WORLD TRADE SCANNER

Promoted by
Indian Institute of Foreign Trade
World Trade Centre
Academy of Business Studies

ISSN: 0971-8095 Single copy Rs. 20 $2

Vol. XXII No 15 **06 - 12 July 2005**

India Notifies Zero Duty on Sri Lanka Cotton Garments

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India Trade Notes

The Government of India notified zero duty for cotton garments from Sri Lanka on 28 June. Garments of synthetic fibre or others in the non cotton category will be levied 25% of the normal duty. The deal is subject to the condition that the garment is from fabrics of Indian origin exported to Sri Lanka earlier. There is also a quantity restriction of six million pieces for cotton goods and two million pieces for non cottons. The countervailing duty of 8.16 percent will be applicable on the goods. There is no change in the duty on textile fibre and other textile goods which continue at 75 percent of the normal duty. India does have the larger design of integrating its textile industry with the neighbours to protect the textile raw material and intermediates market.

In the earlier dispensation, the garment duty was set at 50 percent of the normal duty. Sri Lanka complained that the traffic out of Sri Lanka is not adequate. India has now responded by removing the basic duty altogether, it has, however, laid down that the entire 8 mn piece quota must be from fabric of Indian origin. It has removed the window of two million pieces for garments made from fabrics of non Indian origin. Our own experience is that Indian fabric exporters have not responded very well to Sri Lanka orders. The Island exporters find it easier and cheaper to source from Singapore and Hong Kong.

In the meanwhile, there is no progress on the Export Development Board (EDB) cess on all Sri Lanka imports including those from India under the FTA. Indian exporters are facing unfair competition from local manufacturers in Sri Lanka, they are losing market shares built after considerable investment of time and money. The Indian government is giving further concession to Sri Lanka instead of raising a dispute and talking of retaliation!

SEZs will be the next big thing

The recently passed SEZ Act by Parliament may well provide the frame work for the entry of FDI into India in major way. The Act gives overriding powers to the Commerce Ministry to frame the rules on the administration of customs and excise zero duty exemptions. The zero duty to units as well the developers into SEZ comes from the SEZ Act itself, and not the Customs Tariff Act or the Excise Tariff Act administered by the mandarins in the department of revenue. Once the detailed Rules are notified, there will be considerable movement into the newly formed SEZs from both existing units in the DTA as well as fresh investment from overseas. The big units will get themselves declared SEZs inspite of the 50 acre threshold envisaged by the commerce ministry. The EPCES (Export Promotion Council for EOUs and SEZs) meeting in Delhi held on 05 July showed that there is a shortage of space in SEZs already.

The SEZ is the only income tax free window available after year 2009 when EOUs and STPs will see the end of the the income tax concession. The holiday in SEZ goes upto 15 years with further extensions based on renaming or reworking the company structure. Sales into the DTA are freely permissible subject to normal customs duty which is coming down to affordable levels. For example, the duty on steel is only 5 percent which makes it easy for the big companies to produce for the Indian and foreign market under the SEZ umbrella. The problem of infrastructure such as power will be solved to a large extent since these responsibilities remain with the private promoters.

India loses at World Customs Organisation

India lost the race to Sweden in the election to post of Director (capacity building) at the World Customs Organisation (WCO), Brussels, the Vatican of the official customs formations. The Indian candidate Mr C Satpathy, a member of the Appellate Tribunal, passed three rounds with his rich experience and demonstrated capacity in implementing trade reform to reach out to the developing and least developed countries. However, Brazil and its friends spoiled the show by transferring their vote to the Swede after losing out in the penultimate round. The Europeans and the Americans are adept at vote canvassing and using money power and aid to have their way to the top posts of world bodies. Only one person outside the select circle has made it to the top positions in WCO in its 50 year history. Time to ask the diplomats why the G 20 or G 33 or G 77 groupings or whatever haven't yielded result.

Rules of Origin Meeting

A jam packed hall heard the speakers on the subject of Rules of Origin (ROO) at the World Trade Centre at Mumbai on 30 June. The meeting concluded that a complete overhaul of the origin certification for imports into India is long over due. Preferential tariffs as well as waivers of non tariff barriers require origin certification. These are not standardised even by the WTO Uruguay Round negotiations.

The non preferential ROOs prevent circumvention of country specific measures like anti dumping, these are yet to be standardised by the WTO since there is no agreement on the 94 or so points of difference between the member countries. India has yet to formulate its own ROO in the general import case, even as it is using the anti duping and safeguards instrument in big way to protect its domestic industry. The meeting also shows that the rule of origin vary widely depending on age of the preferential trade agreement. The ones with Nepal and Myanmar are the least articulate while new generation ones with Thailand and Singapore are detailed. Ironically, the new generation rules are the also fair to both sides, the scope of the ones with South Asian countries is not based on ground realities.

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Kamal Nath Says "No" to Swiss Formula in NAMA

Kamal Nath, Union Minister of Com merce & Industry, has made it clear that certain issues in the ongoing World Trade Organisation (WTO) negotiations are non-negotiable for India on 04 July. In agriculture, there is no question of accepting any kind of Swiss formula for tariff reduction, in whatever garb and in non-agricultural market access (NAMA), India will resist proposals for reduction from the applied rates. Tariff reduction commitments by developing countries should provide for adequate policy space and reflect their development needs, Kamal Nath said while presiding over the Parliamentary Consultative Committee of the Ministry of Commerce and Industry.

"Developed countries subsidise their agriculture to the extent of one billion dollars a day and about 25 to 50% is the subsidy component in the agricultural exports of many developed countries. We cannot allow this... Safeguarding our interests especially in sensitive sectors such as agriculture and small and medium enterprises (SMEs) will be our main concern", he said.

In services, he said India would calibrate its offers with the quality of offers from its major trading partners in sectors and modes of interest to India.

India would also strongly resist attempts to divide developing countries by differentiating the so-called advanced or large developing countries from others, he said.

Members who participated were: Sudhangshu Seal, Sharad Anantrao Joshi, Sarvey Sathyanarayana, Basangouda Patil, Harin Pathak, K.C. Palanisamy, Ram Singh Kaswan, Shyama Charan Gupta, S. Rama Muni Reddy and Rajeev Shukla. E.V.K.S. Elangovan, Minister of State for Commerce & Industry, also attended.

Kamal Nath said India was actively engaged in consensus building or coalitions – as it was in India's interest to avert isolation – through issue-based alliances such as G-20 on agriculture; G-33 on SP & SSM; ABI (Argentina, Brazil, India) alliance on NAMA; Friends of Mode 4, and others in Services; and Friends of GIs (Geographical Indications). He said that government would further intensify domestic stakeholder consultations with political parties, industry & farmers association, labour unions & civil society and states & union territories on WTO issues in the next 6 months, in the run up to the Hong Kong Ministerial Conference in December, 2005. He urged members to interact with him and provide their inputs and suggestions.

Replying to Harin Pathak, the Minister informed that India was actively pursuing the issue of harmonising TRIPs (Trade related Intellectual Property Rights) with the Convention on Bio-Diversity (CBD) with a view to protecting Traditional Knowledge which was an important concern for India. In response to Mr. Sudhangshu Seal, who had raised the issue of fruits and vegetable exports, the Minister said the government was looking at the issue of transport subsidy for agricultural products as a whole and hoped that problems in the area would be resolved soon in consultation with the Ministry of Agriculture. Kamal Nath said that he would also announce a package of rejuvenation for tea industry within six weeks.

Earlier, in a presentation before the Committee, G.K. Pillai, Additional Secretary, Ministry of Commerce and Industry, indicated that the major areas of negotiations in the current Doha Round were: Doha Work Programme, Market Access (agriculture, industrial tariffs or non-agricultural market access (NAMA), services); Development Issues (Implementation, Special & Differential Treatment); Rules (Anti-dumping, Subsidies, RTAs); and Other issues (Singapore issues of which only trade facilitation remains, environment, TRIPs related issues and Dispute Settlement Understanding).