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Re volatility: Exporters find it tough to take pricing decision

ENS Economic Bureau

New Delhi, 30 August 2013: Despite the hammering that stocks have received over the last week, IT sector shares have been consistent performers on the bourses, with the BSE IT index up over 6 per cent during the last week and well over 8 per cent the last month.

On the ground, though, the IT sector is struggling to come to terms with the sharp volatility in the exchange rate, an issue flagged on Thursday by Nasscom president Som Mittal. The continuing volatility in the rupee, he said, is hindering IT firms in signing new contracts with foreign clients, specifically on the issue of the value of the rupee to be quoted in the contract.

"It is a real problem. We don't know where to hedge, our customers don't know where to hedge," Mittal said. "Now the question is when I'm going to sign contracts, I don't know what the currency rate is going to be. My problem is shall I do it at Rs 60, Rs 65 or Rs 70 to the US dollar. So I have a problem is if I don't see stability at what basis do I price. What do I tell my customer, what is the rate?" The rupee has declined about 27 per cent since April. On the perceived advantage that should theoretically accrue on account of the rupee becoming cheaper against the greenback, Mittal said while it does help some small contracts depending on what has not been hedged, in most of the long-term contracts that are spaced over a period of 4-5 years, the amounts are generally hedged and the benefits of a sharp fall in the value of the domestic currency become largely immaterial.

"We have severe competition. In our case there is no elasticity of demand. So the exports doesn't go down, it gets depressed in dollars. So if I was selling my services at $50 and I think I'll pass on the benefit to the client at $45, my top line came down."

Mittal said the industry needs a stable currency as it helps in signing contracts. "So actually, we want a stable currency," he added. Nasscom expects the $108 billion Indian IT industry to clock export revenues of $84-87 billion maintaining a growth rate of close to 14 per cent in the current fiscal.

Other export-focussed sectors such as textiles and garments are also grappling with the problem faced by the IT sector. For the textile sector, the rupee's sharp slide has proved to be counterproductive. As against the perceived benefits from a sliding rupee, the uncertainty in the market has, instead, offset much of the gains from the notional currency advantage in the short-run.

Especially since most exporters did take some sort of cover in the form of hedging at a pre-decided rupee-dollar exchange rate. Rahul Mehta, president, The Clothing Manufacturers' Association, said "the uncertainty looming in different segments of the economy is making all sorts of predictions meaningless."

According to garment exporters, there is also pressure from buyers in key markets to renegotiate contracts afresh in view of the notional gains for domestic exporters.

Denting Earnings

* Exporters such as the IT-ITeS and the textile industries are unable to decide at what price to enter into a deal due to the constant volatility in exchange rates

* As a result, exporters in the IT-ITeS and textile sectors are unable to reap the advantage of a depreciating rupee
* For long-term contracts, any passing on benefits to the customer results in depressed export earnings as the currency value is itself hedged

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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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India Tries To Ease Impact Of Electronics Testing Rule; U.S. Industry Balks

World Trade Online

8 January 2014: The government of India has taken two last-minute measures designed to ease the impact of a new safety standards testing and registration rule that began applying to imports of electronic goods on Jan. 3, but U.S. industry sources this week continued to warn that the Indian rule holds the potential to create massive disruptions in trade.

The first measure taken by India effectively delays the requirement that all covered products bear a label printed with the necessary registration code until April 3. However, only companies that have put their products through the necessary testing process and already obtained a code will be eligible for this exemption.

Secondly, New Delhi has also slightly reduced the amount of paperwork that it will require of factories that manufacture products being shipped to India. But the government is sticking by its approach of requiring companies to have their goods be registered on a per-product, per-factory basis, according to industry sources.

Products shipped to India that are not tested, certified and labeled as required are to be stopped at the border under the regulation. Industry sources say it is difficult to estimate how many covered products have still not yet jumped through the necessary hoops and that they are still in the dark about the full ramifications of the new regulation's entry into force last week.

As of early December, industry sources counted a backlog of around 700 products whose testing reports had been received by Bureau of Indian Standards (BIS), but for which registration numbers had not been issued. In the past, industry groups have also warned that there are not enough testing labs to handle the volume of products that have to be certified in time to meet the deadline.

In addition, they have complained that the rule's requirements are duplicative, pointing out that many of the covered electronics are also tested for standards conformity by internationally accredited laboratories, and that the standards against which products are tested are the same as those evaluated by BIS-approved labs.

The industry has also gotten mixed signals about what the requirements are for highly specialized equipment, such as supercomputers or high-end servers. The Indian government has previously said this category of products is generally exempted from the new rule, but the exact terms of that exemption are unclear.

According to one source, the Indian Department of Electronic and Information Technology (DEITY) in one instance said that exporters of such equipment would not need special exemption letters in order for their products to be allowed into the country by the Indian customs authorities.However, in a subsequent exchange, DEITY delivered just such an exemption letter to a company that had submitted a request for an exemption four months earlier – raising questions about whether such documentation will be considered necessary by the government of India.

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US, EU oppose India’s local sourcing norms in telecom

Kalyan Parbat, Economic Times

Kolkata, 14 April 2014: India's local sourcing and testing rules aimed at tightening network security and spurring domestic telecom manufacturing have ruffled feathers in the US and Europe.

Barely hours after a powerful US trade body accused the country of encouraging protectionism in the telecom arena, the European Union (EU) has questioned India's plans to locally screen network gear from July 1 despite it having been cleared in globally certified labs. Both say such a move to double test the same equipment will not just delay supply of critical products but also increase cost of telecom services, hurting consumers.

In a recent internal meeting, the EU said testing should be repeated only if a telecom product undergoes significant changes that impact its core safety properties.

It has demanded that India must also drop "the in-country security testing requirement", for those products not covered by Common Criteria Recognition Arrangement (CCRA), a top industry executive aware of the discussions told ET. That is in addition to EU's opposition to India locally testing IT products which are already CCRA-approved.

The CCRA is the top global agency that defines testing rules to certify IT products used in telecom networks and counts the US, UK, Canada, Germany, France Japan and India as among its members.
In this light, EU has sought clarifications on whether India would allow certified labs in Europe to also test pure network gear not covered by CCRA. The opposition is especially since India is yet to develop a telecom gear testing ecosystem on a global scale. It has, in fact sought "an update on India's lab capacity to conduct local testing", another official familiar with the EU meeting said.

The EU's concerns stem from DoT's decision to locally screen all telecom network elements, including IT products used by telecom operators in India from July 1. More so, since DoT is yet to spell out the non-IT network devices that will be screened locally.

Mainline telecom equipment used in mobile networks includes base stations, mobile switching centres, network management & billing systems and transmission devices. But DoT also plans to locally test pure IT systems such as routers, switches and storage devices that go into modern mobile and broadband networks.

The EU has also exhorted "India to frame local testing norms aligned with prevailing global standards for 3G networks", the official quoted above added. Neither the EU nor the European Commission replied to ET's email queries in this light.

The EU's views mirror concerns voiced by the Telecommunications Industry Association (TIA), a leading US trade body representing manufacturers and suppliers of high-tech communications networks, which recently said India must not embrace telecom policies that "rely on protectionism".

"There is no evidence that location of an internationally accredited testing lab corresponds with the level of security assurance provided to it or the product itself," the TIA recently wrote in a letter to the US International Trade Commission.

"There are long-standing, internationally accredited labs conducting such testing and location does not have a bearing on the accuracy of the test as long as the lab has achieved appropriate certification," it added.

The TIA had also warned that India risked supply chain disruptions and increased costs for telecom service providers (TSPs) and their vendors as it currently lacked the requisite "lab testing capacity". It said the local testing deadline should be deferred, failing which, potential supply chain disruptions could hit consumer pricing.

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