

Committee for All Industry Rate of drawback for different products



AT HYDERABAD: Dr Soumitra Choudhuri, Member, Planning Commission, Chairman Duty Drawback Committee (4th from left) addressing the participants. On his right are Mr Walter D'Souza, Regional Chairman, FIEO(SR); Mr T R Rustagi (Retired), Chief Commissioner of Customs and Central Excise; Mr Unnikrishnan K, Director, Regional Head, FIEO(SR). On his left are Mr S B Mohapatra (Retired), Secretary to the Government of India; Mr P N Rao, Commissioner of Customs, Hyderabad Zone – II; and Mr Suresh Kumar, Director, Duty Drawback.

A three-member Drawback Committee has been constituted by the Ministry of Finance, Government of India, for looking into various aspects of the Duty Drawback Scheme and to recommend All Industry Rate of Drawback for different export products to the Department of Revenue. The committee consists of Dr Soumitra Choudhuri, Member Planning Commission as its Chairman, Mr S.B. Mohapatra, Secretary to the Government of India (Retired) and Mr T.R. Rustagi, Chief Commissioner of Customs and Central Excise (Retired).

FIEO organised interactive meetings of the Drawback Committee with exporters in Hyderabad on April 12, 2012 and Bangalore on April 13, 2012.

In Hyderabad more than 80 leading exporters representing sectors like bulk drugs and pharmaceu-



A view of the participants at Hyderabad.

ticals, engineering, tobacco, agro and processed food, textiles, paper and paper board etc participated in the meeting.

Mr Walter D'Souza, Regional Chairman, FIEO (Southern Region)

in his welcome address said India's exports for FY 2011-12 are poised at just shy of \$300 billion, which is a growth of about over 20% year on year and given the situation of global economic slowdown not bad at all. "What is frightening is the



AT BANGALORE: Centrally Seated: Mr S.B. Mohapatra, Member, Drawback Committee. From his right, are, Mr Suresh Kumar, Director, Drawback, Department of Revenue Ministry of Finance; Mr Babu, Managing Director, Ashwin Precision Products; Mr Jatish Seth, Managing Partner, Shrusthi Pharmaceuticals; Mr V. Srinivasan, Joint Director, FIEO (BLR); Mr T. V. Maruthi, Managing Committee Member, FIEO; Mr V.R. Naik, Manager – Commercial, Mysore Fruit Products Ltd; Dr Soumitra Choudhuri, Member, Planning Commission & Chairman Drawback Committee and Mr Gokul Ramaswamy, M/s. 3 M India Limited, Bangalore.

trade deficit which can be to an alarming order of over \$170 billion,” he said. “This calls for all leading exporters to put their heads together and represent to the Government to request to put in place export promotional measures and mechanisms so that the widening trade deficit gap is arrested at the earliest. Southern India accounts for about 25% of the total exports from India, with a contribution of over \$70 billion and Andhra Pradesh contributes about \$10 billion.”

Mr D’Souza expressed the concern of exporters on the instances of delays in getting the duty drawback at some of the southern ports. He suggested setting up of a proactive department under the Ministry of Finance with a mechanism to monitor all the cases where the drawback claim is not remitted within a specified time frame.

He said the exporters factor the

duty drawback while arriving at the sale price of the merchandise and inordinate delay in credit of drawback diminishes the merits of the scheme. He appealed to the Government to adopt stable policies so changes are not made amidst a financial year, as Indian exporters expect a level playing field. Exporters takes long positions of over six months or a year and in between if there are any changes it adversely effects their profitability and it could have far reaching repercussions in their business. The FIEO Chairman tabulated that several duties and levies at central/state/municipality levels which are going into production is not reimbursed or refunded and requested the committee to look into the mechanism to capture these taxes until implementation of GST. Mr D’Souza also expressed his concern on rising interest rates and pleaded for re-introduction of interest subvention scheme immediately for helping the exporters to overcome

the recession.

Dr Choudhuri while addressing the participants said the Duty Drawback Scheme is not an incentive scheme and therefore it cannot be and will not be countermanded through any form of anti-Subsidy measures. It’s a tax refund scheme; whatever central taxes including central excise or customs duty that are paid for the export production, these central taxes are refunded to the exporter in as efficacious way as possible. Ideally speaking in a situation where the department has the complete data of the individual products exported, its actual input tax credits get their rebate, but this ideal situation is not always obtained. Sometimes the excise duty chain is broken and it is difficult to track all the input taxes and thus we have this concept of All Industry Drawback Rate which averages out more or less across the industry for different products what the input tax credits are and assesses what the rebate would be. The calculations are as closely as possible on the actual basis, he added.

Mr P.N. Rao, Commissioner of Customs, Hyderabad, said that during the post DEPB regime, the utilization of duty drawback has shown a quantum jump evident by the four-fold increase in the number of shipping bills filed under drawback scheme at Air Cargo Complex, Hyderabad and ICD, Sanathnagar within the last six months. He pointed out that the major problem faced by the department is due to non filing of the EGMs by the airlines or shipping lines in time, because of which drawback shipping bills are not appearing in the system. Hence, the commissionerate has taken the initiative and issued directives to the airlines and shipping lines to file the EGMs immediately so that no case is pending for more than three months.

The following are the major issues discussed during the interactive session:

PET Perform may be included

in DBK: As Pet Perform is not covered by All Industry Duty Drawback Rate but can be covered under residual category, the committee asked the manufacturers of Pet Perform to submit a detailed input-output data so as to enable the committee to work out an All Industry Duty Drawback Rate for the product.

The tariff heading of tobacco as per the DBK notification is 240110 (tobacco not stemmed or stripped only), but earlier under DEPB Scheme it used to cover all types of tobacco products except scrap tobacco. DBK schedule may be revised for inclusion of all type of tobacco products in the scheme.

The Drawback notification has come on October 31, 2011 w.e.f. October 1, 2011. Exporters got them self registered with the bank after October 30 were denied the DEB claim for their exports from October 1 till registration of their account with the bank.

While transferring the fund by the department to the exporter's account, most of the time complete details such as shipping bill number are not mentioned. Due to this it is very difficult for the exporters to know the status of their outstanding payment. System can be devised which enable the exporter to view status of their Drawback claim online.

There is value cap for products under Chapter 2853 (285201 to 285211). For above tariff items the main raw material is mercury which is high value and price is going up day by day. Hence the duty component is not compensated. It is requested that recalculation of Duty Drawback may be made with higher value cap of minimum Rs 300 kg.

Cotton yarn, processed fabrics and readymade garment exporters faces serious problem due to raw materials price volatility and the committee may look into this issue while fixing drawback rate for this sector.

The exporters in Hyderabad put forth their issues:

1) HS Code 05010010 – HS Code Classification of human hair, unworked, whether or not washed or scoured; waste of human hair. HS Code 67030010 – HS Code classification of human hair, dressed, thinned, bleached, worked; wool or other animal hair or textile materials, for use in wigs.

All human hair exporters are claiming DEPB benefits for the export of human hair products under above mentioned HS Codes. As per the CBEC website, there is a mistake of serial number up to 2130 instead of up to 4000; plus in the website there is no mention of human hair. All human hair products under the DEPB Scheme may also eligible for claiming the Duty Drawback under above said HS Codes.

You are well aware that under the Duty Drawback Scheme the Finance Ministry has reimburses duty drawback on only item No.1, not for item No.2. As per our regular process we will purchase raw materials from temples and from other sources, and we will do sorting, washing, bleaching, drying, hackling and bundling. The intention of exporters of human hair products is to be avail the benefits of Duty Drawback Scheme on item No.2.

As in previous years all human hair exporters are claiming DEPB benefits for the export of human hair products under above mentioned HS Codes. As per Circular No. 42/2011-Cus, dated September 22, 2011 the Ministry of Finance has announced the revised All Industry Rates (AIR) of Duty Drawback 2011-12 effective from October 1, 2011 and the drawback schedule incorporates items which were hitherto under the DEPB Scheme.

Thus the total number of items in the drawback schedule would cross 4000 approximately. Also, the rates of drawback as specified for the list of all the DEPB items falling under a

particular product code and serial number with the corresponding drawback tariff item have been hosted on the CBEC website. However, we have not found the HS Codes of human hair products. There may have been a lapse in entering all products pertaining to DEPB on the website. As per the CBEC, all exporters of human hair products under the DEPB Scheme are also eligible for claiming the Duty Drawback under above mentioned HS Codes.

2) OTS cans are used for package of mango pulp for export. These are being supplied against advance release order issued by the Central Excise authorities under Rule 19 of the Central Excise Act as per Notification No. 42/2001-CE(NT). There is no provision under Central excise law to allow duty free procurement of raw material for deemed exports and under FTP for drawback or refund of excise duty and custom duty paid on raw material used for manufacture of export goods. It is requested that drawback rules may be amended to allow drawback of goods supplied to manufacturer exporters in DTA.

In the Bangalore meeting, apart from Dr Chaudhuri and Mr Mohapatra, other notable participants included Mr Suresh Kumar, Director (Drawback), Directorate of Drawback, Department of Revenue, Mr T.V. Maruthi, Managing Committee Member, FIEO, and Mr R. Shivakumar, Vice-President, FKCCI.

The following exporters put forth their issues:

1) Ashwin Precision Products Pvt Ltd, Bangalore, informed that they are manufacturers and exporters of precision machined components (HS Code No.84139190 – cast iron products (machined) not elsewhere specified turned components). They are availing Cenvat Credit. Due to heavy competition in the market (raw material price hike, power tariff hike and taxes), they seek some support scheme from the government.

The Chairman, Duty Drawback Committee, advised the exporter to take it up with the DGFT because it is coming under the non-focus area of DBK.

2) 3M India Ltd, Bangalore, merchant exporter, informed that they are exporting epoxy resin – scotchkote, plaster of paris bandage, abrasive items, aluminium foil tapes, computer screen filters and miscellaneous items & self adhesive tapes and receiving brand drawback rate of 4.5% to 5%. For these products, All Industry Rate is only 1%., if the rate is increased they want to change over to All Industry Rate because of cumbersome procedures and delay involved in brand rate duty drawback.

The Chairman, Duty Drawback Committee, told the exporter that brand rate of drawback is available for epoxy resin. It will not be a problem to consider for All Industry Rate. Advised the exporters to resubmit relevant data already submitted to Directorate of Duty Drawback.

3) Mysore Fruit Products Pvt Ltd, Bangalore, is a manufacturer-exporter of processed fruit and vegetables (HS 20.00) and sugar (HS Code 17.00) All Industry Rate is 1% on FOB value whereas actual duty suffering is 3-4% on the inputs used for export products. Exporter is not availing any CENVAT credit.

Chairman, Duty Drawback Com-

mittee, informed the exporter that they are aware of the problem and asked the exporter to submit detailed data for consideration.

4) Srushti Pharmaceuticals Pvt Ltd, Bangalore, is manufacturer-exporter of pharmaceuticals. He informed that a) Pharmaceuticals partly dependant on China for imported bulk drugs and formulations get affected. b) Semi-processed formulations exported items do not enjoy any benefit. c) Deterrent price control of bulk drugs in India has led to closure of manufacturing units.

Chairman, Duty Drawback Committee, informed the exporter to submit detailed data for consideration. ■

Challenges for exports identified without any remedy: FIEO Chief

Mr M. Rafeeqe Ahmed, President, FIEO, while commenting on the 50 basis points cut in policy rates said it was anticipated, with GDP growth shrinking to 6.1 percent (October-December 2011), IIP to 4.1% and an increasing current account deficit/trade deficit. Thirteen policy increases to reign in inflation in the last two years which took the policy rates from 4.75% in March 2010 to 8.5%, while maintaining status quo in the last three reviews, had adversely impacted economic growth. The RBI could have attempted a steeper cut to boost manufacturing and demand, said the FIEO Chief.

Mr Ahmed said the National Manufacturing Policy envisaged that manufacturing would be brought to 25% of GDP as against 10-12% in the last decade or so. But with working capital loans available at 16-17%, industry can hardly afford expansion and modernisation

of production facilities. This requires innovative financing, besides focus/expansion of “cluster and linkage financing”.

While the RBI knew about challenges such as the Eurozone crisis and declining growth in emerging and developing economies which will put further pressure on exports, Mr Ahmed said no significant step was taken to give a fillip to exports by augmenting availability of PCFC for MSME exporters, extending interest subvention for rupee credit, increasing share of export credit in the net bank credit, rationalising increasing banking charges etc.

The FIEO President appealed to the Commerce, Industry and Textile Minister to restore interest subvention for exports immediately, with effect from 1.4.2012.