

Export target elusive unless key issues are addressed: FIEO Chief



Mr M Rafeeqe Ahmed, President (centre) addressing the Press Meet at New Delhi. On his left is Mr J K Jain, Vice President, and on his right is Mr Ajay Sahai, DG & CEO.

Addressing the media in his first press conference after taking over as President, FIEO, Mr M. Rafeeqe Ahmed said India is likely to achieve the export target of \$300 billion set for the current fiscal. Achieving exports of \$500 billion by 2013-14 seems to be rather difficult too. In fact reaching \$500 billion in the next two years would require a compound annual growth rate of over 29%, which is a tall order.

The FIEO Chief said that while there is no close relationship between World Merchandise Export Growth and India's export growth,

the robust growth in world trade has always helped our exports. Detailing the same, Mr Ahmed said world trade grew by 15% in value terms in 2008 while our exports grew by 30%. However, when world trade declined in 2009 by 22%, our exports also declined by 15%. The spectacular growth in world trade in 2010 by 22% also resulted in impressive growth of 31% in our exports.

The year 2012 seems to be a difficult one as the World Bank has already revised its forecast downwardly both for the world economy as well as world trade. The vol-

ume-wise growth in world trade is forecast to be around 4.4% while IMF figure puts it near 4%. There are indications of moderate growth in our exports also.

Mr Ahmed said exports in the past have also been helped by high commodity prices. In 2010, commodity prices went up by 26%, which also helped our exports figure. Commodity prices particularly of metals are softening which will reduce the export value of the end products as well.

Thirdly, sovereign debt concerns



From left Mr Walter D'Souza, Chairman, FIEO(SR); Mr Amit Goyal, Regional Chairman, FIEO(WR); and Mr Ramesh Kumar Agarwal, Regional Chairman, FIEO(ER) with other media persons.

in the Euro Zone pose a major challenge to overall export growth. Belt tightening in the Euro Zone is in the offing, which will have its effect on world trade. With the cooling of commodity and metal prices and lowering of demand, many of the African and Latin American countries, currently witnessing an export boom, will face major challenges in meeting the burgeoning trade deficit and this may affect our exports to the region.

The rupee is also strengthening and thus the exchange advantage available in the recent past may no longer be there. However, there will be high volatility in the exchange rate thus decision making for exporters will be a herculean task.

Finally, the slowdown in manufacturing will also have its impact on exports as the share of capital intensive products in our exports have more than doubled to reach a share of 54% in 2010 while the share of labour intensive products declined by half from 30% to 15%. There has been a direct relationship between GDP growth and exports in the sense that better GDP growth propelled better exports. Since GDP growth is likely to moderate, the same will

have its repercussion on exports.

The new challenges emerging on the scene require flexible and concerted strategy by the Government and the entrepreneurs. The key issues to be addressed urgently are:

Cost of Credit: The cumulative impact of policy hikes (13 since March 2010) has resulted in an increase in interest costs. This has resulted in a slump in credit off-take.

Declining credit off-take of 17% (ending January 6, 2012) vis-à-vis 24% in the corresponding period last year implying that increasing policy rates have adversely impacted growth/investment. The rate of export credit has moved between 11.5% and 13.5%. Even for those eligible for interest subvention, this works out to be between 9.5% and 11.5%. These rates are much above the international benchmark and roughly 4-5% above the rate paid by our competitors.

Extending interest subvention beyond 31st March 2012 for all sectors of exports: Extending interest subvention beyond 31st March 2012 for exports across sectors given the slowdown in exports. At present it is available only till March 2012 and is confined to handicrafts handlooms, carpet and manufacturers in small and medium enterprises (SMEs).

GST to replace multiple taxes: GST is an urgent requirement of the export industry to effectively compete in the international market. It is also crucial for sustained high GDP growth and tax buoyancy. FIEO strongly recommends that all present taxes on goods and services including electricity duty, tax on diesel



A view of the electronic media.

and petroleum be merged into GST. The state GST and Central GST be merged into single unified GST over a period of 5 years to ensure zero rebating of exports.

Investment plough back in export business to be given tax deduction: Since the Direct Tax Code provides for investment linked tax benefits, exporters may be given 100% tax deduction on investment plough back in the business so that addi-

tional capacities may be created and units may adopt modern technology for augmenting production and increasing efficiency. Investment in manufacturing has basically drained out in the recent past and such tax benefit will encourage exporters thereby creating capacities.

Extension of facilities under FTP till 31.3.2014: The Foreign Trade Policy is valid from 2009-14 but schemes such as Zero Duty EPCG

and Status Holder incentive schemes are valid till 31.3.2012. These need to be extended till 31.3.2014.

Negative List of Services: Service tax on ECGC premium, currency conversion, commission made to foreign agent, transports of export goods from place of removal to ICD or from ICD to ports etc. should be covered in the negative list of services, thus exempting them from the purview of service tax. ■

Exports figure points to difficult times ahead: FIEO Chief

Responding to the export figure for April-December 2011, Mr M. Rafeeqe Ahmed, President, FIEO, said that while 25.8% growth in the first nine months looks impressive, the same is much less than 33.2% growth achieved in the first eight months of the current fiscal and points to challenging times ahead. He said percentage growth in respect of most sectors have also come down at the disaggregated level. However, with still three months to go, we will be able to achieve over \$280 billion in 2011-12.

The increasing trade deficit, which has already touched over \$133 billion, is a deep cause of con-

cern, said the FIEO Chief, as it is likely to swell the import bill in rupee, having adverse effect on inflation.

Pointing to difficult times ahead in the first half of 2012, Mr Ahmed said the cost of credit needs to be brought down so that both manufacturing and exports become competitive and a beginning needs to be made in the quarterly review of the Monetary Policy due on 24th January 2012. He favoured bold economic and monetary reforms, including rolling out of GST, for sustaining the momentum in exports and containing high volatility in the exchange rate.

Vodafone judgement to introduce clarity in law: FIEO Chief

Mr M. Rafeeqe Ahmed, President, FIEO, while commenting on the Supreme Court's judgement on the Vodafone tax case stated that while this would restore confidence of foreign firms to invest in India and encourage cross border M&A deals, it has touched upon the basic issue of jurisdiction of tax administration.

The FIEO Chief stated that with this landmark judgement, the applicability of Sec.195 on payments made in the course of exports as foreign agency commissions/royalties/ offshore and pro-

fessional services would require to be revisited/reconsidered given the fact that there is no permanent establishment/territorial nexus and the situs of service provided is outside the jurisdiction of tax authorities.

Mr Ahmed elaborated that there has been a plethora of litigation with regard to the above payments and the consensus has been that the anomaly is interpretational and superficial rather than an anomaly in law, which will hopefully be clarified by CBDT given the historic judgement.