## Chairman's Pen

*My dear fellow exporters,*

*Friends, the last week has been rather hectic in respect of media coverage with regard to possible Government thinking. Of special interest is the news that the Foreign Trade (Development & Regulation) Act of 1992 may be amended by the Government to arm itself with powers to impose quantitative restrictions (QRs) on imports to protect domestic industry. Also, services could also be brought under the Act, which so far has concentrated only merchandise goods. It remains to be seen how the Government amends the Act since India had earlier phased out QRs, though Article XX and XXI restrictions still remain on the grounds of general and security exceptions. But a conclusion that can be drawn is that as and when the Doha round concludes, we are, perhaps, likely to witness dumping or quasi-dumping situations that may require the temporary use of QRs. One, therefore, hopes that Government will take a balanced view before committing itself to cuts on the applied rates with regard to industrial tariffs.*

*There is also the news that the planned 2% cut in central sales tax from 2008-09 may be set off by a 1% increase in the VAT rates. Apparently, the finance ministry is looking into a proposal to increase VAT to 5% on items that are currently taxed at 4%. Perhaps, this may be extended on to the higher rates as well. It seems that the Government is taking a static views of things and not looking at multiplier effects of lower indirect tax rates that may lead to increased tax buoyancy thereby negating the possibility of potential revenue loss as a consequence of lower rates of CST.*

*Your Council has also expressed its concern to the Prime Minister on the continuous appreciation of the Indian Rupee vis-à-vis the US Dollar. Since August 2006, the Rupee has appreciated by over 7% and the last couple of days have hastened the appreciation considerably. This coupled with continuous escalation in prices of steel to the extent that secondary steel producers have increased steel prices by Rs. 1800 per ton has virtually made exports of engineering items from India an unviable proposition in the short run. We have also pointed out that the micro and small exporters do not have the necessary wherewithal to use modern finance and management tools, such as, price hedging, executing bargaining power or even looking at other non-volatile currency options. Thus, for them, the USD is the only currency medium for engaging in international contracts. Moreover, while counter-cyclical measures are important instruments for reigning in inflation, it does seem that the RBI is also using higher Rupee appreciation to control the general prices in the economy. Your Council has urged the Government to take appropriate steps in this regard to ensure that raw material prices can be brought under check to benefit our exporters, especially those belonging to the micro, small and medium scale sector.*

*Yours sincerely,*

(RAKESH SHAH)