identify and reduce tariffs that can create new opportunities for industry in every country. Negotiators supported by industry have to identify sectors which balance the gains for countries across trade partners.

Second, identify regulations and procedures that hamper trade and harmonise standards that will benefit industry. The trade facilitation agreement that was concluded at Bali can also be a meaningful platform for smoothening import and export procedures of countries across the world.

Third, negotiators need to work with industry to identify and help build new value chains. In a globally connected world, it will be important to help create value chains that provide new opportunities for the industry. However, as of today, there are several countries across the globe that are not an integral part of the value chains and do not gain substantially from such value chains. There is a need for industry to build an agenda for negotiators to integrate markets to substantially cut costs for consumers and, at the same time, build new opportunity areas especially in the developing and least developed countries.

Fourth, there is a need for a concerted effort to tackle non-tariff barriers and new forms of protectionism. With global economic growth slowing down over the years, there has been a surge of new forms of protectionism in countries that have been severely hit by slow down and recession. This has eroded global trade growth substantially. Negotiators need to use the success at Bali to push for greater global trade by identifying and removing new forms of protectionism that range from export duties, trade remedial measures and new forms of protecting domestic industry through subtle and, sometimes, not so subtle domestic policies.

Platforms such as the G20 can gain credibility if they are able to identify such measures that hamper global trade growth. The B20, the industry platform that supports the G20 process, has to play an

important role in this area if wants to remain relevant.

The four-pronged strategy can help create better investment flows across countries as also boost trade growth. There is a need for the industry to help build infrastructure for trade in developing and least developed countries by using the trade facilitation agreement at the WTO to create further global value chains. 2014 promises to be a good year for boosting global trade and, in turn, global economic growth. The responsibility now shifts to industry across the world to urge governments to capitalise on the emerging opportunities and eliminate barriers to create significant opportunities for a balanced outcome for all countries.

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100% FDI in pharma stays; Govt notifies policy

Business Line (The Hindu)

New Delhi, 8 January 2014**:** India will continue to allow 100 per cent Foreign Direct Investment (FDI) in existing pharmaceutical companies despite concerns over continued availability of affordable life-saving drugs raised by some ministries and departments.

Domestic companies selling their facilities or operations to foreign players, however, will not be barred from starting a fresh venture in the same area as the "non-compete" clause will not apply in deals except in special cases.

The Department of Industrial Policy & Promotion (DIPP), on Wednesday, formally notified both the decisions taken by the Union Cabinet six weeks ago following extensive inter-ministerial consultations.

"The Government has reviewed the position in this regard and decided that the existing policy would continue with the condition that 'non-compete' clause would not be allowed except in special circumstances with the approval of the Foreign Investment Promotion Board," the DIPP said in a Press Note.

There have been a number of high profile acquisitions of Indian pharmaceutical companies over the last few years which includes the recent take-over of Bangalore-based pharma firm Agila Specialties by US-based Mylan Inc and Piramal Healthcare by US company Abbott Lab.

The DIPP had sought reduction of FDI limit for brownfield pharma projects from 100 per cent to 49 per cent in "critical'' areas as it feared that acquisition of Indian companies could vitally affect availability and affordability of generic (off-patent) medicines.

In an earlier note, the DIPP had pointed out that most of the FDI that has come into the pharma sector in the country has come in brownfield projects and soon the existing facilities in the country that produce cheap life-saving medicines may completely be taken over.

The Department of Science & Technology and the Health Ministry also shared the DIPP's concerns. The Department of Science & Technology, had expressed concern that takeover of Indian pharmaceutical companies by foreign investors could lead to a waste of Government efforts, research and resources as many of these companies sourced their technologies from Government laboratories under the CSIR.
The Finance Ministry and the Planning Commission were, however, of the view that there should not be any changes in the existing FDI policy as it would serve as a deterrent for foreign investors.

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RBI liberalises third party payment norms for export, import

PTI

Mumbai, 4 February 2014: The Reserve Bank today liberalised the third party payment norms for import of goods by removing the ceiling of $100,000.

Earlier, the amount of an import transaction for third party payment should not have exceed $100,000. The central bank also simplified certain documentation norms related with third party payments for export and import transactions.

"... with a view to liberalising the procedure, the limit of $100,000 eligible for third party payment for import of goods, stands withdrawn," the RBI said in a notification.

The RBI further said the condition "firm irrevocable order backed by a tripartite agreement should be in place" for overseas transactions may not be insisted upon in certain cases by banks. This has been done in view of the difficulties faced by exporters and importers, it said.

Third party payment could be made to a Financial Action Task Force (FATF) compliant country and through the banking channel only.

RBI said the bank concerned should be satisfied with the bona-fides of the transaction and export documents, such as, invoice and they should consider the FATF statements while handling such transaction.

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RBI tightens gold import norms under 80:20 scheme

PTI

New Delhi, 15 February 2014: Seeking to restrict gold imports, the Reserve Bank of India Friday said nominated banks and agencies will not be allowed to import the precious metal in excess of their entitlements in first or second lot under the 80:20 scheme.

"Import of gold in the third lot onwards will be lesser of the two — five times the export for which proof has been submitted or quantity of gold permitted to a nominated agency in the first or second lot," RBI said in a notification.

The government under the 80:20 scheme had in August 14, 2013, allowed nominated agencies to import gold on the condition that 20 per cent of the inward shipment will be exported. The permission to import the next lot would be given on fulfilment of export obligation.

In view of the representation being received by the RBI and the finance ministry, the central bank has said that the quantum of the third lot import would be five times the export from the previous lot subject to the condition that it would not exceed previous entitlements.

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Need to restructure promotion schemes for exporters: Kher

PTI

New Delhi, 20 February 2014: India needs to re-structure its promotion schemes for exporters and make them less dependent on government support for being complaint with the international laws, a top government official said here today.

Commerce Secretary Rajeev Kher said several developed countries are raising issues against many of India's export promotion schemes.

"We will have to re-engineer (the schemes) in a manner that they conform to international laws to which we are parties," he told the CII's Export Summit.

He said the WTO Agreement on Subsidies and Countervailing Measures (ASCM) allows India (which is an Annex VII country) to provide export subsidies as its per capita GDP on nominal terms (on 1990 prices) is still within USD 1,000.

But, Kher added, "surely we would have or very soon we will cross this bridge and then we will not have the protection of Annex VII countries which would mean that all export subsidies will be prohibited".

"This means that that we will have to re-structure or re-engineer our various schemes in a manner" that they sustain for a long term, the Secretary added.

Further, he said that under WTO's ASCM, Indian exporters would also have to face challenge of subsidies.

India cannot provide export subsidies to a sector if outbound shipments from that particular segment crosses 3.5 per cent share in the relevant global market.

Citing example of textiles, he said the sector is "reported" to have crossed the 3.5 per cent share in the global market on a certain point of time and now India would not be able to provide export subsidies to the sector.

"The textiles sector has gone into the area of being competitive as defined by the WTO's ASCM law. Therefore, textiles sector is not now eligible for export subsidies. Now this is what we have to recognise. Sooner than later, new programmes and new schemes will also reach that stage," he said.

Kher said that exporters need to recognise that export subsidies are something which can take them to only a point and beyond that "it is the inherent competitiveness and rest of the reforms agenda which will help us".

The government provide export benefits to sectors under programmes such as Focus Market Scheme, Focus product Scheme and Duty Entitlement Pass Book (DEPB).

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India reviewing its 83 bilateral investment pacts: Anand Sharma

PTI

New Delhi, 22 February 2014: The government today said it is reviewing all its bilateral investment promotion and protection pacts amid global firms raising concerns about India's investment policies. So far India has implemented 83 bilateral investment promotion and protection agreements (BIPPAs) with various countries.

"We have 83 BIPPAs which are currently under review because there are lessons learnt when these have been invoked by some (foreign) investors...then there is question of domestic jurisdiction in many cases. It was debatable and that is why it has led to a number of international arbitrations," Commerce and Industry Minister Anand Sharma said here at a function.

Referring to the invocation of these pacts by major foreign telecom firms like Telenor, Sistema and Etisalat, he said these companies came in after thorough scrutiny by government agencies like RBI and FIPB.

With the cancellation of telecom licences by the Supreme Court in 2012, Norway-based Telenor, Etisalat of UAE and Sistema of Russia went for international arbitration citing bilateral investment pact with India.

"We have bilateral treaties with these countries and these investments came in through our FDI policy, through the RBI, through proper scrutiny of FIPB approval and CCEA approval," he said.

The Supreme Court had on February 2, 2012 quashed allotment of 122 2G licences given during the tenure of the then Telecom Minister A Raja in 2008 on the ground that they were issued in a arbitrary and unconstitutional manner.

"Once the investment comes in, they enjoy full protection under the law which cannot be taken away and that has to be borne in mind because in recent past we have seen some developments which did cause anxiety...," he added.

He also pointed out that efforts are being made to determine what the legal framework of the agreement should be in the investment protection agreements.

"How to protect your investment and to assure your partner country that the investment that they make in our country have adequate legal protection," he said at an India International Law Foundation function.

"The specific issue which is being discussed is what should be the legal framework of the agreement in the investment protection agreements and treaties, whether it should be only the same protection as we give to domestic businesses for investment or it has to be beyond," he added.

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India needs to restrategise its export policy to adapt to changing contours of economy

Rana Kapoor, Economic Times

6 March 2014: Not too long ago, India was grappling with taming its current account deficit (CAD). But over the last two quarters, a combination of policy clampdown on unproductive gold imports and a gradual, albeit sustained, improvement in export performance has helped rein in trade deficit. Reflecting this, CAD forecasts have been scaled down progressively from over $80 billion to less than $40 billion for 2013-14. This is a remarkable turnaround. Heading into 2014-15, the bigger challenge is to ensure improvement in CAD is sustained. An immediate unshackling of policy hurdles to resume production of coal and iron ore along with firming up a long-term vision to enhance export performance is necessitated. India's trade policy in recent times has amplified focus on diversification of export markets as well as products.

As such, share of Asean, Latam and Africa in India's export basket has increased to 24% in 2012-13 from 16% in 2002-03. Similarly, 71 items of textile made-ups under the Focus Product Scheme launched in 2009 have recorded a growth of 70% over the last five years.

Such measurable success of focused schemes reinforces the need for India to restrategise its export policy to adapt to changing contours of the domestic economy, along with global trade patterns. It is interesting to note that of the 25 export products flagged for special attention by the Indian Brand Equity Foundation (IBEF), 10 are agriculture or agriculture-dependent. Agriculture exports, registering a growth of 13.6% in 2012-13, provided a needed cushion to counter overall slowdown in India's export.

The government should formulate a consistent, reliable and long-term trade policy with lower tariffs to help India attain prominence in global agriculture exports. China's role as the "world's factory" is waning. Average annual wages in China's manufacturing sector have doubled since 2007 and the number of working-age people in China dropped for the first time in 2012.

Of the top five items in China's export basket, share of high-value-added items has risen to 45.7% in 2012 from 20.6% in 1996. But, of the top 10 labour-intensive export segments where China lost comparative advantage over the last 15 years, India has bettered its position in only two segments, namely mineral fuels and furniture and bedding.

Assocham estimates that even if India captures 20% of the low-end export market where China is losing advantage, Indian exports can rise by ~$64 billion annually. To achieve this, a two-pronged strategy can help.

First, trade policy must offer preferential treatment to key labour-intensive sectors instead of giving blanket concessions to all sectors. Second, identification of sectors must be on the basis of comparative advantage. Our study suggests sharpening policy focus on leather, made-up textile articles, crocheted apparel, toys and footwear.

The objective of improving global share in low-end export products must be strived for in conjunction with concentrated focus on high-value products. India's level of export sophistication for high-value segments, such as electrical machinery, boilers and mechanical equipment and plastic, remains lower

compared to China. In the domestic plastic industry, ~70% of units operate in the unorganised sector, with outdated machinery and low precision levels.

The electrical equipment industry is reeling under intense competition from China whose share in Indian imports of electrical equipment rose to 43.6% in 2012, from 22.4% in 2005. Lack of a level playing field and enhanced eligibility on ECBs for financing of domestic power projects has crippled India's power and electrical equipment production.

Trade policy should have a balanced focus between strengthening exports to conventional trade partners (US and EU) and diversifying into new markets. National Manufacturing Policy that envisages greater harmony between manufacturing and trade policy must be implemented. We must develop a cluster-based SEZ approach, with government support in infrastructure and IT.

And we need to realign policy priorities to include both price and non-price measures (such as infrastructure and administrative reforms). To scale up exports, the government needs to address sector-specific issues and invest in R&D, innovation and skill development.

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I don't think import duty for gold is high: C Rangarajan

Rajesh Bhayani ,Business Standard

New Delhi, 10 March 2014: C Rangarajan**,** chairman, Economic Advisory Council to the Prime Minister, is known for his conservative views on gold, which he calls a 'non-productive asset'. He was amongst the first to flag up the fast-rising import of the yellow metal putting pressure on the current account deficit (CAD). After recommending tightening of gold imports, the government gradually increased the import duty and the Reserve Bank of India tightened import norms. In an interview to *Rajesh Bhayani,*Rangarajan says CAD will be brought under control at around two per cent of the gross domestic product (GDP). He, however, doesn't see the need to relax duty or import rules. Edited excerpts:

The CAD now seems to be coming under control due to a fall in gold import. What is the accepted level of gold import?
It is expected to remain at around two per cent of the GDP in FY14, much lower than last year (FY13). This is partly due to a fall in gold imports. Gold imports prior to 2009-10 used to be $30-40 billion, which went up after that; last year, it was $54 billion. Gold demand was rising as it was imported for being a hedge against inflation, which was high and also as an asset. In my view, once investors start getting better returns from financial assets and inflation starts moderating, there would be sustained reduction in import of gold. Imports should stabilise at the pre-2009-10 level and $35-40 billion worth of gold import is still possible to absorb and may not cause any serious problem to CAD. If, eventually, Indians bring in fundamental change in the use of gold and reduce its demand, it will be good for the country but those changes don't happen in the short term.

With CAD under control and the gold import bill also much lower, do you think this is a time to relax gold import curbs?
I don't think the Customs duty on gold is so high. If you look at the import duty on many other luxury goods, others have much higher duties.

Isn't gold also a virtual currency?
But it is also a commodity and I don't think the import duty for gold is high. The other thing is the 80:20 rule (80 per cent of import for domestic use and 20 per cent for exports). This seems to be a reasonable rule, as it allows imports and is a self-correcting measure. Therefore, I think a sudden drop in gold import was not due to rules but it was the way they were implemented. Because of that, there was no import of gold for some time.

So, procedures can be simplified, even if basic rules are not changed?
It can be. In the overall current account, around $35 billion worth of gold can be absorbed. That will be consistent in our efforts to contain the CAD in the range of 2-2.5 per cent of GDP.

You may have seen unofficial import of gold estimates. The World Gold Council has estimated unofficial import in 2013 at 200 tonnes. That is due to the high duty and import curbs.
I doubt the estimate of unofficial import could be that high. There is no evidence of reduction in remittances, etc. If gold smuggling has to be financed, it can be either lower remittances or over-invoicing of imports and so on. The latest numbers don't show any decline in private remittances and, hence, I am not sure whether this number is correct.

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India Inc to get competitiveness shot from Govt

Business Line

New Delhi, 6 March 2014: Concerned over the slowdown in the country's exports and the rising current account deficit, the Government is working on a long-term plan to spur India Inc's global competitiveness.

The Commerce Ministry is preparing a background note ways to boost exports and manufacturing. It is expected to hold an inter-Ministerial meeting to frame a specific roadmap for change, a Commerce Ministry official told *Business Line*.

Top officials from the Finance Ministry, Ministry of External Affairs, Department of Industrial Policy and Promotion, Planning Commission and Economic Advisory Council to the Prime Minister will be part of the core group that would frame the agenda, the official added.

"We will be looking at how to position India strategically in the global value chain so that exports grow fast. For that, we have to identify what our strengths are and how these can be nurtured. We also have to address our problem areas, including lack of adequate infrastructure, reliable power supply and high transaction time and costs," the official said.

The manner in which India gives incentives to its exporters also needs to change as many of the existing sops may not be compatible with World Trade Organisation norms.

In fact, subsidies given to the textiles industry will soon have to go, as exports have overshot the threshold of 3.25 per cent share of world trade beyond which the global trade body does not permit subsidisation.

Fall in exports

"We will have to re-engineer the schemes so that these conform to international laws to which we are party," Commerce Secretary Rajeev Kher said at a recent export summit organised by industry association CII.

India's exports fell 1.8 per cent to $300.4 billion last year due to a slowdown in global demand. In the on-going fiscal, exports posted a low growth of 5.7 per cent, to $257 billion in the April-January period. Although India's current account deficit (CAD) narrowed to $4.2 billion (0.9 per cent of GDP) in the third quarter of 2013-14 from $31.9 billion (6.5 per cent of GDP) in the comparable period of the previous fiscal, the decline has been mainly due to curbs on gold imports.

"CAD can be checked on a sustainable basis only if we manage to increase our exports substantially," the official said.
It is important to keep the CAD within limits to maintain a healthy balance of payments which, in turn, is required to avoid a payments crisis.

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No plans to curb farm exports: Centre

Financial Express

New Delhi, 6 March 2014: The government on Wednesday said it has no plans to curb farm exports despite fears of an impending El Nino that could affect the monsoons this year. “Our granaries are still brimming with stocks,” said a senior official.

"We don't intend to curb farm exports. In fact, the government on Tuesday scrapped the minimum export price of onion to help farmers get better realisation," said the official. "It's too early to say whether El Nino will actually affect the monsoon, and, if yes, to what extent. So we will wait for the forecast by the IMD (Indian Meterological Office)."

The weather office is expected to firm up its first long-range forecast of the monsoon in April.
India is the world's largest exporter of rice and guar gum and second-largest supplier of cotton and also ships wheat in large volumes. The country's farm exports are projected to rise 9.8% to $45 billion in 2013-14, accounting for 13.8% of the total exports of $325 billion targetted for the current fiscal.
The government is fully prepared to tackle any fluctuation in weather this year and states have been asked to keep contingency plans ready, another official said.

Grain stocks with state-run agencies hit 41.1 million tonnes as of February 1, compared to a requirement of 25 million tonnes for various welfare programmes. The projected record harvest of wheat in 2013-14 is likely to boost the stock levels further, giving relief to policymakers in case of a monsoon failure.
El Nino is warming of sea-surface temperature levels in the central and east Pacific and cooling of the West that occurs every four to 12 years. It caused the worst drought in 37 years in the country in 2009, dragging down grain production to 218.11 million tonnes from 234.47 million tonnes the year before.
Fears of widespread dry spells in many parts of Asia, including India, intensified this year after Australia’s Bureau of Meteorology last month said that climate models surveyed by it showed Pacific Ocean temperatures approaching or crossing El Nino thresholds in the austral winter. A report in the PNAS, the official journal of the US National Academy of Sciences, also said there was a 75% chance that El Nino could occur in late 2014.

Agriculture minister Sharad Pawar played down El Nino fears, saying the government was keeping a tight vigil. The June-September monsoon season brings about 70% of annual rains and is crucial to the summer-sown crops as more than 60% of the country's farmland is rain-fed. The showers also boost ground water reserves for winter planting.

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Govt abolishes onion MEP to arrest decline in domestic prices

Financial Express

New Delhi, 06 March 2014: To boost exports and arrest the fall in domestic prices, the government abolished the minimum export price (MEP) for onion late on Tuesday.
“The requirement of an MEP for onion stands removed,” the Directorate General of Foreign Trade (DGFT) said in a notification.

In December 2013, the MEP was reduced to $150 per tonne. The government had imposed an MEP of $900 per tonne in September 2013 and it was hiked to $1,100 per tonne later.

Onion prices have fallen sharply in the last one month, with the retail price currently in the range of R15-20 per kg. Wholesale prices are R500-600 per quintal. Concerned about this fall in wholesale prices, Maharashtra farmers had been demanding removal of export restrictions.

Onion production has risen from under 5.5 million tonne in 2002-03 to over 15 million tonne in the last three years. Production is expected to exceed 18 mt in 2013-14. So far in the current fiscal, the country has exported 1.82 mt.

India has witnessed an annual growth rate of 13.36% in onion production during the last 13 years. No other food crop has shown this kind of spectacular growth in recent years.

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Trade min urges finmin to scrap export duty on iron ore pellets

Financial Express

New Delhi, 7 March 2014:Commerce minister Anand Sharma said Thursday his ministry has urged the finance ministry to remove the 5% export duty on iron ore pellets.

"We have reservations (against 5% export duty) because it (pellet) is a value-added product and the duty, per se, is a disincentive," Sharma told reporters in North Block. He had come to attend a group of ministers meeting on the Amritsar-Kolkata Industrial Corridor.

"We have raised this issue with the finance ministry. The domestic industries were encouraged to increase capacity, and what actually is getting exported is not even 1.5% of the total capacity. Therefore, we should be encouraging and not be disincentivising them," the minister added.

The export of raw iron ore, or fines and lumps, already attracts a duty of 30%. Substantial investmets have happened in pelletisation plants.

Sharma also said Thursday there will be no change in the government's ongoing decision-making process on relaxing norms in foreign direct investment (FDI) in railways and construction due to model code of conduct.

On Wednesday, Chidambaram had said that normal government functions will carry on, and the cabinet and committees will go ahead as usual to clear any decisions pending from before the code of conduct.

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More comprehensive services export data soon

Amiti Sen, Business Line (The Hindu)

New Delhi, 24 March 2014: Services export data for key sectors will soon be more comprehensive and reliable.

The Commerce Ministry, with the help of the Central Statistical Organisation and the Department of Revenue, has initiated a survey-based exercise to collect data directly from service providers in select sectors.

Two pilot surveys – one on the health sector and the other on education – have already kicked off and the export figures for 2013-14 are expected by the year-end, Commerce Secretary Rajeev Kher told *Business Line*.

The data will supplement the services export figures churned out by the RBI in its Balance of Payments (BoP) statistics which are inadequate as they cover just seven broad sectors (as opposed to 12 sectors and 171 sub-sectors covered for goods exports) and are based only on banking transactions.

The surveys, being supervised by the Directorate General of Commercial Intelligence and Statistics, will then be expanded to seven-eight other sectors that the Government considers important such as tourism, IT, telecom, entertainment, and business services and ultimately be institutionalised.

“When the survey-based data collection system is in place, we will get export data for focus sectors through this methodology, while overall data will come from BoP statistics,” Kher said.

Lack of comprehensive data is a major handicap while negotiating free trade agreements and also in domestic policymaking as the strengths and weaknesses of the services sector at the disaggregated level are largely unknown.

“In services, no physical movement of goods take place. There are no shipping bills, like in the case of goods, which give you the final figure. Here it is all through bank transactions. And every bank transaction doesn't get picked up. Survey-based data collection helps fill the gap and data can be collected at the disaggregated level,” Kher said. For instance, for collection of data in the health sector, the surveyor would visit hospitals and collect comprehensive data in various related areas such as the number of non-Indians treated, the diseases covered and the fees paid by them, Kher said.

Services exports from India have jumped from $8.9 billion in 1997 to $143.5 billion in the previous fiscal.

Its share in the world market has also expanded from 1 per cent in 2000 to about 3.5 per cent now. There is, however, a huge opportunity to increase exports as almost 80 per cent of services exports from the country is in the IT/ITES sector and most of it is exported to just a few markets including the US and the UK.

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Govt plans strategy on quality issues in trade

Asit Ranjan Mishra, Mint

New Delhi, 17 April 2014: With an eye on meeting the challenge of higher quality standards in merchandise trade being specified in regional trade agreements, the commerce ministry will prepare a national strategy on benchmarks and technical regulations through consultation with other ministries. The strategy, aimed at countering the risk of India's exports being undermined by the new specifications, will be presented before a new government.

Commerce secretary Rajeev Kher, who was speaking at an event organized by the commerce ministry and industry lobby group Confederation of Indian Industry (CII), said the ministry will take the proposal to the panel of secretaries and prepare a note to be taken up by the cabinet.

"We are currently going through a transition phase. Any new government would like a constructive agenda. We should use this opportune time," Kher said at the meet.

India is in the midst of a general election that will conclude on 12 May. A new government is expected to be formed by May-end.

As tariffs on merchandise trade have come down over the years, countries, both developing and developed, have increased non-tariff barriers such as food safety standards, reducing market access to exports.

The so-called sanitary and phyto-sanitary measures agreement under the World Trade Organization (WTO) allows countries to set their own standards based on scientific methods. "They should be applied only to the extent necessary to protect human, animal or plant life or health. And they should not arbitrarily or unjustifiably discriminate between countries where identical or similar conditions prevail," the WTO says on its website.

While member countries are encouraged to use international standards, guidelines and recommendations where they exist, members are allowed to use measures which result in higher standards if there is scientific justification as long as such standards are not targeted at a single country.

India's farm and food exports often face entry barriers into other countries due to low safety standards. Kher said the industry needs to adhere to higher safety standards in the domestic markets as well. Kher said the higher standards and rules that would come into force with the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) will pose a challenge if India does not confirm to international standards. India is not a part of negotiations for the treaties.

"What these agreements are going to throw up is a completely new paradigm of standards, rules, regulations and the whole focus is now shifting from typical, traditional manner of trading to how non-tariff related issues are harmonized and synchronized," he added.

Kher said technical standards have become a compulsion for countries like India and an evolutionary pathway in standards is a necessity. "If you do not follow the pathway, either you fall by the wayside or you simply go back to the pre-1991 days where you will increasingly find yourself isolated from the rest of the world," he added.

Sunil Soni, director general of Bureau of Indian Standards (BIS), said ideally there should be one Act governing all standards because a plethora of regulations confuse stakeholders. Soni said the work could start without waiting for a new legislation since BIS already provides a platform for this.

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India mulls legislation to meet technical roadblocks in trade

Financial Express

New Delhi, 17 April 2014: Cabinet secretary Ajit Seth on Wednesday rued India lacking a proper legislative instrument to notify and administer technical regulations.

“Despite the crucial role that standards play in facilitating transactions, India does not have a standards-driven culture. This has implications for both domestic and international sales. It is not surprising that Indian exporters have to incur high costs in order to comply with standards and technical regulations in main foreign markets,” Seth said at a conclave organised by the Confederation of Indian Industry (CII) and commerce ministry on the role of standards in international trade.

The Bureau of Indian Standards (BIS) formulates standards for industrial products and offers certification and testing services, but there isn't a legal framework for the same.

The Cabinet secretary's statement has come at a time when India is faced with strong barriers to trade, the commerce ministry is preparing itself to meet the various sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) requirements of its various trading partners.

With developing countries, including India, having suggested that developed countries are using the SPS and TBT measures for protectionist purposes by prescribing overly stringent trade restrictive standards, the ministry has initiated a discussion with different stakeholders to handle this protectionism.

Of the 18,000 notifications issued under these agreements from various countries, regulations issued from India numbered only 93. Even these few were the topic of intense debate.

In fact, recently, the United States Trade Representative (USTR) in report titled ‘Report on Sanitary and Phytosanitary Measures 2014’, enumerated its concerns and the problems it faced while trading with India while trading dairy products, pork, poultry, swine, and pet food, pulses, wheat and barley.

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Commerce secretary, Rajeev Kher urges industry to adopt global standards fast to counter TPP, TTIP impacts

Economic Times

New Delhi, 17 April 2014: Commerce secretary Rajeev Kher on Wednesday called upon the Indian industry to upgrade its quality standards to successfully counter the adverse effects of two of the world's biggest free-trade treaties being negotiated by the US. The proposed mega deals—Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP)—are being seen as attempts to divert trade and investment away from emerging economies like India.TPP includes all the 12 Pacific Rim countries, including the US, Australia and Japan, while TTIP will essentially be an agreement between the US and the European Union.

Speaking at a conclave on the role of standards in international trade organised by CII and the commerce & industry ministry, Kher said the mega deals would throw up a completely new paradigm of standards and that it was time the Indian industry gave greater importance to them. "If you do not follow this pathway, then either you will fall by the wayside or you will simply go to those pre-1991 days where you will increasingly find yourself isolated," Kher said. "The whole focus is now shifting from typical, traditional manner of trading to how non-tariff related issues are harmonised and synchronised."

India's exports have often run into the wall of standards, which have in the past been dismissed as non-tariff barriers to block imports by countries, but there is a growing realisation that the country needs to take the issue seriously.

Kher said the government was looking to prepare a 10-year roadmap and sought help from all stakeholders and urged all government departments to come together.

At present, the Bureau of Indian Standards (BIS) is involved in formulating standards, certification and testing services.

"If you do not conform to standards and technical regulations, your honeymoon will be only for a short period of time." Kher warned the industry, adding that unless international standards are adopted, Indian business will not be able to integrate with larger markets.

Cabinet secretary Ajit Seth backed the need for urgency on this count. "It is essential that the Indian industry inculcates a culture driven by standards... In many countries, product standards are developed through a voluntary consensus of companies engaged in producing competing products," he said, adding that lack of standards add to transactions costs for exporters. "Despite the crucial role that standards play in facilitating transactions, India does not have a standards-driven culture. This has implications for both domestic and international sales. It is not surprising that Indian exporters have to incur high costs in order to comply with standards and technical regulations in main foreign markets," Seth said. He also called for a coordinated mechanism to develop a roadmap on product standards in a time-bound manner."If we are unable to act with clarity and speed, we run the risk of not only exposing our consumers to inferior goods but also slowly getting excluded from main export markets," Seth added.

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Focused export schemes may not be widened

Vrishti Beniwal & Nayanima Basu, Business Standard

New Delhi, 7 May 2014: The government is likely to turn down industry's demand to widen the scope of focused export schemes for pushing exports under Foreign Trade Policy 2014-19. Instead, it is exploring options that do not have fiscal implications and are compliant with World Trade Organization norms.

Officials said the commerce and finance ministries didn't favour additions to the focused market scheme (FMS) and the focus product scheme (FPS), as this would have revenue implications.

Besides, the government fears such export promotion would not be WTO-compliant. "Most items are already covered in these schemes. If you keep expanding the list by adding small items, it will lose relevance. If we include everything, it isn't focused. We are looking at alternatives to boost exports," said an official, on condition of anonymity.

Exports of a particular product or to a particular market get relief under these schemes. While FMS covers 83 countries, 29 come under the new focus market scheme and 41 under the special focus market scheme. FPS covers 548 items, while an additional 144 are covered by the market-linked focus product scheme.

But officials said this year, the government was planning to restructure the FTP, not focus only on incentives. The focus of the new policy will be consolidating markets, products, services and standards. "FMS and FPS are outright reward schemes. The revenue loss is rising because of the sops given in these schemes. So, non-tariff measures could be considered to boost exports," said a finance ministry official.

Though the FTP will be unveiled by the government that comes to power after the ongoing elections, the bureaucratic machinery has already started preparing for it by considering industry representations. A brief on the matter is being prepared for the next government.The commerce & industry ministry is planning to roll out the FTP after the 2014-15 Budget is presented (likely in the beginning of July). As the current FTP will expire by July, the new one might be rolled out by August.

"Instead of giving a plethora of incentives under FMS, FPS and other schemes, the focus will be on analysing fiscal instruments. This means we will try to enhance those incentives which are already in place and how to better utilize those rather than offering sops to more products," said a senior official in the commerce department involved in framing the policy. Some, however, feel reward schemes such as FMS and FPS, which offer duty credit scrips, are the best way to promote exports.

"The countries with which we have foreign trade agreements, bilateral investment promotion & protection agreements and comprehensive economic partnership agreements should also be brought under FMS. This will give the double advantage of low tax in those countries, as well as the benefits of FMS. The commerce ministry will evaluate the performance of products under FPS. We can see a few products for which we have developed strength moving out, and others coming in," said Ajay Sahai, chief executive and director-general of the Federation of Indian Export Organisations.

In March, India's exports fell 3.15% to $29.58 billion. For 2013-14, exports stood at $312.35 billion, against $300.4 billion in 2012-13, growth of four%. The government had set an export target of $325 billion for 2013-14.

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RBI extends loan tenure for exporters to 10 years

Financial Express

Mumbai, 22 May 2014: The Reserve Bank of India (RBI) on Wednesday said exporters can now get long-term advances for up to 10 years to service export contracts, easing earlier rules that only allowed advances of up to one year.

Such advances can only be made to exporters with a 'satisfactory' track record of three years and the payments adjusted against future exports, the RBI notified on Wednesday.

Interest rates, if any, cannot exceed 200 bps over Libor. Exporters receiving such advances cannot use the funds to repay rupee loans categorised as NPAs. Banks may, in turn, offer guarantees and stand by letters of credit, if required, the RBI notification said.

The central bank also warned against double financing for working capital for execution of export orders. In addition, exporters who receive loans of $100 million or above need to report the transaction immediately to the central bank.

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Relook at trade pacts to boost manufacturing on cards

Deepshikha Sikarwar, Economic Times

New Delhi, 21 May 2014: Keen to spur domestic manufacturing, the new government is expected to take a relook at country's trading arrangements. The finance ministry will pitch for correction in tariff structures within the free trade agreements with other countries that have undermined domestic manufacturing.

"There is a need to spur manufacturing. A group is looking at the tariff structure in respect to the trading arrangements," said a ministry official. The idea in the trading arrangement should be to promote value addition and manufacturing in the country and so tariffs should be lower on imports of raw materials and inputs and higher on processed and final goods, the official said.

Contrary to this principle, a number of agreements did the opposite, the official said. The comprehensive study would suggest a course correction by emphasizing removal of inverted duty structure to remove the cost disadvantage of Indian manufacturing. The revenue department has also expressed reservations on India signing a Regional Comprehensive Economic Partnership (RCEP) that includes China as well, said another official with the ministry.

India has signed free trade pact with about 20 countries including Japan, Korea, ASEAN nations, Sri Lanka and Nepal, while it is negotiating market opening pacts with Australia, Canada, New Zealand and the European Union. A course correction is also seen to serve twin objectives, discouraging imports that have posed a challenge to the external sector and boosting domestic manufacturing. India's industrial sector has emerged as a big worry for the policymakers keen to create jobs.

Industrial production remained almost flat in 2013-14, declining 0.1 per cent compared with an expansion of 1.1 per cent in 2012-13, mainly on account of a drop in output in manufacturing, especially capital goods. The new government led by Narendra Modi is expected to give a big push to manufacturing sector led growth. The finance ministry has readied a detailed plan outlining key action points required in each area to improve the business sentiment, spur growth, contain inflation and maintain price stability in the long-term, boost infrastructure, deepen financial sector and rationalize the regime for foreign investment.

Market reforms paving the way for free movement of farm goods, open market sales and deeper forward markets to enable price discovery of agri goods. In infrastructure sector, the focus is on energising the public-private partnership model by bidding out projects after clearances and completion of acquisition at least 80 per cent of land required for projects.

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RBI eases gold import norms

Business Line (The Hindu)

Mumbai, 21 May 2014: The Reserve Bank of India has allowed "star trading houses" and private jewellery exporters, which had been barred from importing gold since July 2013, to resume imports, with immediate effect.

In a statement. the central bank said import of the first lot of gold by trading houses under the so called "80:20 scheme" would be based on the highest monthly import during any of the last 24 months before import restrictions were imposed in August 2013. However, the import quantity has been capped at 2,000 kg.

Also, under the modified guidelines for import of gold, the RBI said the star/premier trading houses should have imported gold prior to the introduction of the 20:80 scheme.

The RBI had imposed gold import curbs to counter a steep rise in the current account deficit. Also, the gold import duty was raised last year to 10 per cent from 4 percent and the Government mandated that 20 per cent of imported gold had to be exported, under the 80:20 rule.

On Wednesday, the central bank also allowed banks to lend gold to domestic jewellery makers from the 80 per cent quota. Hitherto, banks could make gold available for domestic use only to entities engaged in the jewellery business/bullion dealers and to banks authorised to administer the Gold Deposit Scheme against full up-front payment.

In other words, supply of gold in any form to domestic users other than against full upfront payment was not permitted.

Under the modified guidelines for import of gold, the RBI said the star/premier trading houses should have imported gold prior to the introduction of the 80:20 scheme.

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