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EEPC CHIEF WELCOMES NEW FOREIGN TRADE POLICY AMENDMENTS BUT FEELS EXPORT TARGET MAY BE DIFFCULT TO ATTAIN GIVEN THE SHARP RUPEE APPRECIATION

Mr. Rakesh Shah, Chairman, EEPC India, while welcoming the **progressive thrust of the Annual Supplement to Foreign Trade Policy, 2004-09**, announced by Commerce & Industry stated that under the present environment where the Rupee has appreciated by nearly 11% since August 2006, the **export target of USD 160 billion** this fiscal, a growth of 28% from the last year's total export, may be an uphill task. Mr. Shah stated that in the last fiscal year 2006/07, engineering exports grew by a stupendous 35% crossing the earlier revised USD 24 billion export target to achieve a **total engineering export of USD 27 billion**. Under the present conditions, however, Mr. Shah noted that even attaining the last year's exports target of USD 24 billion for engineering exports may be difficult to achieve if the Rupee continues to appreciate.

Since engineering exports comprise the largest component of total exports amounting to 21% of the last year's aggregate exports of USD 125 billion, if engineering exports falters, the overall export target for 2007/08 is unlikely to be met, Mr. Shah noted. Further, the problem of Rupee appreciation has been further compounded by the sharp escalation of interest rate on export credit which has increased by nearly 3% in the last quarter. The EEPC Chief, therefore, urged that while controlling inflation is an imperative for any Government of the day, export competitiveness of Indian products is vital given that a large number of our exporters are engaged in long term contracts and their books will turn into NPAs soon, unless the exchange rate is stabilized and the interest rates for MSME exporters, in particular, are lowered. Moreover, it was quite strange that while the Union Budget in February, 2007 lowered the average customs duty to 10%, this was, however, *followed by not a further depreciation of the Rupee, but its sharp appreciation*. Clearly, a combination of lower tariffs along with Rupee appreciation is a sure shot recipe for domestic industrial production squeeze, Mr. Shah mentioned.

The EEPC Chief paid rich compliments the Commerce & Industry Minister for taking a large number of progressive measures for the benefit of the exporting community. EEPC has been urging the Government to ensure that India exports **products** and **not taxes**. Hence the announcement by the Commerce Minister to exempt all the services rendered abroad and charged on

exports from India as also draw up a remission mechanism for the internal service taxes on exports is, indeed, most welcome, Mr. Shah observed. The EEPC had suggested to the Government for expanding the Focus Market Scheme (FMS) as well as include Mica in the Focus Product Scheme (FPS). The new amendments have now expanded the FMS to include 16 countries, of which 10 countries belong to the CIS region and have also included Mica in the FPS. The amendments have also brought about a semblance of accountability in the tax system by stating that efforts will be made to provide timely disbursement of CST, Duty Drawback and Terminal Excise duty and in case of delay, interest will be paid for the period of delay. This provision has been made with retrospective effect from April 1, 2006, and is a most laudable step announced by the Commerce Minister. The Minister has also acknowledge the difficult times that exporters are facing and has allowed exporters more time for completing their export obligations in the event they are affected by force majeure or unforeseen circumstances, the EEPC Chief noted. The other welcome measures brought about in the Annual Supplement is the extension and modification of the DEPB scheme, revamping of the EPCG scheme, which will now allow exporters to use original spare parts, extending the Export obligation from 8 to 12 years for cottage and tiny exporters as also the introduction of a new scheme to give impetus to exports of high tech products.

Mr. Shah also complimented the Commerce Minister for recognizing that KPO and EPO are fast emerging as the new areas of growth and welcomed his desire to give all forms of policy support to these sectors. In this context, the EEPC has commissioned A.F.Ferguson & Co. to carry out a Strategy Paper for the Growth of EPO Industry in India and this study will be released on June 1, 2007 at New Delhi, Mr. Shah commented.

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