

Issues that impact exports



Mr Pranab Mukherjee
Hon'ble Finance Minister

During his tenure as President, Mr Ramu S. Deora, President, FIEO, discussed various issues impacting export competitiveness with Mr Pranab Mukherjee, Finance Minister.

Impact of successive policy hikes and interest costs

The cumulative impact of policy hikes (13 in 21 months) has resulted in an increase in interest cost by about 70% for SBI which is a prime lender. Given the anti-inflationary stance of the RBI and the increasing cost of credit vis-à-vis competitors in the international market, Mr Deora suggested that:

(a) Interest rate for MSME sector be capped at 7% and for others at 9%;

(b) 3% interest subvention to be extended to labour intensive export sector and MSME and 2% for other sectors.

Declining export credit/skewed deployment of credit

The alarming increase in interest rates is compounded by the pattern of dispensation of credit which is also disturbing. Export credit as a percentage of NBC slumped to below 4% in October 2011. In order that the lending is more equitable to the

MSME export sector which contributes 40% to the GDP of the country, Mr Deora suggested that:

(a) 12 % of the lendable resources of the bank be earmarked for exports and each bank may inform RBI periodically of the export credit disbursed against such funds. This information needs to be made available to apex chambers such as FIEO, so that members can be advised to approach Banks which have a shortfall in their targets. This would also address the larger issue of misreporting to priority sector lending funds performance by banks which has already been flagged by RBI or

(b) Exports may be included in priority sector lending window and at-least half of the 40 per cent of Adjusted Bank Credit (ABC) [or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher] may be allocated to the sector.

Paucity of foreign currency loans particularly dollar loans.

Given the requirement of dollar loans by the MSME export sector and limited availability of the same, President, FIEO suggested that RBI may set up a corpus of funds commensurate with the requirements of MSME export sector. Further, PCFC should be given to exporters at least upto 50% of the dollar earned by them in the previous month.

Realization and Repatriation of export proceeds

RBI vide its circular No. A.P. (DIR Series) Circular No. 47 dated 31st March, 2011 had extended the repatriation of export proceeds from 6 months to 12 months upto 30th September, 2011. Since the global economic conditions are still fragile and buyers abroad are demanding deferred terms of payment, Mr Deora proposed that the repatriation period of 12 months may be extended to 30th September, 2012.



Mr Ramu S Deora
President, FIEO

Interest Bearing EEFC Account

Moreover, EEFC should be made an interest bearing account so that exporters can park their foreign currency in EEFC to pay for imports subsequently to avoid losses due to high volatility in exchange rates.

Refund at factory gate for manufacturer exporters

Tax reforms are the key issues concerning manufacturing as well as exports. The Goods & Services Tax will do away with the cascading effect of taxes, thereby imparting a competitive edge to exports. Mr Deora said that it is not understood as to when additional customs duty and special additional duty now called additional duty of customs is refunded (approximately 14%) through CENVAT to manufacturers, why not the basic customs duty which ranges between 5%-7.5% could not be refunded through CENVAT route to manufacturer exporters. For refund of the basic customs duty, the exporter has to take recourse to Duty Drawback or DFIA which are neither WTO compatible nor ensuring exact refund

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as they work on averaging principles.

These schemes were introduced when the incidence of duties was quite high but with India's increasing integration with the global economy, the rate of duty is looking southward. In the present circumstances where 46% of Customs/Central Excise/Service Tax collected is refunded for exports, there is need to simplify the process by providing refund of basic customs duty also through CENVAT route for exporters and in case, the exporter is not able to utilize the same, cash refund of balance credit may be permitted by the Excise Authority at the factory itself. Such a mechanism will provide exact refund, thus compatible with ASCM.

The scheme will dispense with the need of Brand Rate of Duty Drawback and DFIA and even advance authorisation to a large extent. ■