

## **Meeting with Shri G K Pillai Union Commerce Secretary**

September 5, 2008

### **Welcome Address by Shri Rakesh Shah, Chairman, EEPC India**

It is my proud privilege to welcome Shri G K Pillai, our dynamic Commerce Secretary in our midst this afternoon. We are, indeed, thankful to you Sir, for giving us the opportunity to place before you some of the issues that are of relevance to the engineering exports of the country.

Shri Pillai has been an ardent supporter of the exporting community and the encouragement that we have received from the Department of Commerce cannot be expressed in words. Our country has benefited immensely from his negotiating skills, particularly, at the WTO, as well as at our bilateral trade negotiations with various countries of the world. The just concluded Indo-ASEAN FTA, which had many complexities, could be resolved largely due to his in depth understanding of India's core interests and his visionary leadership.

Sir, it is said that "Quality questions create a quality life. Successful people ask better questions and as a result, they get better answers". Sir, when we circulated the information that you would be meeting us, we were flooded with a large number of queries. Since they constitute a wide gamut of areas, I have already taken the liberty of forwarding to you separately a note containing some of the important queries that our members have sent for your kind indulgence and appropriate intervention.

I will, however, take the opportunity of your distinguished presence to raise some macro issues as well as brief you on some of the major activities of the Council to meet the challenges of our times.

#### **☑ The Future of Engineering Exports**

According to the Commerce Ministry, India has set an ambitious target of achieving USD 660 billion merchandize exports by 2015 that implies an annual growth rate of at least 23%. Clearly, Sir, for this growth to happen, the Engineering sector has to achieve US\$ 132 Billion to retain its share of 20% in the country's

export basket and to achieve this target we would continue to require the back up support of progressive policy measures from the Government. This is because as our share in world trade increases from the present level of 1.5%, our goods are likely to face newer and more innovative entry barriers.

For engineering goods, if the recent trends are any indicator, non-tariff barriers are likely to be erected, on grounds of security, environment protection, health and hygiene as also on social policy grounds. **The prospects of a carbon tax** as well as the inclusion of **social accountability clauses in trade contracts** by certain countries in the EU are some examples of what our exporters can expect in the days ahead.

Sir, last year around this time, the main issue before the exporting community was the sharp appreciation in the Rupee. We were told to accept such appreciation and hedge our risks. We did, but soon realized that the open economy is not only more risky, but it is also equally uncertain. As we hedged, the Rupee began to depreciate, thereby making a mockery of all our price expectation. **In this context, the Currency Futures, while adding a new financial instrument, needs to be understood better by the exporting community, since like commodity futures, it is devoid of delivery. Thus, whether it smoothens or exacerbates exchange rate volatility, only time can tell.**

#### **Fall in Growth in Export Volumes**

Sir, the impact of the Rupee's roller coaster ride is already evident. While engineering exports grew by 25.63% in dollar terms in 2007-08, and 23% in the first quarter of the current fiscal year, the surveys done by the Council shows that these are more a reflection of the price factor, and the growth in volume of many critical engineering sub sectors have actually fallen. Recently, the EEPC carried out a quick survey with regard to the volume growth of 24 engineering tariff lines during the first quarter of the current year. The engineering tariff lines covered in the survey included, sectors like Hand Tools, Machine Tools, Components and Assemblies, Conductors, Material handling Equipments, Fasteners, Forgings, LPG Cylinders and even Aerospace components.

The preliminary results show

- as against the 24 tariff lines that were exported during the first quarter of 2006-07 by the companies who responded to the survey, ,
  - in April 2008 however, were exporting only 20 of those tariff lines;
  - in May 2008, this dropped to 17 tariff lines
  - while in June 2008, there were 16 tariff lines.
- In April 2008, out of the 20 tariff lines exported, there was a negative growth in the case of 12 tariff lines over April 2006
- while for May 2008, 10 out of 17 tariff lines had negative volume growth over May 2006
- and in June 2008, 13 out of 16 tariff lines had a negative volume growth.
- When one compares the volume growth of the three months over last year,
  - we find that 13 tariff lines in April 2008 witnessed negative growth over April 2007,
  - 10 tariff lines a had negative growth in May 2008,
  - while 8 tariff lines had a fall in volume growth in June 2008 over the same month last year.

This quick survey indicates that while there has been consistent value growth, the volume growth remains a problem area that requires urgent policy action.

**The Strategy of Reversing Falling Volume Growth**

Sir, it is in this context the slowdown in volume growth in engineering exports needs to be addressed. And we need to address the issue of the “crowding of uncertainty” in the exporters mind. What is required is an enabling policy environment that allows exporters to devote all their energies in raising productivity

to meet the challenges of competitiveness. Accordingly, Sir, I wish to seek your intervention and policy action with respect to the following:

**Raw material Prices:** Steel, pig iron and other raw material prices have been the bane of engineering exporters, especially in comparison to the Chinese who are our major competitors in world markets. China has used a combination of export taxes and subsidies to hold its domestic raw material prices. In contrast, India has ineffectively used export taxes. The main producers have recently increased the prices of certain grades of steel plates by Rs 7000 per tonne which is further compounded by the lack of availability of steel for the SME sector. Moreover, export duty has also been imposed on certain value added items and customs authorities are even imposing duty on CKD/SKD industrial boilers that are being exported for project exports. The Council has been requesting for a National Raw Material Policy and today Sir, I will have the pleasure of presenting a Concept Note on the National Raw Material Policy, for consideration of the Government.

**Iron Ore Policy:** Sir, though India has 25 billion tonnes of high-grade iron ore reserves, the per capita reserve is only 22 tonnes. Besides, as per several survey reports, these reserves are likely to be exhausted in 25-30 years at the expected level of internal consumption and continuing exports. Recently, there was an advertisement which states, "Save Oil today or tomorrow you have to walk only". I would urge that we may use a similar policy for the iron ore sector also to secure the long term interest of our country.

**DEPB continuation/Drawback Value Caps:** Sir, the DEPB scheme has benefited the exporting community immensely. In aftermath of the withdrawal of the interest subvention scheme and stoppage of interest on EEFC accounts, we do believe that there is a strong case for retaining the present DEPB rates and enhancing the value caps considerably given the sharp escalation in input prices. It may be mentioned that the value caps were put into place four years back and its revision is long overdue. Further, the DEPB rates should be continued till the GST is in place and therefore extended beyond March 31, 2009. **Moreover, impact of Furnace Oil should be factored in the DEPB rates as factored in Drawback rates. Further sir, while the Drawback rates have been reduced a week back, the value caps should be enhanced.**

**Tax Issues:** Sir, this is another area where problem persists, especially with regard to **Service Tax Refund System and the Refund of State Level duties.** While 16 services have been allowed to be given service tax refund, the procedure for claiming even small amounts is rather cumbersome. Sir, why not have an exemption system with mandatory half yearly audit reports for the exemptions claimed by the exporters? Also, certain services like the service tax on Terminal Handling Charges and Inland Haulage charges need to be given service tax exemption, which exists on paper, but is not implemented by the tax authorities. Moreover, **at present, with respect to foreign commission agents, service tax refund is restricted to actual amount of service tax paid or service tax calculated on two per cent of FOB value of export goods, whichever is less.** Sir, when the Revenue Department's own guidelines states that the specified limit that would be allowed for export promotion scheme benefits with regard to foreign commission agents would be 12.5 percent of FOB value, it seems surprising to restrict the service tax refund to only 2 percent of FOB value.

**The problem of VAT refund continues.** The refund problem persists in states like Orissa and even West Bengal. Why are not all states adopting the Andhra Pradesh model of automatic monthly refunds for exports above Rs 10 lakh a month? Not only are VAT refund being blocked, exporters have even paid income tax on these refund which they are yet to receive. **Further, there should be an exemption system for all state level levies like electricity duties, mandi tax, octroi and entry tax.**

In this regard, I must add that the EEPC in October 2007 had submitted to the Department of Commerce its suggestions for refund of all state levies for submission to the Justice M.M. Punchhi Commission on Centre-State Relations. We had also submitted proposals on how state tax refunds to exporters can be routed through the Central Government. I am glad to learn that the Commerce Ministry has represented a modified version of our suggestions to the 13<sup>th</sup> Finance Commission.

**Infrastructural Issues:** Sir, a High Powered Committee has been set up under the Chairmanship of the Cabinet Secretary, wherein you are also a member, to look at the Trade Infrastructure of the country. **A FICCI Study on India's Manufacturing showed the high Transaction Costs and a prosecution oriented regulatory environment in India.** For instance, the Survey points out that a maximum of **91** inspectors could visit an industrial establishment with **20** of them under **5** regulatory areas having the power of sending the owner behind bars. Moreover, the multiplicity of procedures and compliance measures add to transactions costs thwarting efficiency. The Council along with other EPCs have made detailed recommendations in this regard. I suggest that this High Powered Committee come out with a **Vision 2020 Document on Trade Infrastructure** to be implemented by the Government.

**Shipping Regulator:** Sir, shipping freight is an important cost element in Engg. Goods. The Shipping Liners should be under the Competition Commission of India and a National Shipping Regulator on the lines of IRDA and TRAI be formed. As users of shipping liners, our members have frequently complained about the cartelization in ocean freight. The European Union is also thinking on these lines and India can emulate the efforts being made by the EU to bring about greater competition in the shipping industry.

**South-South Trade:** Sir, there is considerable merit in pushing for South-South Trade, more so, with the need to diversify our exports. However, it is also a fact that the largest number of trade barriers exists in South-South trade relations. To give you an example, despite SAFTA and the unilateral trade liberalization by India, Pakistan is yet to give us the MFN status. As a result, we are unable to export a whole range of engineering goods to Pakistan, despite their own businesses requesting us to supply them. How long can a Positive List continue be the support mechanism in an era of WTO and FTAs? Similarly, in case of Mexico, Indian engineering goods are hampered by visa problems. Further, with respect to Chile, even though we have a Preferential Trading Arrangement, it is of no use, since China has a FTA with Chile and Chilean importers naturally prefer Chinese goods.

Sir, India's Trade engagement with China is on the rise. Many of our members have been victims of malpractices by their Chinese counterparts. We have taken up atleast 6 such cases with Indian Embassy in Beijing and with MEA. We suggest a structured trade dispute mechanism between the two countries is put in place.

### **The Activities of the Council**

Sir, the Council too is gearing up to meet the needs of our members. As advised by the Hon'ble Commerce & Industry Minister, we have now become an Trade and Investment Promotion organization. We have a new name in EEPC India. In a couple of days we will holding our 19<sup>th</sup> INDEE at Kuala Lumpur where 150 Indian engineering companies will be participating. In the backdrop of the Indo-ASEAN FTA, I do believe that the timing for this mega event is perfect. Thereafter, in November, we are going to Shanghai, where we will be hosting our 20<sup>th</sup> INDEE.

**Sir, it will be tremendous encouragement to the exporters, if you could kindly grace our Indee with your presence.**

Sir, there was long felt need to develop a Steel Price Index at the Retail level. This is because while there is a Wholesale Price Index for Iron and Steel, there are no such indices at the consumer end. Thus, EEPC India took upon itself the task of devising a Steel Price Index. We have so far developed four types of Indices: EEPC Finished Steel Price Index; EEPC Long Price Index; EEPC Flat Price Index and EEPC Pig Iron Price Index. We are also publishing these indices in a new publication called EEPC Metal Price Monitor that is sent to our members every month.

Despite the challenges, EEPC India is confident about India's potential to emerge as a leading manufacturing destination and engage in global trade with all countries in diverse commodities. With these words, I, once again, welcome Shri Pillai in our midst and before requesting him to share his thoughts, may I take the opportunity of presenting the first copy of our Concept Paper on National Raw Material Policy to him.

**Thank you.**