Miscellaneous

Special Task Force on Impact of Global Financial Crisis on Engineering Sector

(Continued from previous issue)

Constitution of the Special Task Force

In view of the need to have a coordinated response to the global financial crisis, EEPC India Chairman, Mr. Aman Chadha formed a Special Task Force under Mr. Rakesh Shah, Immediate Past Chairman, with the following terms of reference :

- **To carry out a comprehensive survey of the problems faced by member exporters as a result of the Global Financial Crisis;**
- **To seek data from the member exporters to identify the problem areas such as data on their production, exports, order book position, credit terms and dealings with banks, etc.**
- **To seek suggestions from member exporters on how to stabilize the situation for their respective companies;**
- **To assess the feed back from the member exporters of the Council and come up with policy reports from time to time in order to provide inputs to the Government on various issues affecting member exporters;**
- **To regularly meet Senior Government representatives to push for the recommendation of the Special Task Force;**
- **To publicise the reports of the Special Task Force with a view to generate greater awareness regarding the Global Financial Crisis and the steps being initiated by the Council.**
- **Any other issues that may be deemed fit from time to time.**

So far, the Special Task Force has circulated a Questionnaire to the members of the Council seeking information on the problems faced by them and also their suggestions to the Council and the Government. The following section summarizes the main feedback received from our members :

Member Responses to Global Financial Crisis

(i) Problems related to LCs

Banks are not issuing letter of credit due to credit non availability in various countries. LCs are being restricted to counters of certain banks who are overcharging Indian exporters as banks want to increase their own revenues by way of bank charges which is totally unregulated in India as any bank can charges any thing and there is no transparency or restrictions in place. Government should consider putting restriction in place on the amounts bank can charge for advising letter of credit, advising amendment, negotiating documents under letter of credit , charges for issuance of necessary certificates post shipment. Banks should also be asked to put up the list of charges on their websites. This applies specially for foreign banks.

A typical example and a query from one of our member exporter, M/s. XYZ Pvt. Ltd is as follows :

Dear Chairman, EEPC India.

We thank you very much for your efforts in resolving the problems faced by the export fraternity due to Global crisis. We have one specific problem relating to LC. We explain below our case for your perusal and further needful action.

1. *We exported our engineering goods against an Irrevocable, At sight confirmed LC to our customer in Peru, South America.*

2. Banco de credito BCP, our customer's bank in Peru is the LC opening bank.

3. In the LC, Bank of America, New york has been mentioned as the Reimbursing bank.

4. We have shipped the material against this LC and prepared documents and requested SBI to negotiate the LC for obtaining immediate payment. Our Bank did not notice any discrepancies in the documents and documents were in order as per LC conditions.

5. To our astonshment we were advised by SBI that this bill can not be negotiated and only can be sent for collection. Eventually they have sent our bill for collection.

Now we are waiting for the proceeds to come.

Now our concerns are :

1. Why our Bank has refused to negoitate the bill. We are banking with them for the past 8 years?

2. Will Bank of America, New york reimburse the funds?

3. What is the modus operandi of this arrangement?

4. Do you forsee any problem to our payment?

5. Is bank of America affected by recent financial turbulence in USA?

Sir, Can you please answer all our above concerns so that it will give us some soothing relief.

Await your response.

With Best Regards

(ii) Problems related to liquidity (both domestic and external) to exporters including ECBs

Most exporters have complained that they face tremendous problems with respect to credit requirements. The main complaints are :

- banks are hesitant to sanction limits and have increased interest rates;
- banks have suddenly refused to discount our Non LC-Inland bills at a time when festive season is on stating that they have exceeded their credit limits, event though this was not done earlier;
- banks are unwilling to roll over this buyers credit in Japanese Yen for import of machines;
- banks are not releasing pre shipment credit easily and there is problem in discounting foreign letter of credit documents even restricted ones. They insist on squaring of all current advances and reassessing their position for each company. Supplier credit is not available.

(iii) Issues related to existing export order and new orders

Most responses have expressed concern over both export orders and new orders. The main features of the feedback are :

- Confirmed orders are being delayed with request for lower prices and holding back of supplies from Indian exporters; Purchase Orders received by some of our members have fallen in the aftermath of the financial crisis and dispatches have been postponed by two months, as of now. Further, inventories of two months have been reported by some members;
- One member has reported that their American buyer has stated that goods in US and EU are now cheaper than from India;
- In certain segments like Hand Tools and Machine Tools, first the orders dried up in USA and now Europe has started feeling the pinch. Members have informed that buyers are just not visiting stores to buy. Volumes in tonnage are down by at least 40%;
- Export Realizations have slowed down;

- The frequency of orders have come down;
- Due to frequent changes in prices, the buyer is not ready to buy or can plan in advance. Thus, everyone wants to place order when his stock level is really at a very low level, resulting in fewer orders in hands.
- Earlier members were planning in advance and were keeping the stock for regular customers, but with the change in world pricing scenario, they cannot do it because it is very difficult for them to predict the price movement.
- Some members have reported that some orders running against the proforma invoice against which no advance was received and there was no L/C, and now with the slow down in market has resulted in cancellation of proforma invoices.
- Most manufacturers are stocked with high cost inputs due to speculative Trading in MCX/Commodity Exchange worldwide compared to current prices, and the customers are expecting products to be priced at current raw material prices, which may result in lower sales or decrease in profit or both;
- Most micro and small scale members have stated that their foreign customers have requested for reduction in price;
- Countries like Ukraine, Kazakhstan, Pakistan, Tanzania, face national bankcruptcy and advance payments that exporters received from buyers have stopped.

(iv) Impact of cooling of petroleum prices and metal prices, fall in freight rates and depreciation of the Rupee

Despite the INR crossing Rs. 50 to a USD, the orders are not forthcoming. In fact, members have stated that their buyers have asked them to hold orders in view of the dollar appreciation. Thus, the Rupee depreciation is not of much benefit, especially those who have hedged position, who are locked till May 2008 to Rs. 43/44 to one USD. Members expect a decrease in Exports by 25% in Rupee Terms compared to last year. Further, with regard to metal prices, still Indian Pig Iron is most expensive – it is currently at Rs. 30 per kg compared to Rs. 20 in China. Also though steel has fallen, still it is 20% higher than last year Oct levels. Also petroleum may have fallen, but LDO is still at Rs. 44 compared to Rs 27 last year same period.

Thus, while the cooling of POL prices is positive, there is, however, a huge problem in supply from main plants who control majority of the supply. For example RINL prices are almost 60% more than other steel available in the market even though it is government controlled. This is having a serious negative impact on a range of industries like fasteners as price on which RINL supplies cold headed quality steel is more than finished prices being offered from Chinese manufacturers of fasteners and the prices includes cost of metal, processing and packing charges, freight to India. Fuel prices are still not in parity with crude prices for industrial fuels. EEPC India's MSME members feel that India's manufacturing sector is not being supported given that the focus was till now on major producers, which squeezed all secondary industries.

Other Complaints received from Members :

Letter of M/s ABC Ltd to their Bank, M/s Axis Bank Ltd.

Ref. : KIW/2008/11/17/01

Date : 17-11-2008

To : **The Manager**
Axis Bank Ltd.
Sanjay Place, Agra, (U.P.)

Subject.: Regarding refusal of our request for releasing our funds from EPC

Dear Sir,

We have been running our account since several years and availing the Credit Limit and Export Packing Credit. We have also been maintaining our account in a proper manner.

It is very surprising that on 12 Nov. '08 & 14th Nov.'08 your Bank has refused the application for releasing the funds of Export Packing Credit required for executing the pending Export Orders without any prior notice to us. With the result of your sudden refusal to honor our application without any reason whatsoever, our two cheque valued at Rs. 10,00,000/- has bounced thereby ruining our creditworthiness. These cheques were issued for procurement of Goods required for Execution of our pending Export Orders.

Never before have we ever faced such a predicament from your Bank.

We are requesting you to please clear our problem.

Hoping for your kind co-operation as you have been providing us so far.

Thanking you,

Yours faithfully,

For **M/s. ABC Ltd.**

Sd/-

General Manager

Letter of M/s. PQR Ltd., Mumbai to their Bank, M/s. Corporation Bank

Date : 20.1 1.2008.

To,
Corporation Bank, Mumbai

Subject : Instruction for S Conversion to IRS Current Account. i.e. From EEFC A/c with you.

Dear Sir,

We request you to please Convert US$ 4000/- Existing balance amount in our EEFC A/c and give us Equivalent credit into IRS Current account as earliest moment.

As we are early bird victim of an on going un expected Global Recession & due to Fund crunch at our regular Foreign buyers country we are force to take above mentioned step, we hope You will co-operate with us & do the need full, immediately. Time of sending You letter, we have ready 2 container material worth several lacs (investment from own accruals) which are laying in our Premises for export & overseas buyer has refused to take delivery or make payment against delivery of ordered goods under Forward contract.

With best regards,

Yours Sincerely,

For **PQR Ltd.**

Following Letters were received by our Chairman Shri Aman Chaddha

Letter of MNO Ltd.

Dear Sir,

We Bank with State Bank of India-who allowed us to discount our bills-Non LC-Inland bills up to Rs. 50.00 lac. All of a sudden one fine morning they totally refused to discount the bills on the ground that we have exceeded our limits-When we have potential orders and we earn valuable US dollars to our country-why should they stop bills discounting, Our Bank is State Bank of India Ambattur Indl. Estate, Chennai-600 058.Tele: 26253351/2625 3392 (044) STD code.

When we show good performance we expect the Bankers to take part in our growth instead of putting speed breakers-resulting loosing of orders on hand.

Please look in to the matter most urgent. Such delays from the Banks will definitely help further ruins rather than helping the SSI in a turmoil that we are facing today.

Your immediate step in this regard is sought and helps earn US dollar in to our kitty.

Regards,

MNO

EEPC India Actions

The Council has taken up all these cases with the concerned authorities and the RBI. In addition the Council has suggested the following measures to the Government to address the present situation :

The Council would like to suggest the following measures for the consideration of the Finance Ministry to tackle the present problems from the point of view of engineering exporters :

A. Measures in the Short Period

RBI and Credit Related Issues

- Increase Sanction Limits while lowering interest rates. Credit Limits should be increased by 50%, since export realization has slowed due to financial crisis in foreign countries. Bank need to be more flexible with their regular customers. Reports indicate that even leading banks like SBI have suddenly refused to discount even Non-LC Inland bills (at a time of festive season) on the grounds that credit limits have been exceeded, even though these limits were exceeded in the last two years and were being allowed till as recent as October 15, 2008;
- The Banking Industry needs to be cautious, but not over-cautious;
- Post Shipment Credit period should be increased from the present 90 days to 270 days without the present provision of an increase in the interest rates since importers are delaying in confirming the dispatch of goods as they wait for prices to fall. So extension of Post Shipment Credit to 270 days will help exporters to dispatch the goods as per their client request;
- Reintroduce Interest Subvention Scheme for MSME sector with respect to Pre and Post Shipment Export Credit and include the Merchant Exporters in the Subvention scheme at least till March 31, 2008, particularly for those exporters who have hedged their positions. Further, in the present situation the interest should be linked to the Bank rate and not the BPLR;
- In view of the delays in export realization, the penal interest rate provision should be relaxed by at least a month;
- Reduce Bank Charges and make them transparent by making it mandatory for Banks to put all the details of their charges on their websites including the maximum permissible discounts on bank charges that can be allowed;
- PCFC credit needs to be enhanced, as this has dried up. RBI needs to set up a programme where it makes foreign currency liquidity available to Indian companies in predictable quantities at market prices. Thus, reserves should be used to bolster dollar/foreign currency liquidity in form of buyer's and supplier's credit, PCFC, etc to enable foreign currency credit/rollovers, etc. Further, a window should be created for buyer's credit rollovers in appreciating foreign currencies like Yen, since importers who have taken buyer's credit in Yen for import of machines and plan to roll over the buyers credit when it matures, have found that due to the tight market, no bank is willing to roll over this buyer's credit which results in losses due to the appreciation of Japanese Yen. ***The Council has estimated that a sum of around USD 2 billion would be required by the engineering sector, mostly for its MSME players, as PCFC credit***. (This figure is arrived at by taking into consideration the contribution of the MSME players in engineering exports which is around 40%, their average requirement of PCFC credit as a percentage of the export turnover which is around 20%, and profit earned by the bank which is around 10% of the export value);

- Put pressure on IMF to provide stabilization loans like providing for enhanced SDR under liberal terms and without the usual strict conditionalities to countries like Ukraine, Pakistan, Kazakhstan and other developing countries who are on the verge of bankruptcy, so that buyers in those countries can pay back Indian exporters and also continue their trade requirements;

Foreign Trade Policy and Fiscal Policy Related Issues

- At present, Cenvat credit is not available on LDO/Motor Spirit/HSD. LDO, in particular, is an important fuel used in the manufacturing processes of several industries. Further, LDO prices are at Rs 44 as opposed to Rs 27 last year at this time. Non availability of Cenvat credit increases the cost of production and leads to export of taxes. Currently even drawback is available on diesel so there is no logic of denying Cenvat credit on LDO. It is requested that Cenvat credit may kindly be allowed on LDO;

- Instruct State Governments to release VAT refunds at least for 2005-06 immediately, given the acute need for Working capital funds due to the slowing of export realization;

- Remove procedural difficulties with regard to excise. For instance, the CT1 Form issuance is a major problem in certain parts of the country (EEPC has received complaints from Jodhpur, for instance, who have to collect the forms from Jaipur for every single CT1 form). Simple steps like issuing CT 1 Booklets instead of single CT 1 forms to recognized exporters or members of EPCs can help the problem faced by exporters in non-metro cities to procure CT1 forms from excise authorities in a hassle free manner;

- The general rate of depreciation on plant and machinery should be raised from 15% to 25%, as this would encourage MSME units to undertake fresh investments and create demand for capital goods in the county;

- The erstwhile Investment Allowance provision under the then Section 32A of the Income Tax Act should be brought back to encourage investments by companies in India. Further, the Government may also kindly consider to bring back Section 80 HHC benefits to encourage exports as this would earn valuable foreign exchange for the country;

- The system of weighted deduction under the then Section 35A of the Income Tax Act for R&D, Market Promotion and similar other activities should also be reintroduced to enable investments by companies in these activities so that it is possible for the manufacturing sector to become more competitive in the present economic environment;

- The Customs authorities need to be responsive to the request from exporters and EEPC with regard to miss-classification of export duty on steel products. There are cases where Customs and Department of Revenue are not even willing to listen to the recommendations of the Ministry of Steel and the DIPP, MOC&I. This has badly impacted exporters' psyche, since there is enough evidence of wrong classification being imposed by Customs authorities. It is suggested that where problems of classification arises, goods should be allowed to be exported without export duty by taking an undertaking from the exporter that if it is found subsequently that the goods attract export duty, he should be liable to pay. At present, Customs is demanding that exporters should export with export duty paid and seek an appeal order. Exporters are unwilling to do this since it takes an inordinately long time to get refunds from the Government;

- Seamless Tubes and Pipes should be removed from restricted category to Free category. If necessary, customs duty can be imposed, but this item should not be made restricted.

B. Measures in the Medium to Long Term

- The Government of India needs to encourage the growth of real sector, the bricks and mortar industries and show less exuberance to foreign portfolio investment. Its fiscal policy should encourage investments in the real sector by using fiscal and monetary instruments that encourage domestic investment and FDI. In fact, India should be on guard when FIIs show their overenthusiasm to Indian stock markets. That should be seen as the first sign of a looming catastrophe, rather than a measure of the "strength of the economy". The EEPC had been suggesting last year when the Rupee was appreciating that a Tobin Tax be put. This would have ensured less dramatic increases in stock market prices last year and in turn, would have led to less outflows, this year. It is time that the past mistakes be rectified;

- There needs to be considerable attitudinal change in the Department of Revenue when it comes to the problems being faced by the Exporting community. A uniformity in policies and their implementation is clearly the need of the hour, without which exports cannot be buoyant;
- The Engineering sector requires a Technology Upgradation Scheme to enable Indian engineering comes to move up the value chain and export high value added products. The EEPC has already submitted a proposal to the Government in this regard;
- India needs to work with other developing countries to organize a "Bretten Woods Conference" where the Developing world could be invited to discuss how best they can tackle the growing menace of sudden and rapid financial flows and the debilitating impact on developing economies. Perhaps, institutional architecture needs to be created where it is possible to help developing countries tie over such crisis situations. Or urgent reforms are required in IMF, in particular, so that the voice of developing world can be heard;
- Lower Transaction Costs for exports through upgrading Trade Infrastructure, use of greater Information Technology, proper and responsive grievance mechanisms, etc.

Issues before The Special Task Force

The earlier sections has give a broad overview of the issues involved and the steps that have been taken by the Council thus far. The members are requested to give their views and suggestions on the following issues, so that a co-ordinated response can be drawn up for the benefit of Engineering Industry and the exporting community :

Suggestions are invited in the following areas :

- ☑ Banking and Financial System related
- ☑ Foreign Trade Policy Related Issues
- ☑ Fiscal Policy Related Issues
- ☑ Infrastructure Related Issues
- ☑ Promotional Policy related issues

  Any other issues that may be deemed fit by the participants

To Conclude….

On the basis of the above suggestions, the Special Task Force will take necessary steps to recommend these measures to the Government and continue to press for their implementation.

(Source : EEPC INDIA Policy Department)